

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

The Department for International Development (DFID) is the UK government department responsible for promoting development and the reduction of poverty. The government first elected in 1997 has increased its commitment to development by strengthening the department and increasing its budget.

The central focus of the Government's policy, set out in the 1997 White Paper on International Development, is a commitment to the internationally agreed target to halve the proportion of people living in extreme poverty by 2015, together with the associated targets including basic health care provision and universal access to primary education by the same date. The second White Paper on International Development, published in December 2000, reaffirmed this commitment, while focusing specifically on how to manage the process of globalisation to benefit poor people.

DFID seeks to work in partnership with governments which are committed to the international targets, and seeks to work with business, civil society and the research community to this end. We also work with multilateral institutions including the World Bank, United Nations agencies and the European Community.

The bulk of our assistance is concentrated on the poorest countries in Asia and sub-Saharan Africa. We are also contributing to poverty elimination and sustainable development in middle income countries in Latin America, the Caribbean and elsewhere. DFID is also helping the transition countries in central and eastern Europe to try to ensure that the process of change brings benefits to all people and particularly to the poorest.

As well as its headquarters in London and East Kilbride, DFID has offices in many developing countries. In others, DFID works through staff based in British embassies and high commissions.

COUNTRY STRATEGY PAPERS

Country Strategy Papers (CSPs) are prepared for all countries where we provide development assistance programmes, and are normally produced every three years. CSPs set out how we aim to contribute to achieving the international development targets in the country in question. Progress will be assessed against the strategic objectives set out in Section D of the paper. In preparing CSPs, we consult closely with governments, business, civil society, and others within both the partner country and the UK.

Department for International Development
October 2002

BOLIVIA: COUNTRY STRATEGY PAPER 2002

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A. SUMMARY

A1. Since 1998 when we published our previous Country Strategy for Bolivia, DFID's programme has moved from a series of free standing projects on health, and natural resources, to strategic level support to Bolivia's efforts to define and implement an effective Poverty Reduction Strategy (PRS).

A.2 **Bolivia's** Poverty Reduction Strategy (2001) represents an important change in public policy for poverty reduction, centred on five key themes: enhancing opportunities, human development, social protection, social integration and institutional development. There are two key areas of significant change from earlier policies. The first is the integration of economic and social policy; the Strategy recognises the key role of the informal economy for poor people's livelihoods. The second is the importance of enhanced social inclusion¹ and participation in political processes within a more accountable and transparent institutional framework. It is in these two areas that we will focus our support, concentrating on where we can add value to the international community's support to the Bolivian development effort. Specifically, we will bring a strong rights-based focus to development and promote the inclusion of the excluded in all our work.

A.3 Our approach is one of policy engagement linked to resource transfers through co-financing and basket fund² arrangements with multilateral and bilateral development partners. We will combine this approach with small-scale but strategic support to progressive state and civil society initiatives at the national level. The goal of DFID's future strategy is that state and society *work together* to achieve sustainable poverty reduction in Bolivia.

The purpose is to support the implementation of the Poverty Reduction Strategy. The sustainability element of the goal statement will require a commitment from the international community and the Bolivian Government to work for a reduction in the current high levels of aid dependency.

A.4. We will engage on policy issues, and in support of Bolivia's Poverty Reduction Strategy, with multilateral institutions and other donors, both in country and at the regional and global level. We will ensure consistency and seek synergy between our work in Bolivia and the UK Government's wider agenda for making globalisation work for poor people.

A.5 Our strategy will retain sufficient flexibility to respond to changing priorities and the continued evolution of the Poverty Reduction Strategy. To better inform our strategic choices we will routinely undertake *reality checks* throughout the country to understand the links between grassroots micro-level reality and macro-level policy and action. We will endeavour to maintain regular communication with poor and excluded communities to ensure our strategy continues to work for the poor.

1 Social inclusion is understood in terms of rights and empowerment of citizens to realise their economic, social and cultural rights.

2 A basket fund is a fund contributed to by a number of donors and is controlled by a single organisation. It works on similar basis as a multi-donor trust fund.

B. THE CHALLENGE

B.1 The last two decades have seen significant overall gains in human development in Bolivia. Both state and society have demonstrated their strength and potential to achieve improved and sustainable standards of living for this and future generations. Nevertheless, two-thirds of Bolivians are still poor (as defined in relation to unsatisfied basic needs) rising to 85% in rural areas. People of indigenous, pre-Colombian descent (the majority) incur a greater risk of remaining in poverty. Over 29% (2.4 million) of the population live on less than a \$1 per day and over 51% (about 4.2 million) live on less than \$2. Economic reforms designed to promote stability and increase growth during the last 15 years have been accompanied by declining productivity in the sectors of the economy that are most important to the poor. Economic growth during this time has coincided with increasing income inequality.³ Although Bolivia falls just within the definition of a middle-income country, with an average per capita income of US\$ 1,030 it has the sixth highest level of income inequality in the world.⁴

B.2 The Bolivian Government in February 2001 approved Bolivia's Poverty Reduction Strategy. The strategy resulted from a process of consultation with civil society at municipal, departmental and national level known as the National Dialogue. The Dialogue increased the profile of poverty reduction as a political process and generated a high level of public debate. Poverty itself has become the main development issue. The Bolivian Government considers the Poverty Reduction Strategy to be state policy that will evolve as a living document over its lifetime of 15 years. The international finance institutions approved the Strategy in June 2001 for the purposes of Heavily Indebted Poor Countries (HIPC) II debt relief. Accountability mechanisms for the use of HIPC funds have been institutionalised through the National Dialogue Law.

B.3 Bolivia's Poverty Reduction Strategy identifies four long-term objectives: enhanced economic opportunities for poor people; increased capacities (human development);

POVERTY IN BOLIVIA: THE POVERTY REDUCTION STRATEGY ANALYSIS⁵

The Poverty Reduction Strategy Paper starts from an irrefutable premise: poverty, inequality and social exclusion are the most severe problems affecting democracy and governance in Bolivia. Consequently, the preservation of democracy demands that these challenges be addressed as a priority.

Eighteen years of democracy and 15 years of structural adjustment have allowed the generation of economic stability, but have not opened the doors to the elimination of social exclusion nor resulted in sufficient gains in the fight against poverty. Although the strategy has been developed in the context of the market economy and recognises the need to maintain macroeconomic stability, it also highlights the need to simultaneously address the concerns of the population: the issues of social exclusion, inequality and poverty.

The Strategy does not assume that the state is solely responsible for the fight against poverty nor wishes a return to state paternalism, but sees this challenge as one that requires co-responsibility of the different actors of state and society. In this way, the fight against social exclusion is conceived as a space for the development of citizenship, since without citizens who are conscious of their rights and obligations, combating poverty will be difficult. Additionally, this demands of the political system that it works in a coordinated fashion with society to tackle poverty.

³ UNDP *Human Development Report for Bolivia 2002*

⁴ UNDP *Human Development Report 2001*

⁵ Government of Bolivia *Bolivia's Poverty Reduction Strategy, 2001*: preface, paragraphs 1,2 and 6.

B. THE CHALLENGE

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increased security and social protection; enhanced social integration and participation. The Strategy also addresses the crosscutting issues of indigenous identity, gender equality and environment. The final section covers the institutional framework required for implementing and monitoring the achievement of the strategy and highlights the importance of an accountable, transparent and competent public sector for sustainable implementation.

THE MACRO-ECONOMIC CONTEXT

Over the last 15 years, Bolivia was able to stabilize its economy through restrictive fiscal and monetary policies. The estimated average per capita income grew at about 1.6% per annum. At this rate, it will take the average Bolivian close to 45 years to double his or her income. Exports are about the same as they were before the 1984-85 economic crises, mainly as a result of a significant deterioration in the terms of trade of Bolivia's main exports, which are primary products. As a result of Bolivia's vulnerability to domestic, external and natural shocks, its balance of payment current account deficit has been in the order of 5-7% of GDP. Furthermore, despite several external debt relief negotiations, including the HIPC I Initiative, the net present value of the external debt as a percentage of exports is still high at 220%.

B.4 The rest of this section reviews the specific strengths and weaknesses of the Poverty Reduction Strategy concerning its implementation and continued development, and considers the potential contribution of the international community to assist Bolivia in meeting these.

ENHANCED ECONOMIC OPPORTUNITIES FOR POOR PEOPLE

B.5 A key theme from the World Bank 1999 *Voices of the Poor* study was a concern for greater livelihood security,

particularly in rural areas. Overall, incomes have dropped by 10% between 1997 and 2001.⁶ The hyperinflation of 1984-85 and the subsequent economic measures to correct the distortion of key economic variables led to an expanded informal sector that has failed to create full and remunerative employment for most people. More than 40% of the economically active population in 1995 was working eight or more hours a day but earning less than the minimum wage.⁷ Among those employed, women's pay is, on average, 50% less than men's.

B.6 The Poverty Reduction Strategy, in response to strong demand expressed through the National Dialogue, recognises that enhancing economic opportunities for poor people is key to poverty reduction. This represents an important advance from previous social spending approaches. However, the mechanisms necessary to link economic policy to the achievement of this objective in a pro-poor way are not fully developed. The challenge is therefore to link micro and macroeconomic policy within the framework of increasing competitiveness and productivity, to generate conditions for effective interaction between economic agents in the informal and formal economy and between those in rural and urban areas. The opening of regional markets presents both opportunities and threats for trade-led, pro-poor growth. On the one hand, it may provide direct and indirect access to large markets, opportunities to develop more rapidly cluster-type activities that will improve know-how and technology transfer mechanisms, and potential foreign direct investment in labour intensive industries. On the other hand, foreign competition is likely to affect inefficient industries with negative effects on employment and income, and may accelerate the rate of devaluation. In this context, particular attention will need to be given to the vulnerability of small, poor producers and to increasing their capacity to participate in and benefit from opening markets.

⁶ Bolivian Minister of Finance *Report to Consultative Group*, October 2001

⁷ CEPAL/ECALAC 2000 *La Brecha de la Equidad (second regional conference on social development, Santiago)*. No data are available since 1995.

B. THE CHALLENGE

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INCREASED CAPACITIES (HUMAN DEVELOPMENT)

B.7 The Poverty Reduction Strategy stresses the importance of securing comprehensive delivery of health, education and water and sanitation services. This will build on the achievements of the last decade. During the 1990s life expectancy rose from 58 to 62 and infant mortality fell from 75 to 58 per 1000 live births. Gender equality has been achieved in enrolment rates for primary education and the proportion of the adult population who have completed primary education has increased from 38% to 51%.

B.8 While the Poverty Reduction Strategy addresses the issue of universal coverage and the Government has introduced poverty resource targeting criteria, there are growing regional inequalities in human development. It is estimated that the achievements in human development for the Department of Santa Cruz will be double that of the Department of Potosi in the near future⁸. For example, large proportions of the population, particularly rural and indigenous women, are still not realising their right to public health care. This is reflected in Bolivia's maternal mortality rate, estimated at 390 per 100,000 live births, one of the highest in Latin America. The key human development challenge for Bolivia will be to strengthen the responsible public sector institutions to deliver efficient, effective and accountable services to all. Empowering citizens to demand their rights to equitable service provision is a key element in meeting this challenge.

IMPROVED SECURITY AND SOCIAL PROTECTION

B.9 Bolivia is vulnerable to both economic and natural shocks and disasters against which poor people are least able to cope. The Poverty Reduction Strategy recognises the importance of improving security and protection for the poor. But the proposed actions in the strategy are diverse in nature and lack a coherent framework. Although the current economic crisis has led to renewed emphasis on social protection through the Government's Emergency Employment Plan, a sustainable and comprehensive policy

remains to be defined. This could include consideration of the existing ways in which poor households and communities manage risks, and the role of the state in supporting these coping mechanisms.

ENHANCED INTEGRATION AND SOCIAL PARTICIPATION

B.10 The Poverty Reduction Strategy recognises that poverty reduction will not be possible without the social integration of the poor and excluded, and their active participation in decision-making processes. Reducing the exclusion of indigenous people, especially women, is central to achieving this objective. Bolivia has a strong rights framework, and has ratified international human rights legislation with regard to women (CEDAW), indigenous peoples (Convention 169) and children (Convention on the Rights of the Child). The challenge is to translate this legislation into mainstream actions with real impact on people's lives. One of Bolivia's significant achievements in recent years has been the constitutional establishment of a highly effective office of the Defender of the People, which has successfully maintained its autonomy and has demonstrated its willingness to challenge the Government when it notes human rights abuses.

B.11 Bolivia has a long tradition of community organisation and networks of social support; the National Dialogue demonstrated the potential of this to influence pro-poor policy design and implementation. Nevertheless, the exclusive nature of Bolivia's political structures was manifested during the Dialogue process, which was followed by severe social unrest from part of the population that did not participate. The challenge is for the Bolivian State to establish the environment for sustained and meaningful participation of the currently excluded majority.

THE POLITICAL AND INSTITUTIONAL FRAMEWORK

B.12 Democracy was re-established in 1982. Nevertheless, poor people's influence on government

8 UNDP Bolivia Human Development Report 2000

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policies and programmes remains inadequate. As noted by the World Bank, Bolivia's political system is commonly characterised as patrimonial and clientelist⁹, and is judged as the principal cause of poor public sector performance and lack of responsiveness to poor people's needs and demands. Despite some 'islands' of efficiency, overall, the state's capacities remain limited and its reputation for corruption is widespread.¹⁰ The Government has started to implement a broad-ranging institutional reform programme, establishing the framework for a non-politicised, merit-based civil service, and has expressed its commitment to tackle corruption.

B.13 At the local government level, the Popular Participation Law (1994) strengthened poor people's voice. This law gave a greater role to municipal government, increased substantially the resources channelled through it, and gave a role to civil society in overseeing the use of public funds. The National Dialogue Law (2001) established, for the first time, poverty-linked criteria for the distribution of public resources through local government. The Poverty Reduction Strategy commits the state to further deepen the decentralisation process. Nevertheless, the capacity and political will of local government to use these resources to the benefit of poor people have not yet been tested. At the same time civil society faces the challenge of how to strengthen its capacity to represent poor people. All levels of political leadership are struggling to change their behaviour in support of a broader based and more accountable democratic system. The overall challenge is the transformation of the current clientelist relationship between poor people and the state.

MONITORING AND EVALUATION OF THE POVERTY REDUCTION STRATEGY

B.14 The National Dialogue Law established the framework for society to hold the state accountable for the implementation of the Poverty Reduction Strategy. This is a major opportunity for citizens' monitoring of the effective implementation of state policies and programmes. The

challenges are for society to develop the capacity to respond to this opportunity, and for the state to create the environment for citizens to monitor and evaluate the impact of the Strategy. Capacity to undertake pro-poor analysis, assess differential impact and to collect and disseminate the required information needs further development.

THE INTERNATIONAL COMMUNITY

B.15 Bolivia remains highly dependent on external aid finance; aid flows account for around 9 – 10% of GDP and 50% of public investment. The extent to which these have led to a reduction in poverty is disappointing. Only very recently have the international finance institutions begun to engage in serious policy dialogue on the deep structural constraints to pro-poor change. It is also relatively recently that international co-operation has started to move from funding discrete, isolated projects to a more programmatic approach to support policy reform.

B.16 The World Bank has a current \$75 million average annual expenditure; the Inter-American Development Bank (IADB) \$100 million and the European Community an annual commitment of €50 million. The total resource transfer of the bilateral community is approximately \$400 million, of which a quarter is from the United States of America. The bilaterals' strategic impact is enhanced through joint working as exemplified by the development of a single bilateral position on the Poverty Reduction Strategy.

B.17 The relationship between donors and government has been changing significantly over the last two or three years with the consistent and strong promotion of the *Nuevo Marco de Relacionamiento* by the Bolivian government. The *Nuevo Marco* emphasises national ownership, reducing transaction costs, programmatic support, and the decentralisation of development agencies. Bolivia subsequently became a pilot country for the implementation of the World Bank's Comprehensive Development Framework initiative. A major challenge for the international community is to respond to the rationalisation

⁹ World Bank 2000, *Bolivia from Patronage to a Professional State*

¹⁰ Bolivia is ranked in perception of corruption at 85 out of 91 countries. Transparency International 2001 Global Corruption Report

B. THE CHALLENGE

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proposals of the Bolivian Government and to develop appropriate financing instruments. For Bolivia the challenge will be to reduce its aid dependency over the long term.

THE RISKS TO SUSTAINED POVERTY REDUCTION

B.18 The key risks likely to affect the success of the Poverty Reduction Strategy, were identified by the World Bank/International Monetary Fund *Joint Staff Assessment* and the Bilateral Assessment Team.¹¹ To a large extent, achieving economic growth and poverty reduction targets will depend on the international economic environment and global development events and trends. These may negatively affect private sector investment, foreign exchange earnings from exports and remittances, and the general economic situation of a small, dependent economy such as Bolivia. In turn, these could have potentially serious consequences in the country's social and political situation. Such events are hard to predict but DFID's strategy is sufficiently flexible to make the necessary adjustments that do not compromise the general objective of poverty reduction.

B.19 From an *economic* perspective, the unfavourable global and regional economic conditions are likely to limit possibilities for growth. First, massive devaluations in Argentina and Brazil have restricted Bolivian exports to those countries. Increased imports exacerbated the economic recession and increased unemployment rates. Second, the Free Trade Agreement of the Americas (FTAA) initiative poses potential opportunities but also high risks. Although Bolivia's productive base, which is largely based on primary, extractive industries, has some comparative advantages, it will not be sufficient to meet the challenges of the open hemispheric trade until it is more competitive. Third, fluctuation of international capital flows and

protectionism by industrialised countries, are likely to play a critical role in determining the possibilities for sustained economic growth and poverty reduction. Unfortunately, foreign exchange earnings from potential gas exports to North America will not be realized at least until 2007. The international community has a role to play in improving the competitiveness of Bolivian industry and ensuring that trade brings benefits to the poor. DFID, with other donors, will seek to enhance the voice of the poor in economic policies and programmes. The risk of weak economic conditions persisting remains significant.

B.20 *Politically and institutionally* the key risks are lack of support by future Bolivian governments to implement the Poverty Reduction Strategy as state policy, a lack of political will to tackle corruption, weak public administration systems and the lack of a Medium Term Expenditure Framework. The international community can help to mitigate these risks by providing coordinated support for reform, maintaining the Strategy framework and the mechanisms for National Dialogue. The Bolivian Government is expected to continually review and update the Strategy but if the new administration fails to prioritise poverty reducing policies, we would review the scale and focus of our programme in Bolivia. The risk that the Government will not maintain the Strategy and prioritise poverty reduction is low.

B.21 Achieving our purpose partially depends on the Government of Bolivia continuing to accept that the international community has a legitimate and useful role in supporting civil society as a key actor in implementing the Poverty Reduction Strategy. DFID believes that the international community has a role in supporting efforts by both state and civil society actors to secure broad-based support for pro-poor change.

11 *The Bolivian Poverty Reduction Strategy, final evaluation report to the Informal Bilateral Co-operation Network on Poverty*, April 2001 and *World Bank/IMF Joint Staff Assessment of the Bolivian Poverty Reduction Strategy* May 2001

C: THE CURRENT DFID PROGRAMME

C.1 Our previous Country Strategy Paper (1998) aimed to contribute to sustainable improvements in the livelihoods of poor people through making a real impact in two key areas: improved rural livelihoods and better health for the poor. The resultant projects were technically well implemented and provided us with the institutional credibility and legitimacy to move to a more programmatic, policy-related level of engagement.

OUR EVOLVING APPROACH

C.2 In 2000 the UK Government produced its White Paper *Eliminating Poverty – Making Globalisation Work for the Poor*. From this came a strategy for our support to middle-income countries, as well as a strategy for Latin America. These define our core business as engaging with key partners, particularly multilateral agencies, to improve the formulation and implementation of government policy to reduce poverty and inequality. We aim to contribute to these objectives in Latin America through the promotion of pro-poor growth, encouraging governments to work for and deliver services to poor people, and reducing social exclusion through helping poor people realise their rights.

C.3 In response to the *Nuevo Marco* and the strategic changes described above, DFID's programme in Bolivia evolved rapidly. DFID established a country office and reorganised the programme against the three themes of our Latin America strategy. We increased our contribution to the broader national policy agenda, including an active engagement in the consultations around the Poverty Reduction Strategy. We also provided more resources, committed ourselves to working in close co-ordination with other donors under the leadership of the Government, and established strategic relations with civil society.

C.4 Partnerships with the international financial institutions and other multilateral agencies are a fundamental element of DFID's strategy in middle-income countries. In Bolivia our engagement includes: co-financing the World Bank decentralisation credit; seconding a DFID adviser to the EC delegation; co-financing the IADB social

sector credit; funding UN programmes within the health sector; and leading, with the United Nations Development Programme (UNDP), the donor/government social exclusion group. This engagement has helped achieve a stronger poverty, gender and participation focus in their activities and related government programmes. Our close relationship with other bilateral agencies is equally critical for engaging effectively in policy dialogue. We aim to undertake the majority of new activities in collaboration with one or more partners in the international community.

C.5 Concerning partnerships outside government, DFID supported civil society's contribution to the National Dialogue and we recognise the importance of civil society in poverty reduction efforts, not only in programme implementation but also in advocacy and policy work. Our 1998 Country Strategy identified the potential for partnerships with the private sector and these are being developed in support of our pro-poor growth objective. DFID has also begun to work with the Foreign and Commonwealth Office and British Trade International in support of common UK Government objectives on corporate citizenship, particularly on encouraging local employment opportunities and protecting the environment.

C.6 Central policy departments in DFID manage significant research and challenge funds in support of DFID's global poverty elimination goal. The establishment of the country office has enabled us to achieve greater internal coherence in the design and implementation of these centrally funded activities. Examples include natural resources and livelihoods research, and our support to British non-governmental organisations (NGOs) working in Bolivia.

WHAT WE LEARNED

C.7 As we moved from a sectoral programme to one of higher-level policy engagement, we learnt to change our programme instruments. We ceased to develop stand-alone, geographically focused projects and reoriented existing projects to focus on addressing policy constraints. We use a

C: THE CURRENT DFID PROGRAMME

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range of financial instruments, including budgetary support, basket funding and grant co-financing of international financial institution credits. These new ways of working have enhanced our ability to engage in policy level dialogue. However, adapting DFID procedures, as well as those of partners, remains a challenge.

C.8 Our key lesson was that our most effective programme instrument is our own staff. We established a specialist team in our office in Bolivia with a balance of nationally and internationally recruited staff working at the same level. We developed new tools, such as the Strategic Impact Fund, to contribute rapidly and flexibly with small amounts of money to support our partners' innovative efforts in policy and practice. We aim to inform our work with an ongoing political analysis and seek to understand the processes of pro-poor change. We are learning from, and linking with, other DFID offices in Latin America and DFID regional initiatives.

OUR PARTNERS' ASSESSMENT

C.9 In preparation for this Country Strategy Paper, we commissioned an external review of our performance, seeking the views of government, civil society and the international community concerning our performance. The review found that:

- We have a strong poverty reduction focus in all our activities.
- The extent and quality of our engagement with the two sector ministries of health and agriculture is highly valued. Our switch from funding stand-alone projects to a donor-coordinated programmatic approach was welcomed.
- DFID is seen as strong in terms of our analytical capacity and willingness to engage in difficult or emerging issues.
- We have a collaborative approach and are not concerned to put a DFID "flag" on the activities we are supporting.

However, some partners believe that:

- Our exit from conventional projects means that we run the risk of losing touch with local reality and may not be able to bring new lessons and experience to the policy table.
- We sometimes misjudge the timing and pace of our actions; some perceive us as pushing too hard, insensitive to the political moment.

D. FUTURE STRATEGY

D.1 DFID in Bolivia has moved from funding sector projects to one of higher-level policy engagement linked to resource transfers to the public sector, combined with strategic support to civil society action at the national level. In that context, the **goal** of DFID's future strategy is that state and society *work together* to achieve sustainable poverty reduction in Bolivia. The **purpose** is to support the implementation of the Poverty Reduction Strategy. The sustainability element of the goal statement will require a commitment from international cooperation and the Bolivian Government to work for a reduction in the current high levels of aid dependency. The DFID strategy will retain sufficient flexibility to respond to changing priorities and the continued evolution of the Poverty Reduction Strategy.

HOW WE WILL WORK

D.2 We will help with the implementation of Bolivia's Poverty Reduction Strategy through support to key elements of the strategy. This will be through policy-linked resource transfers to the public sector (such as our current co-financing of the World Bank's programmatic structural adjustment credit for strengthening decentralisation) associated with relatively small-scale financial and technical support to organisations within and outside government who are working on these key elements of the Strategy. Such support might include help to organisations undertaking investigative and analytical work, piloting and innovation, and advocacy. In each case, we will seek to strengthen relations and facilitate partnerships between state and society when they are in pursuit of a common theme. To better inform our strategic choices we will routinely undertake *reality checks* throughout the country to deepen our knowledge of institutions at the local level, to understand more about the lives of poor people and their communities and to consider the links between micro-level reality and macro-level policy and action. Criteria for working with civil society organisations will be developed for the implementation strategy.

D.3 We will take forward a process of ongoing analysis and review of our programme to determine where we can best add value and make an effective contribution to the evolving Poverty Reduction Strategy process. We will hold annual development talks with the Bolivian Government jointly to agree priorities for UK resource transfers to state programmes, and to provide information on DFID's overall programme in support of the Strategy objectives. We will continue to inform our strategic choices through political and historical analysis.

D.4 We will work closely with multilateral institutions both in country and at the regional and global level. As a shareholder, we will continue to strengthen our relations with the international finance institutions, particularly the IADB, the IMF and the World Bank. With the IADB, we will support the realisation of its challenging core objectives of poverty reduction, social equity and institutional reform. We will share with the World Bank our analytical and policy work and will continue to engage closely with the IMF. We will encourage more European Commission decision-making in La Paz, rather than in Brussels and support efforts to give the programme a stronger and more coherent poverty focus within the *Nuevo Marco*. We will work selectively with members of the UN family on issues of common interest, engaging particularly with UNDP¹². We will continue to work closely with the network of bilateral donors in pursuit of a common policy agenda, sharing human resources and co-financing programmes whenever feasible and sensible.

D.5 In our evidence-based policy engagement, we will ensure consistency and seek synergy between our work in Bolivia and DFID's effort more widely. To this end, where appropriate, DFID central funds will be used to support Bolivia's Poverty Reduction Strategy, as well as feed into global lesson learning. We will also support policy related research through our country programme and link this with DFID's forthcoming regional initiative, the Latin American Research Network. DFID's centrally funded projects include work through the Civil Society Challenge Fund and various

12 The action plan related to DFID's Institutional Strategy Paper for UNDP includes Bolivia as one of a number of countries where UNDP's programme is being actively monitored.

D. FUTURE STRATEGY

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sectoral research initiatives, such as rural livelihoods. We will seek to add value to the development debate in Bolivia through DFID's global and regional conceptual approaches, and ensure that lessons from Bolivia inform DFID's regional and global work.

D.6 We will engage more widely within the UK Government in the promotion of consistent policies and actions for global poverty reduction and sustainable development as they affect Bolivia. This will include working to achieve consistency between the UK Government's private sector investment and trade efforts and the Bolivian Government's poverty reduction policy. We will continue to work closely with the UK Foreign and Commonwealth Office in support of shared common objectives in areas such as human rights, democracy, the mainstreaming of environmental concerns and corporate citizenship.

SUPPORT TO KEY ELEMENTS IN THE POVERTY REDUCTION STRATEGY

D.7 The Strategy represents an important change in public policy for poverty reduction. There are two key areas of significant change from earlier policies. The first is the integration of economic and social policy; the Poverty Reduction Strategy recognises the key role of the informal economy for poor people's livelihoods (as part of *enhancing economic opportunities*). The second is the importance of enhanced social inclusion and participation in political processes within a more accountable and transparent institutional framework (as part of *social integration and institutional development*).

D.8 We will focus our efforts in these two areas, concentrating on where we can add value to the international community's support to the Bolivian development effort.

D.9 Specifically, we will bring a strong rights-based focus to development and promote the inclusion of the excluded in all our work. Guided by the principles of social inclusion and human rights, we will work to achieve two key

outcomes in support of the Poverty Reduction Strategy – pro-poor growth and pro-poor governance.

HUMAN RIGHTS

Empowering poor people to realise their human rights is the perspective through which we will implement our country strategy

D.10 DFID's approach to development is rights-based. We will underpin our pro-poor growth and pro-poor governance work with a focus on the rights and interests of poor people. To this end we will continue to promote the uptake of participatory approaches to poor people's empowerment, including support to networks and organisations that are seeking to enhance such approaches, particularly those working directly with the poor and excluded. We will play an active part within the international community in working with state and society to take forward the National Dialogue process so that the voices and interests of poor people are reflected in the review and adjustments to the Poverty Reduction Strategy. We will also finance some specific human rights initiatives, such as the Defender of the People's office first five-year strategic plan (2001/06), where we will encourage them to address economic and social rights as well as political and civil rights.

PRO-POOR GROWTH

The outcome we seek is increased incomes for the poor, through enhanced competitiveness and productivity, based on an improved enabling framework, strengthened capacities and adequate social protection.

D.11 Linked to the *enhancing economic opportunities* theme of the Poverty Reduction Strategy, we will support the Government, civil society and the private sector to develop and implement new initiatives in favour of making markets work better for the poor. In response to the challenge of regional trade liberalisation and the need to increase competitiveness and productivity, the Government has already identified one such initiative. DFID will support this.

D. FUTURE STRATEGY

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Our country office is facilitating constructive dialogue between the key government departments and organisations representing poor economic actors. The dialogue includes: a) improvements in the policy and regulatory climate for business; b) enhancing the participation of small producers and other small-scale economic actors in the formal economy and strengthening their capacity to benefit from markets; and c) contributing to the policy analysis and debate. Financial support may include:

- Support to a representative apex organisation, which represents the views/requirements of small producers;
- In partnership with the World Bank securing a reduction in the regulatory bureaucratic procedures required of businesses;
- Joint work with DFID's Private Sector Policy Department to help Bolivia develop evidence-based policies.

D.12 Building on our previous support, we will maintain and enhance our contribution to the development and implementation of sustainable rural policies, in relation to making markets work for the poor. For example, we will contribute to the basket fund for sector-wide financial support to Bolivia's new system for a demand-driven agricultural research and technology transfer system (SIBTA).

D.13 In relation to the *social protection* theme of the Poverty Reduction Strategy, all our work on pro-poor growth will include a consideration of vulnerability and risk as a crosscutting theme. This activity is envisioned as a complement to the existing mechanisms of protection that may result from the potential risks from the implementation of the FTAA in 2005. We will focus on informing the policy debate, in partnership with the relevant Bolivian institutions to:

- strengthen existing informal coping mechanisms as a key element of adequate social protection measures

- promote a balanced approach to backing growth promotion with macro-level counter-cyclical measures to manage economic shocks

We will also collaborate with the World Bank on the macro-level risk management issues.

PRO-POOR GOVERNANCE

The outcomes we seek are the empowerment of the poor, through enhanced participation of marginalised groups, particularly women and indigenous people, in decision-making at all levels of government, equitable access to public services and greater accountability of the state to all citizens.

D.14 In relation to the *social integration* and *institutional* themes of the Poverty Reduction Strategy, we are already providing human and financial resources to government/civil society initiatives to identify policies and programmes for reducing social exclusion. Specifically, we will aim to:

- Strengthen formal democratic systems in favour of poor people, in collaboration with bilateral partners, building on the experience we have gained in the preparations for the 2002 general elections;
- Continue our support to the decentralisation Programmatic Structural Adjustment Credit to achieve policy reform benchmarks that include strengthened approaches to poverty reducing measures, gender equality, indigenous rights and access to information.

D.15 We will support the multi-donor financed Institutional Reform Programme. We seek to reduce the risk of corruption and strengthen weak public administrations. We aim to support both the government (supply) and civil society (demand) side of the reform equation, through support to address:

- accountability, transparency and state capacity; mirrored by

D. FUTURE STRATEGY

CONTINUED

- strengthening civil society's ability to demand institutional reform at the national and local levels; and
- government/donor initiatives to identify a common approach to funding civil society's social control/vigilance activities.

We will also continue pursuing our engagement with the political elites to encourage them to adopt pro-poor and reformist positions.

D.16 In support of the *human development* theme, we will continue support to government and multilateral programmes, focusing on rights to services, principally through health. This sector-level support allows us the credibility and entry points to communicate effectively on the generic issues of access to public services. Our support will be focused on addressing:

- institutional and systems reform;
- the depoliticisation of staffing;
- a rights-based approach to service provision; and
- equality of access.

During the period of the Country Strategy Paper we will analyse the degree and form of sector-level support required, as our current commitments in the health sector conclude in 2004/05.

MONITORING AND EVALUATION OF THE POVERTY REDUCTION STRATEGY

D.17 We will offer our rights-based perspective as a key element in the development of an information system by those government institutions responsible for the monitoring and evaluation of the Poverty Reduction Strategy (economic planning unit and statistics institute). In addition, DFID and the donor community will support civil society organizations in their effort to exercise their social control functions

mandated by law. The Government and civil society are expected to monitor impact indicators, the use of HIPC II resources and other municipal level results. DFID's interest therefore will be in pro-poor impact, including strengthening statistical capacity, participatory and social assessment methodologies and dissemination of information to other state actors and civil society for enhanced accountability. Finally, led by the IMF, the donor community will ensure, to the extent possible, that Bolivia's macroeconomic targets are within a sustainable debt reduction path.

MONITORING AND EVALUATION OF DFID'S STRATEGY

D.18 We will measure our performance through an Annual Performance Review (APR), a Mid Cycle Review (2004/5) and an End of Cycle Review. For the APR we shall concentrate on the effectiveness of DFID's programme as part of the overall donor effort. In mid and end of cycle, we shall focus more strategically on how Bolivia and its partners are making progress in the achievement of the outcomes themselves, drawing on data from the monitoring of the Poverty Reduction Strategy and other complementary sources. We will develop indicators and review methodology during the cycle; these will include quantitative and qualitative measures and will be designed with our partners

E: RESOURCES

The objectives of this Strategy will be delivered by the use of the following financial and human resources:-

UK'S ESTIMATED ANNUAL DEVELOPMENT ASSISTANCE EXPENDITURE TO BOLIVIA		
	(£ MILLION)	
	2002/03	2003/04
BILATERAL COUNTRY PROGRAMME	7.95	7
DFID Centrally Funded Support		
Civil Society Challenge Fund	0.23	0.14
Rural Livelihoods Dept Funded Projects	1.57	1.13
Economic & social research	0.02	NA
Higher Education Links	0.01	0
SUB-TOTAL	1.83	1.27
TOTAL BILATERAL	9.78	8.27
SUPPORT THROUGH MULTILATERAL INSTITUTIONS		
European Commission ¹³	3.5	3.5
World Bank (inc. IDA) ¹⁴	UK SHAREHOLDING	UK SHAREHOLDING
Inter-American Development Bank ¹⁵	UK SHAREHOLDING	UK SHAREHOLDING
SUB-TOTAL	3.5	3.5
TOTAL BILATERAL AND MULTILATERAL:	13.28	11.77

E.3 The UK is the World Bank Group's joint fourth largest shareholder (providing around 5% of resources), and is a major contributor to its concessional lending arm the International Development Association (IDA). Through these contributions, the UK supports the Heavily Indebted Poor Country (HIPC) initiative. Under the two tranches of this debt relief programme (HIPC I and II), the international community cancelled approximately US\$2 billion (£1.38 billion) of Bolivia's debt. The IMF/IDA predict that this will have freed US\$159.1 million (approximately £110 million) in 2002 and US\$144 million (approximately £100 million) in 2003.

HUMAN RESOURCES

E.4 Lead responsibility for programming these financial resources lies with a team of specialist technical advisers and administrative staff based in the DFID office in La Paz. Within Bolivia, they work closely with the British Ambassador and his staff in the British Embassy. Further back-up support is provided by DFID's advisers and administrators in London and the UK's representatives in various multilateral agencies, such as the World Bank (IBRD), Inter-American Development Bank, European Commission and the United Nations system.

¹³ Converted at €1 = £0.61

¹⁴ See text of paragraph E3

¹⁵ The UK's shareholding with the IADB is approximately 1%.