

USAID/Bolivia

Annual Report

FY 2005

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Bolivia

Performance:

Background: Bolivia has in the past few decades progressed significantly on both the economic and political fronts, with 20 uninterrupted years of democracy following decades of political upheaval and military coups and dictatorships, close to 18 years of fundamental and far-reaching economic reforms, and significant improvements in major social indicators. During the 1990s, poverty decreased from about 70 percent to 60 percent, primary education completion rates increased from 55 percent to 79 percent, and child mortality dropped by 50 percent. Profound structural reforms began in 1985 and ranged from a state-enterprise privatization program to a decentralization plan that shifted significant resources to the private sector and to municipal government and local communities. Constitutional reforms improved the country's judicial and electoral systems. In addition, from 1998 to 2002, the Government of Bolivia's (GOB) illegal-coca eradication program was credited with reducing illicit coca leaf cultivation by 34,000 hectares, to less than 10,000. Bolivia also successfully developed a Poverty Reduction Strategy (PRS) with broad civil society participation and was granted some \$1.5 billion in debt relief in 2001 through the Highly Indebted Poor Countries (HIPC) initiative sponsored by the International Monetary Fund (IMF) and the World Bank.

The GOB and USAID have a strong and positive partnership. USAID's collaboratively developed Country Strategic Plan (CSP) for 2005-2009 reflects extensive GOB input and buy-in. However, the GOB's political weakness, continual social unrest and its prolonged and severe fiscal crisis impede its ability to fully meet its policy and financial commitments under the CSP.

U.S. Interests and Goals: USAID's program reflects U.S. Government (USG) foreign policy priorities, and as such is reflected in the U.S. Mission Performance Plan (MPP). The consolidation of democracy is the top USG foreign policy objective in Bolivia, recognizing that inclusion and participation of the long-marginalized indigenous majority and women are critical to strengthening overall democratic governance and long-term stability. USAID is supportive through programs that address decentralization, administration of justice, legislative strengthening, and anti-corruption. Another U.S. foreign policy goal includes the reduction of illicit coca cultivation. USAID's integrated development interventions provide enhanced licit economic opportunities and increased state presence in coca-growing areas. Overall economic growth and development as a means of sustained, long-term poverty reduction is another priority for the USG. USAID is promoting a sustainable financial system and microfinance development, improving agricultural production, and enhancing the enabling environment for trade and investment. Economic development is also fostered through USAID programs which develop a sustainable forestry sector, generate revenue from conservation areas, and improve the efficiencies of businesses through reductions in industrial pollution. Related to sustainable economic growth is the goal of progress in reproductive and global health. USAID directly supports this goal through programs that target greater health awareness, improved delivery of health services, and strengthened health management by the government and civil society organizations.

Donor Relations: Within Bolivia, USAID is the largest bilateral donor, and the fourth largest overall donor, after the Andean Community Fund, the World Bank, and the Inter-American Development Bank, all of which provide concessionary loans as opposed to grants. Bolivia has been selected as eligible to bid for funds under the FY 2004 and 2005 tranches of the Millennium Challenge Account (MCA); however, the GOB has yet to reach a compact with the MCC. Eighteen multilateral and bilateral donors and nine United Nations agencies provide an average of \$500 million annually in concessional loans and donations to Bolivia. Donor coordination, with the participation of eight multilateral and 15 bilateral donors. Principal areas of donor coordination are health, education, democracy and poverty reduction. The donors' assistance is organized around the Bolivian Poverty Reduction Strategy Paper and the

Government of Bolivia's Plan of Action.

Challenges: At the close of 2004 the Mesa Government finds itself increasingly stymied by powerful, organized opposition to needed reforms, and by a large and growing fiscal deficit that severely hampers its ability to meet even the most basic demands for services. Recent municipal elections reveal a highly fragmented political environment that makes the coalition-building necessary to carry out a coherent national development program very difficult. Highly disruptive pressure tactics such as road blockades and strikes by various groups force the GOB into ad-hoc agreements that play havoc with planning. The economy, while beginning to recover from its recent five-year slump, still requires extensive restructuring and considerable direct investment, for which there is little capital domestically, and some painful policy reforms, for which there is scant political will. Much-needed foreign direct investment is in suspense pending the outcome of the Congressional debate on a new Hydrocarbons Law that will govern property rights and taxation in Bolivia's potentially lucrative energy sector. The law is seen by outside investors as a bellwether of GOB attitudes toward business. The versions of the law currently under consideration involve significantly higher taxes and royalties for private companies working in the gas sector, as well as obligatory modifications to current long-term contracts between the GOB and the energy companies that the latter consider borderline nationalization.

President Mesa has promised to convene a Constituent Assembly to review Bolivia's constitutional order with a view to making it more inclusive, transparent and less vulnerable to corruption. The Assembly can recommend changes, which will be put to a popular vote. While this process presents an opportunity to further consolidate Bolivia's democracy, it may also open a Pandora's box of unrealistic demands for regional autonomy, the potential creation of an economic environment hostile to private business, and an undermining of the rule of law through demagogic demands for pure majority rule. Given the extraordinary political sensitivities involved, USAID is taking a low-profile, flexible approach to GOB requests for assistance in this area.

High levels of poverty and a consistent pattern of social and political exclusion of the indigenous majority persist. Almost 60 percent of the Bolivian population is poor, with correspondingly low levels of education, health and nutrition. Infant mortality stands at 67 per thousand live births, and 26 percent of children under three year chronically malnourished. Diseases such as malaria, tuberculosis, leishmaniasis, and yellow and dengue fever are widespread. Bolivia is extraordinarily rich in natural resources, yet severe, widespread rural poverty creates stresses on the environment as the poor exploit these resources in an unsustainable manner. Water pollution and soil erosion and degradation are widespread and serious. Bolivia lacks sufficient capacity to effectively manage these resources.

Illegal coca replanting for the international narcotics trade is a constant challenge to Bolivia's counter-narcotics strategy. According to State Department figures, there was a 17% net increase in coca cultivation nationally in 2003 over 2002, with about 28,450 hectares under cultivation. A deeper analysis of the two principal coca-growing areas, the Chapare (where all coca is illegal) and the Yungas (where by law anything over 12,000 hectares is illegal), shows a 15% percent drop in the Chapare to about 4,6000 hectares, and a 26% increase in the Yungas, to 23,550 hectares. The illegal coca issue requires close and continuous attention and adroit USG/GOB intergovernmental coordination to avoid the rollback of gains in licit-alternative-to-coca economic and social development to date in coca-growing areas. An additional challenge is that in the fastest-growing coca area (Yungas), only alternative development activities are in play. Neither the GOB nor USG agencies undertake eradication or sustained interdiction.

Key Achievements: Despite Bolivia's uncertain political stability and opposition to economic reforms by a number of interest groups, USAID was able to achieve considerable progress in all of its objectives, in partnership with reform-minded counterparts in the government as well as within civil society and Bolivia's private sector.

1. Increased Income for Bolivia's Poor: This objective focuses on promotion of a sustainable financial system, microfinance development, improved agricultural production, and increased trade and investment. Although average rural household income dropped from last year, USAID program beneficiary households' income continued to rise by an average of 15 percent. USAID assistance directly

generated \$11.7 million in non-traditional exports, 46 percent above the project goal for 2004, and contributed to a \$165 million increase in non-traditional exports at the national level and thousands of jobs created. USAID efforts this year have resulted in significant improvements in the policy climate and efficiency of credit unions. Working with rural credit unions, USAID made significant progress in linking services from Bolivian and international institutions into a network to provide liquidity, savings, money transfers, check clearing and remittances. This will reduce transaction costs of remittances by over 50 percent.

2. Improved Health of Bolivians, Contributing to their Quality of Life: USAID seeks to enhance health awareness through education and social marketing; expand and improve the quality of health; and strengthen management of the health system at all levels of the public sector and through partnerships with NGOs. As a result of USAID interventions, there is greater use of modern family planning methods (368,090 couple-years of protection during FY04). More than half (54%) of pregnant women received their first pre-natal consultation before the fifth month of pregnancy and a higher percentage (62%) of births were attended by trained personnel. 77% of children under one year of age received their third dose of the pentavalent vaccine for protection against pertussis, tetanus, polio, hepatitis B, and Hemophilus influenza.

3. Forest, Water, and Biodiversity Resources Managed for Sustained Economic Growth: Through this objective, USAID helps to advance sound business practices for forestry exports, addressing conservation of the eastern slopes of the Andes, and improving environmental management of urban and industrial pollution. As a result of investments catalyzed by USAID, Bolivia remains the global leader in tropical forest management, with almost 1.5 million hectares independently and voluntarily certified as well managed, with another 700,000 pending certification. Forestry exports in 2004 are estimated to be \$20 million, an increase of more than \$5 million from 2003. Through USAID's partnership with Bolivian industry, a total of 62 industrial plants have adopted cleaner production practices.

4. Licit Economic Growth in Coca-Growing and Associated Areas Increasingly Sustainable: USAID provides an integrated package of interventions in coca growing and associated areas aimed at increasingly sustainable economic development, underpinned by strengthened democratic and social development. The area of licit crops planted in the Chapare increased from 135,342 hectares (Ha) in 2003 to 143,887 Ha in 2004. The farm annual income for assisted families increased to approximately \$2,390 in 2004, which is \$961 higher than farm incomes generated by families that did not receive support. The value of private sector investment in the Chapare increased from \$60.5 million in 2003 to approximately \$85 million in 2004. In the Yungas, close to 10,000 participant families receiving USAID assistance for improved coffee production increased their income, on average, by 40%. Additional services include 168.7 km of road maintenance, 156 km of road improvement, 12.3 km of stone paving, the construction of 8 bridges, and 331 km of electrical distribution lines.

5. Economic Stabilization: USAID provided \$10 million in Economic Support Funds to the Government of Bolivia in FY 2003 to help close its fiscal gap by partially paying multilateral debt. Another tranche of \$8 million was paid in FY 2004. These grants helped stabilize the GOB's finances and reprogram funds to meet other urgent, short-term commitments, and generate additional pledges from other donors.

6. Increased Confidence in Democratic Institutions and Processes: USAID helps consolidate criminal justice reform to enhance overall security and stability in the country as well as aggressively targeting anti-corruption efforts; in addition, programs are enhancing the responsiveness and accountability of political parties and municipal governments. USAID assistance to the Network for Justice and Participation helped to establish precedents for civil-society oversight of the selection of justice officials. USAID-supported integrated justice centers in conflict-prone areas have resolved over 1,100 cases; 89% of which did not require further adjudication. The Public Ministry, Presidential Delegate for Anti-corruption and Police are prioritizing high-profile corruption cases to be investigated and prosecuted and anti-corruption task forces have been established in 1/3 of the nation's departments. Targeted training was provided for over 1,000 future women leaders, in an environment in which the percentage of women candidates in municipal elections increased from 46% in 1999 to 56% in 2004.

Gender: High levels of poverty correlate with gender in both rural and urban areas. As important components of USAID/Bolivia's assistance program are targeted at sustained reductions in poverty, the program portfolio contains a strong gender component, and the program performance data collected is gender-disaggregated to assess comparative impact. All Mission SOs either directly target or substantially benefit poor women, in recognition of both the key role they play in family health, food production, and microenterprise, and of their exclusion from full participation in society and the economy by cultural practices that make them disproportionately under-educated and poor.

Trade Capacity Building: USAID/Bolivia's Bolivian Trade and Business Capacity Building (BTBC) project includes both support to private enterprises to increase their capacity to compete in international markets, and in training GOB trade officials in effective trade agreement negotiation. It is playing a key role in helping Bolivia to reach the level of inclusion for current Andean Free Trade Area negotiations.

Results Framework

511-001 Increased Citizen Support for the Bolivian Democratic System

SO Level Indicator(s):

Increased system support/trust in the Judicial, Legislative and Municipal Government institutions

IR 1.1 The Code of Criminal Procedures (CCP) is enacted and complementary legislation is actively considered in Congress

IR 1.2 National representatives are more responsive to citizen demands

IR 1.3 Municipalities effectively respond to citizen needs and demands

511-002 Increased Income for Bolivia's Poor

SO Level Indicator(s):

National level of non-traditional exports (\$)

Number of rural households receiving technological/marketing services

IR 2.1 Increased access to financial services in underserved areas

IR 2.2 Increased access to agricultural technology and marketing services

IR 2.3 Increased trade capacity and competitiveness

511-003 Improved Health of the Bolivian Population, Contributing to Their Quality of Life

IR 3.1 Increased ability of individuals, families, and communities to take action to improve health

IR 3.2 Expanded delivery of quality, high-impact services through health networks

IR 3.3 Strengthened institutional capacity for health care management and sustainability

511-004 Forest, Water and Biodiversity Resources Managed for Sustained Economic Growth

IR 4.1 Sustainable management of natural forests in the Bolivian lowlands

IR 4.2 Adequate management of protected areas

IR 4.3 Improved environmental management of urban and industrial pollution

511-005 Licit Economic Growth in Coca-Growing and Associated Areas Increasingly Sustainable

IR 5.1 New coca plantings prevented

IR 5.2 Increased risks and reduced incentives for coca production and marketing of legal and illegal coca

IR 5.3 A. Existing coca eradicated in Chapare. B. Supply of and demand for licit coca equalized in Yungas

IR 5.4 Chapare sustainable alternative development established

IR 5.5 Licit net household income increased in targeted communities

511-006 Economic Stabilization

511-007 Increased Confidence in Democratic Institutions and Processes

IR 007.1 Key institutions of the Rule of law are more transparent, efficient, and accessible

IR 007.2 Political representatives are more responsive to citizen demands

IR 007.3 Local Governments are more effective and efficient in responding to increased citizen demands

IR 007.4 Anti-corruption efforts yield more transparent and effective Government