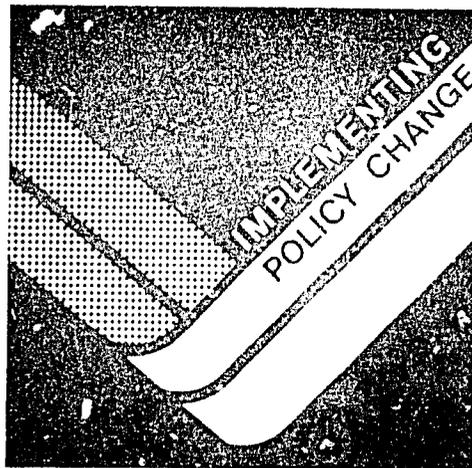

**BOLIVIA: TECHNICAL SUPPORT FOR POLICY REFORM
PROJECT DESIGN**

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Submitted to:
USAID/BOLIVIA

Submitted by:
Implementing Policy Change Project
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I. BACKGROUND AND INTRODUCTION

In May 1991, USAID/Bolivia with the assistance of MSI/IFC, conducted a final evaluation of the Policy Reform Project (511-0571) which is a predecessor to the Technical Support for Policy Reform Project (511-0617). The evaluation findings justified the approval of a follow-on project which will basically continue financing the operations of the GOB's Economic Policy Analysis Unit (UDAPE) and will also provide assistance to other sectors in areas requiring analysis for structural reform.

The overall goal of that project is to support Bolivia's maintenance of a sound economic policy through an effective policy framework in order to assure sound public investments and encourage new and expanded private productive interventions.

As follow-on to the original Policy Reform Project, the current project will have two main components. The first component will assist in implementation of GOB macroeconomic, sectoral and social policy reforms aimed at improving economic productive reactivation through the continued and expanded operation of UDAPE. The second component, the Policy Reform Support Fund, will provide funding to a supplementary program monitoring and coordination capacity, to assist the GOB and the Mission address key policy and institutional reform issues.

This project design effort was requested by the USAID Mission in Bolivia through the Implementing Policy Change Project (IPC) held by Management Systems International (MSI) to assist USAID/Bolivia to (a) identify areas of intervention by UDAPE and by other project implementors, (b) structure the new project in a way that will help avoid duplication of efforts and (c) and help develop implementing mechanisms for non-UDAPE activities as well as criteria for selection of sectoral studies to be undertaken under the project. In addition, this policy reform design work incorporates a special interest in issues related to policy implementation reflecting the particular concerns of the Implementing Policy Change Project (IPC) through which this design work was conducted.

The scope of work for this project design effort was prepared by the USAID Mission to Bolivia and is presented as Appendix A of this document. The team conducting this work consisted of Benjamin Crosby (MSI) who served as Team Leader and Donald Swanson (DAI) who served as Institutional Specialist. Participation by this team was arranged through a buy-in to the IPC Project funded and managed by A.I.D.'s Bureau for Science and Technology. Wayne Tate and Sonia Aranibar of the USAID/Bolivia Program Office served as key resources. UDAPE members Juan Carlos Requena, Gaby Candia, and Gualberto Huarachi provided in-house expertise for the project design. Several government officials were interviewed. This technical assistance activity was carried out February 10-28, 1992.

II. REPORT OF ACTIVITIES

This Policy Reform Project analytical effort took place after considerable work had already been done by both USAID/Bolivia and UDAPE. The team arrived after the Mission had already prepared a draft PID and was under review by the Mission. UDAPE and USAID/Bolivia had already conducted several reviews of the project design and were engaged in planning for the upcoming new project. The Mission had also begun planning a policy reform support fund mechanism that would be managed by the Program Office of USAID/Bolivia.

After initial discussions with USAID/Bolivia it was agreed that the IPC team should make a general review of the new project. The team would "walk" both USAID/Bolivia and UDAPE through each step of the design. Both parties agreed to outside questioning and the benefit of a third party review of the project design.

The team interviewed key officials in UDAPE and in the principal economic policy ministries to get their opinions and perceptions regarding the future role of UDAPE. The team also conducted a "stakeholders assessment" exercise with UDAPE's executive committee. Several informal workshops were held with UDAPE's executive committee to discuss and explore strategic issues concerning UDAPE's role, scope of work, constituency, audience, image, and future sustainability. At the end of these exercises, UDAPE produced a preliminary document on the strategy and future of the organization.

Based on these inputs, the Mission and the IPC team decided jointly that the team would 1) develop strategies for the principal components (UDAPE II and the Policy Reform Support Fund) of the new policy reform project, 2) assist in the revision of the PID (see Appendix C) before its submission to Mission personnel for review, 3) contribute input to the new project paper based on information received in the review, and 4) identify institutional and strategic issues to be considered and decided for the design of the actual project paper.

The team prepared technical papers for the development of each of the project components to provide the Mission with a more in-depth analysis of resource and implementation needs for the project. The technical papers also raise a series of issues which will need to be dealt with during the course of the project paper preparation. These documents are presented as Sections III. and IV respectively, of this report.

The IPC team was also requested to prepare an issues paper outlining the critical issues that still needed addressed during project preparation. This document is presented in Section V.

The scope of work requested in the PIO/T for the IPC study contained four main outputs. These outputs are as follows:

- "Review the Technical Assistance for Policy Reform project identification document (PID) developed by the Mission and, with the assistance of the Project Manager, analyze areas requiring further attention in preparation for the development of the project paper (PP)."

The PID was revised by the team based on the analysis made in reviewing the first draft of the PID and is presented in Appendix C. The issues paper presented in Section V. outlines points that require further attention for preparation of the project paper.

- "Help develop a PP outline in coordination with DP and PD&L."

DP and PD&I. had already prepared a rough outline for the PP. The team's response to the outline is contained in Appendix D; Annotations for design of Policy Reform Project Paper." The annotations follow the format in the PP outline prepared by DP and PD&I.

- "Develop criteria for selection of studies/activities to be undertaken by the non-UDAPE portion of the project and provide suggestions on implementing mechanism to be used by the Mission Coordinating Unit."

Selection criteria are outlined in the draft PID in Appendix C and are more fully developed in the technical paper on the Policy Reform Support Fund in Section IV.

- "Provide any additional inputs for the design of the PP."

The bulk of the IPC team's input is found in the technical reports prepared for each project component. These reports can be found in Sections III and IV.

The team had the benefit of attending two PID review meetings for the project. These meetings as well as the extensive interaction and dialogue with USAID/Bolivia, UDAPE, and other government officials helped in making this assignment an extremely interesting and rewarding endeavor.

III. A STRATEGY FOR THE DEVELOPMENT OF THE POLICY REFORM PROJECT COMPONENT ONE: UDAPE

A. Background:

The present environment for the Policy Reform Project can be characterized by four main elements: a continued but fragile stability in the principal factors of the economy achieved after several years of stabilization and adjustment; very low to zero growth since achieving relative stability with per capita income continuing to experience mild erosion; deteriorating social conditions with increasing political pressure to treat those conditions -- the state with little capacity to meet demands; a coalition government with relatively low turnover but with the medium-term political environment characterized by uncertainty.

In its eight years of existence, UDAPE has had extraordinary success in both developing institutional capacity as well as helping to shape Bolivia's macro-economic policy framework. It has achieved a high degree of prestige and capacity with a capability for quick response and turnaround to requests from government officials unusual in developing countries. It has achieved an "institutionalized credibility" that keeps its output in demand from both Bolivian institutions as well as foreign donors and others. It has reached an enviable level of technical maturity in macro-economic analysis and in the monitoring of Bolivia's short-term economic measures. It has become increasingly relied upon by the government as a "fire-fighter" for supplying aide memoires or answers to policy questions. At the same time, its capacity for other types of analysis has either not developed or remains untapped or under-utilized. Though according to the decree authorizing UDAPE, it is considered a government wide institution, the Ministry of Planning (under whose administrative domain UDAPE is located) has absorbed an increasing amount of UDAPE's time and efforts. Concomitantly, and despite its high prestige and attributed importance, UDAPE has no obvious, organized, permanent constituency outside the Ministry of Planning. Its only other constant and important patron, the macro group, is ad hoc. UDAPE has yet to develop a stream of resources other than those provided by AID and counterpart funding.

The environment for economic reform since UDAPE achieved its first successes in the mid-eighties has undergone significant change:

Stabilization has been more or less achieved but the needs in terms of policy reform that will foster growth are still substantial. Under current trends, UDAPE will help to fine-tune the macro-economic policy agenda, but at the same time will begin to encounter competition from other entities (Min. of Finance, Central Bank) as these agencies continue to gain competence.

It is recognized that without real and continued growth, the achievements in macro-economic stabilization will not be sustainable. It is widely recognized that the functional ministries of the GOB still lack the technical capacity and skills to develop and articulate sound sectoral strategies to accelerate growth, and lack the ability to link those back into the macro-economic program to insure consistency.

As the macro-economic program has been implemented, the capacity of the government to respond to the social needs agenda has been continuously eroded. At the same time, little attention has been paid to the problem of development of human capital necessary to effect a strategy of robust growth and reactivation. There is a growing need for analysis and articulation of strategies that respond to the problem of human capital development yet which are sensitive to the fragility of the economic stabilization and adjustment program.

B. UDAPE: An Expanded Model

Purpose of UDAPE II: The purpose of UDAPE II is to strengthen and expand UDAPE so that it will be capable of 1) continuing its vital role in the area of macro-economic policy analysis and implementation, 2) analyzing and designing priority sectoral policies which will contribute to solid and sustainable growth in line with the GOB's macro-economic program, and 3) assist in the re-definition and articulation of the social agenda for accelerated development of human capital.

The strategy that is described below is aimed at achieving these purposes. It attempts to acquire new resources, build new strengths and consolidate current capacity, widen its audience and diversify its clientele, and position itself so that it will be capable of sustaining its contribution to economic policy well into the future.

1. Organization:

During the first year of the Policy Reform project, UDAPE's organizational and task structures will be altered to take on new responsibilities and allow it to re-distribute its resources toward the increasingly priority problems of growth and social needs. UDAPE's organization will be expanded to three divisions: the Macro-Economic, Sectoral Analysis, and Social Policy divisions, each headed by a Senior Analyst or Division Chief reporting to the Executive Director. The Macro-economic division will remain much as it is while the Sectoral Analysis division will be expanded moderately in order to take on increasing demand from the line ministries. The new Social Policy division will be staffed by economists with experience in social policy issues.

MACRO-ECONOMIC DIVISION: Currently, UDAPE is composed of a Director and two divisions: the macro-economic division which has the responsibility for carrying out studies and analyses as well as responding to immediate requests for information on specific macro-economic issues or short-term policy problems (fire-fighting). This division is also responsible for monitoring Bolivia's short term economic measures and it the main source of analysis for the macro-group. At least 50% of the work done in this division is in the nature of fire-fighting.

Tasks: In the new project, the macro-economic division will be left much as it is with essentially the same tasks and responsibilities. It is the most mature part of the organization, it functions well, and needs little in the way of direct or long term technical support. Substantively, the Macro group will shift its emphasis on control and stabilization of the economy to analysis of adjustment policy and its impact on economic growth. Organizationally, a sub-group will be created within the Division which will be responsible for fire-fighting. This group will be

dedicated exclusively to this function in order to reduce the problem of distraction caused by fire-fighting tasks for those working on longer-term assignments. It is not expected that the workload of this division will diminish, and therefore its resource allocation ought not to be reduced.

Activities: The nature of the Macro division's activity will not vary in the new project, but greater emphasis will be put on fiscal adjustment and external trade. Specific activities will be further defined in the institutional assessment phase of project paper development.

MACRO-SECTORAL DIVISION: The macro-sectoral division was created in early 1991. While it was thought that this division would only apply the macro-economic vision to sectoral problems, the division has found it increasingly necessary to more fully immerse itself in sectoral problems and characteristics before it can actually do so. Partly as a consequence, the division has also found it important to take on the role of informal technical advisors in beefing up the analytical capacity of the sectoral ministries, just so that their counterparts would be able to understand and respond to the questions asked.

Tasks: Substantively, the division will have three main areas of responsibility: institutional strengthening of sectoral ministry analytical units to increase their competence in the design of sectoral policy; design and evaluation of sectoral policies and the development of sectoral models compatible with global economic policy; and research on sources of sectoral growth, and mechanisms for acceleration of sectoral growth.

Training Needs: As demand for services grow, the unit will need to increase its staff and begin to consider greater functional specialization within the unit. At the same time, the unit will need to acquire new skills. **Training needs will be assessed during the institutional assessment phase of the project paper process.**

Activities: Studies will be conducted in the following sectors: Agriculture, Energy and Hydrocarbons, Industry, and Regional Policy. Evaluations of public and private investment at the sectoral level will also be conducted. **Greater specificity of activity will be defined during the institutional assessment.**

SOCIAL SECTOR DIVISION: As a temporary measure, the Social Group was housed in UDAPE in early 1992 at the request of the government, whose intention it is to separate the group from UDAPE in July 1992 with the formation of UDAPSO. The group, according to all sources, was placed there only to help it find its feet. UDAPE, nevertheless, has entered into the area of social sector strategy analysis and helped the government formulate the "Estrategia del Sector Social" and assisted the government in its presentation on alternative development to the Paris Consultative Group.

Location: In the new project, a social sector division will be created. Where the division should be located must still be agreed upon. There is substantial argument that it ought to be a full fledged division in order that it not get lost in one of the other divisions, but there is also argument that politically it would be better to keep it under one of the other divisions (macro-sectoral) and phase it into a full division at a later date. **A decision and strategy will be developed at the project paper stage.**

Tasks: Substantively, its focus will be directed at articulating the linkages between economic and social policies and strategies. As part of an economic policy analysis unit, it will be specifically responsible for analyzing the economic impact of social policies and strategies on both the sectoral and global economic development models. For instance, the division might undertake an analysis of investment in human capital as a source of growth, or the impact of certain industrial strategies on the reduction of urban unemployment. Externally, it is expected that the unit will provide the primary communication link with UDAPSO for mediation of social and economic policy. The division will be staffed by economists with social issue policy experience and political economists.

Training needs: Since this will be a new division, there will likely be a substantial amount of training required, particularly in increasing the social assessment skills of the economists recruited to the division. **More precise definition of needs will occur during the institutional assessment of UDAPE.**

Activities: These will be decided during the institutional assessment phase of the project paper process.

Risks: There are some risks inherent in UDAPE taking on a social analytical function. It will not always be able to coordinate between the social the other divisions -- despite the fact that all will be economists, the point of departure can and will often differ. Given the often sensitive nature of social issues, politicization of the unit is another risk. Finally, there is the risk of analytical redundancy with UDAPSO. Nevertheless, conscientious communication with UDAPSO, and careful consideration in how the unit develops and what it undertakes, should be able to mitigate most of the risk.

2. The Executive Director:

As UDAPE's organization and tasks expand the functions and responsibilities of the Executive Director will also expand. The role of the Executive Director will be modified to include an interlocutory or brokering role between the three divisions, a more expanded role in organization outreach and communication, more emphasis on the management of UDAPE's constituents, and a greater role in the design and management of technical assistance.

Tasks and Functions: As the demands for UDAPE's services expand so will the organization. The Executive Director's line management responsibilities will expand with the formalization of the Macro-Sectoral division and the creation of the Social Analysis division, and the attendant structural needs implied. This will also require a greater (lamentably) formalization of UDAPE, and a greater delegation of technical supervision to the Division Chiefs away from the Executive Director. The Executive Director will continue to be the principal contact between the Ministry of Planning, the USAID mission, and other governmental and non-governmental agencies. As the Director's technical involvement diminishes, it will likely become necessary to delegate certain liaison or constituent relations functions to the Chiefs of the technical divisions. In addition, the Executive Director will also more fully develop several other functions including outreach, management of the Board of Directors, management of relations with

prominent constituents, management of technical assistance, and spokesman for UDAPE's three pillar strategy.

Activities: The new Policy Reform Project also establishes several new (or increasingly formalized) activities for the Executive Director:

- Development of an outreach strategy, management of the strategy's implementation.
- Development of a strategy or mechanism for management of the Board of Directors, including convening regular meetings, development of agendas, etc. Work with the Board in the structure of priorities and semestral workplans.
- Development of mechanisms for broadening, and management of relations with, constituents including line and sectoral ministries, donor organizations, Congress, external and Bolivian NGO's, etc.
- Development of a communications strategy for articulation and communication of UDAPE's three pillar strategy.
- Management of technical assistance. Development of criteria, working with the mission and institutional contractor in recruitment, logistics, etc.

Although many of these activities/functions are currently carried out by the Executive Director, they are done so on an ad hoc basis. In order to maximize output, attention should be given to strategic considerations in each area. Goals, objectives, strategies and action plans will be developed in each of these areas. **Further consideration will be given to activities in the institutional assessment.**

Training and Technical Assistance: These new tasks will require that the Executive Director acquire a new set of skills; technical assistance will be made available to help the Director make the transition. **Specific definition of those needs will be spelled out in the institutional assessment.**

Consideration should also be given to development of a new profile for selection of the Executive Director. Serious consideration should be given to selection of a political economist rather than a technical economist, as being better equipped to fulfill the brokering and communication functions of the new Executive Director profile.

3. Board of Directors:

UDAPE's Board of Directors will be activated to take on a greater role in support of the Executive Director and in the setting of analytical and program priorities. The Board will examine its current composition in terms of UDAPE's needs and modify itself accordingly. It will also help develop strategies to assure the sustainability and institutionalization of UDAPE.

For the past two years, UDAPE's Board of Directors has not functioned. That lack of operation has also contributed to the increasing monopolization of UDAPE by the Ministry of Planning. In order for UDAPE to fully contribute to the development of sectoral growth strategies, UDAPE's program and work agenda needs to be more equitably distributed among other ministries. Without a Board of Directors, setting of the agenda and priorities will rest exclusively with the Minister of Planning and the Executive Director. Given the fact that the Board has not been convened for two years, one must assume that the key actors involved like it that way. It therefore must be made clear to them the disadvantages and long-term negative consequences to the expansion and maturity of UDAPE.

Need for Implementation: The Board of Directors can also be a useful mechanism for widening UDAPE's constituency. Despite its recognized reputation, UDAPE's only organized constituents are the "Grupo Macro" (which is ad hoc) and the Ministry of Planning. Although these two have been vital to UDAPE's growing access and importance, an election could drastically change those circumstances. Moreover, the current situation also promotes the image that UDAPE is the exclusive property of the Ministry of Planning when it is actually a government-wide organization. A conscientious re-activation of the Board of Directors will help diminish the risk of either occurring. It is important to note that without a wider constituency, UDAPE's chances for sustainability will be diminished. The Executive Director will work with both the Minister and the Mission to develop a strategy for re-activation and management of the Board.

Composition: The nature of economic policy making has changed in the eight years of UDAPE's existence, yet there has been no change in the composition of the Board. Once reactivated the Board should carefully analyze its composition in light of changing economic realities and needs. Consideration can also be given to the inclusion of representatives from organizations not specified in UDAPE's authorizing decree (such as the private sector or NGO'S).

Activities and tasks: The board will meet regularly (3 times per year? -- to be established during the institutional assessment); it will review the performance of UDAPE and progress in the implementation of its strategic plan; point out and discuss emerging issues to be considered by UDAPE; review the work plan and revise as necessary; monitor the distribution of work requests from clients.

The Board will help UDAPE and the Mission explore alternatives for UDAPE's sustainability. The Board will allow for a wider point of view and its concurrence in the need for continuance will be more persuasive than the interests of a single ministry.

4. Technical Assistance:

The technical assistance to be provided under this project will be the most important input and, therefore, a significant percentage of project funds will be used for this purpose.

An institutional contractor will be financed by the project to provide direct technical assistance to UDAPE in management and institutional strengthening, coordinate UDAPE's long

and short term technical assistance, and to support the technical assistance needs of the fund created for policy reform support. The use of an institutional contractor will provide greater agility in contracting procedures, provide a better network, and the capacity to pull in consultants to which the mission might otherwise not have access.

Role of Technical assistance to UDAPE: the role of technical assistance in the follow-on project will be directed at 1) increasing UDAPE's capacity to take on new and additional tasks in the area of sectoral and social policy, and 2) complementing research and analytic capacity in the monitoring of short-term macro-economic policy and the evaluation of the macro-economic model. (** a more specific list of needs in these areas will be developed in the institutional assessment phase)

To carry out the former, a technical advisor in strategic management will be contracted to work with the Executive Director of UDAPE in the development of a new organizational structure and in developing systems for implementing and managing the new structure. At the same time, a variety of short term technical assistance will be contracted to assist in the development of an outreach program and a communications strategy for UDAPE, the management of relations with clients, the re-vitalization of the Board of Directors, and the assessment of training needs in the new areas of responsibility. The Strategic Management advisor and the Executive Director will work closely to define those needs and in the contracting of services. Short term technical assistance will complement the support of the technical advisor in all these areas.

Second, short to medium term technical assistance will be contracted to support UDAPE in strengthening its analytical capacity in both sectoral growth strategies, and social sector and human capital development policies. Some illustrative areas in which technical assistance will be provided include: economic and trade policy, financial markets and regulatory agencies, strategies to increase agricultural production and agro-processing, and health and human capital development policies. It is anticipated that this assistance will have a large training/tutorial content at the outset but as the project progresses the assistance will evolve toward a more "joint venture" or collegial assistance. The institutional contractor will aid UDAPE's director in establishing criteria for technical assistance scopes of work and in the recruitment of consultants.

UDAPE has acquired a considerable maturity over the past five years, and while technical assistance will certainly be necessary in several areas, UDAPE is more than capable of taking the leading role in defining those needs. It is important, both for the effectiveness of foreign technical assistance and the self-image of UDAPE, that the Executive Director be the principal in decisions regarding technical assistance.

While UDAPE should be accorded the lead in determining technical assistance needs, the Director should maintain close contact and communication with both the Board and USAID project management concerning these needs and to secure proper clearances.

Therefore, it is not recommended that a long-term residential advisor be contracted for UDAPE. On the other hand, the institutional contractor should establish a long-term counterpart

for UDAPE who will fully understand the organization and thus be better prepared to facilitate access to appropriate technical assistance resources in the US and elsewhere.

5. Outreach:

UDAPE will develop an outreach program in order to enhance understanding and consensus around the GOB's macro-economic, sectoral and social policies and strategies. Programs will be undertaken to expand UDAPE's constituencies and to inform key groups (including AID, other donors, media commentators, legislators, etc.) on critical economic policy issues. It is important that UDAPE communicate the value of its activities to a wider audience as a means to enhance sustainability.

A criticism that has been leveled at UDAPE is its failure to develop an outreach program to communicate more widely what it does and to help articulate the government's economic program. It is sometimes referred to as the government's "black box" of economic policy. In some circles UDAPE is perceived as inaccessible. UDAPE can address these problems and criticisms, and widen its constituency, through the development of strategically defined outreach program.

UDAPE's staff currently engage in a variety of outreach activities: these include teaching in the University, talks and speeches to a variety of groups, presentation of papers at conferences, and participation in seminars, conferences, and forums. However, most of these efforts are through individual initiative and on an ad hoc basis. To gain maximum leverage or benefit UDAPE needs to strategically define these activities.

Activities: UDAPE's outreach strategy should be aimed at 1) developing and/or consolidating its constituency among government agencies, donor agencies, and non-governmental organizations, and 2) informing key groups whose opinion can make a difference in the acceptance or rejection by the public of the government's economic program. Particular emphasis should be put on development of closer links with the private sector through outreach.

With the former, UDAPE might undertake activities such as periodic roundtables with government officials, donor agencies or other NGOs. Statistical or analytical documents or issue papers on key economic themes might be distributed on a regular basis. A regular publications program will be developed to further amplify UDAPE's audience within Bolivia as well as outside. Conferences on major themes will be sponsored by UDAPE. UDAPE will also develop systems for briefing key visiting officials of donor organizations or government dignitaries. With opinion leaders such as media commentators or legislators, short informative or instructional seminars could be used to better inform such leaders' commentary or legislative decisions. Regular "briefing meetings" will be held with key groups such as the private sector and labor, and such groups will also be included as participants in UDAPE sponsored conferences. **(Greater specificity of such activities will be developed during the institutional assessment.)**

A key component to development of a successful outreach strategy is identification of those groups and/or opinion leaders that UDAPE wants to reach. Priority areas of attention

should identified to help guide development of the strategy. (A more refined stakeholder assessment will be conducted for input into the institutional assessment.)

Technical Assistance: A specialist in communications and outreach strategy will be contracted to work with the Executive Director and the Strategic Management advisor in the development of a strategy and action plan.

6. Sustainability and Institutionalization:

UDAPE will also undertake development of strategies to assure the organization's sustainability and institutionalization. With the assistance of the Mission and the Strategic Management advisor, during the first year of the new Policy Reform Project, alternatives including a budget line item conditions precedent or an endowment, and the implications of each will be explored. Decision thresholds will also be specified.

During the first 8 years of UDAPE's existence, the issue of sustainability has been largely ignored. During the new project, however, the problem of sustainability must be given serious consideration from the outset.

Alternatives: Several alternatives should be explored: funding from other donors, financing from the Bolivian government's budget, continued financing from AID, and endowment of UDAPE by AID (or another donor). Each alternative carries with it a series of possible consequences and implications for UDAPE's mission, role, task orientation, scope of work, independence, location, access, potential influence, and future development as an institution; each of which will have to be carefully explored before a decision can be made.

In order to better examine each of these alternatives, UDAPE and its key constituents and stakeholders and the Mission should consider what sort of an organization UDAPE ought to be in five years. Should it be an analytical unit of the Ministry of Planning, a government-wide economic consultative group, or an independent think tank? What mission should UDAPE fulfill? What will be the needs for economic analysis in the coming years? None of these are simple alternatives, and sufficient time must be given to their consideration. Once decisions about these elements are made, the alternatives for financing sustainability will become much clearer.

In order to advance this process, more discussion needs to take place on the issues at the institutional assessment phase.

7. Monitoring and Evaluation:

In order to monitor and evaluate the impact of its activities UDAPE will develop indicators to measure the impact of its studies in both the sectoral and social policy areas, update those already in place in the macro area, and integrate all into an improved management information system. UDAPE will also create an "implementation committee" to track progress in the development of new and expanded programs and toward decision thresholds concerning sustainability issues.

UDAPE has already developed some mechanisms for tracking the impact of its studies in policy decisions in the macro area. With the assistance of technical advisors, these will be updated. Indicators and monitoring mechanisms will also be developed in both the sectoral and social policy divisions. With the assistance of the Strategic Management technical advisor, these will then be integrated into an improved management information system to allow the Executive Director and the Board to evaluate UDAPE's output in a more timely manner and be able to make adjustments in the distribution of priorities more agilely.

The actions taken or not within the next two to three years will be critical to the sustainability of the organization. At the same time, some of the new or expanded activities to be undertaken by UDAPE have the potential to distort certain objectives or goals. By the time a normal mid-term evaluation of project is complete, irreversible patterns may have been established. To avoid this, an Implementation Committee will be established to evaluate UDAPE's workplan and its progress toward defined strategic goals. These evaluations will be carried out every six months and reported at the Board of Directors meetings. The committee should consist of representatives from the Board, USAID, and the Executive Director.

Mechanisms for the implementation of these activities will be developed during the institutional assessment.

IV. POLICY REFORM SUPPORT FUND - TECHNICAL REPORT COMPONENT TWO

A. INTRODUCTION

Bolivia is in a transition year in mid-1992. Elections will be held in early 1993 for the period 1993-97. There is a good possibility that opposition parties will be elected and have substantial influence over the policy reform agenda. Some observers believe that UDAPE may have some difficulty in absorbing the shocks of a new administration. Therefore, it is prudent to have a counter measure in place that can confront this eventuality.

The Policy Reform Project No. 511-0571 implemented by UDAPE has been quite successful in achieving project objectives set up over seven years ago. The new project design places much more emphasis on certain changes that will take place with the activities of UDAPE. Even with UDAPE's expanded role in studying policy reform, it has been found that UDAPE cannot perform certain specific activities within its mandate to support policy reform.

The USAID Bolivia Mission at the same time wants to establish a flexible mechanism for the provision of specific policy reform support activities. This will allow USAID to respond quickly to advance its and the GOB's strategic objectives.

This Policy Reform Support Fund (called "Fund" hereinafter) is being proposed by the Mission to support policy reform at the policy formation and institutional development level. Mission officials believe that this fund mechanism is necessary in order to respond quickly to so-called "windows of opportunities" or to respond to specific initiatives to support the Missions' policy dialogue approach in Bolivia.

There has been good evidence of this support fund working well in Costa Rica and Colombia. USAID Costa Rica has used this fund well to support a variety of activities related to policy reform.

A primary objective of U.S. foreign assistance in Bolivia is to maintain and consolidate gains achieved in the area of economic stabilization. Another objective is to reform the public sector and to begin to focus more closely on such issues as revised tax codes, export procedures, customs services, tax administration, privatization, as well as other equally important issues.

The GOB interest in this Fund closely coincides with that of AID in that the project supports GOB efforts to restructure the economy, with a concomitant emphasis on the five Mission strategic areas. The Fund would support the mutual needs for flexibility and timely response to particular needs.

B. APPROACH

USAID program strategy, with its strong emphasis on supporting the GOB's economic liberalization and the development of economic alternatives, requires significant levels of specialized studies and analysis, policy dialogue, technical cooperation, and training in order to formulate policy reform. There is also a need for specialized and targeted activities that do not fit the requirements of other Mission projects' activities. These interventions are geared at the top policy formation and institutional development level and are not operational activities.

The USAID/Bolivia Mission's 1992-93 Action Plan has five principal strategies for working in Bolivia. Those five strategies areas are 1) Trade and Investment, 2) Alternative Development, 3) Strengthening Democracy, 4) Social Sector, and 5) the Environment. The Mission Action Plan 1992-93 has specific strategic objectives, program outputs, as well as projects and activities to support each strategy. In reviewing these Mission strategies we found there are both general and specific policy reform issues that could and must be addressed either at the most general conceptual level or a specific policy reform or formulation required to increase efficiency and effectiveness in that mission strategy and in accordance with GOB priority strategies.

The purpose of the Fund, as expressed by Mission officials, is to be used to address these general and specific policy reform issues. This Fund is to be used for establishing policy reforms that will energize or in some way resolve a specific barrier in each strategic area. The Fund is to be used where there are not specific or adequate funds for this purpose within existing or proposed projects. This Fund is designed to complement and effectively support USAID's program objectives. In other words, the Fund is to be used positively to set in motion some activity that would not normally take place. This Fund is to operate independently from the UDAPE project component and is not to overlap with UDAPE project activities, other USAID initiatives, or other donor funded projects.

What kinds of activities are relevant for this Fund? We found five levels of interventions that could be used with this Fund, as follows:

1. Policy Issues
2. Study and analysis of policy issues
3. Networking/Policy Dialogue/Seminars
4. Technical Cooperation/Technical Assistance
5. Training

Policy Issues is at the broadest level and involves the identification of policy issues in each of the strategic areas of the 1992-93 Action Plan that in one form or another need to be addressed in a given sector. While at this stage these identifications are still quite tentative, they represent an effort where USAID/Bolivia could advance substantially their policy reform agenda in a given sector.

Studies and Analysis is the identification of general and specific assessments of policy issues that will be required in order to present the more important variables and issues on a given

policy issue. The products most likely could be either assessments, technical papers, policy review papers that deal with a general or specific issue related to one of the five strategic areas, or a study that outlines the major issues in a specific policy reform area. At the general level, these studies could be a general policy review of the health sector, for example, in which important health public policy issues are discussed. At a more specific level, a study could be requested to determine specific customs policies that constitute bottlenecks and barriers for foreign investors. In all cases, studies would be directed toward a policy reform issue. It is expected that the studies would lead toward further interventions. Funds could also be made available for the dissemination of the technical papers produced.

Networking/Policy Dialogue/Seminar activities could be funded that support the policy reform issues in the five strategic areas. These activities can range from broad policy reform networking and policy dialogue to specific seminars that address a specific problem. Seminars would be funded that support policy reform. Most likely these seminars will be related to above-mentioned studies or in connection with UDAPE technical papers. They would not normally support seminars within given USAID/Bolivia projects.

Technical Cooperation/Technical Assistance is the next level for intervention. The Fund could support technical assistance that was related to resolving a specific policy reform issue. For example, if a study identified a customs regulation that was not coherent and was a barrier for smooth operation of non-traditional export, then it would make sense to provide short term technical assistance to resolve this issue. At the same time, the Fund could also support technical assistance in a major way.

Training could be funded that can include participant observation, short-term training in Bolivia, short-term training outside Bolivia, technical training in Bolivia or outside, or attending international conferences. It is not contemplated to use the Fund for long term university training. Regulations would be required to assure positive relationships with policy reform activities.

The Fund then would support the five kinds of activities in the five Mission Strategy areas. Illustrative examples have been extracted from the Action Plan that will demonstrate how these activities can take place. These activities are provided below.

The Fund is designed to provide assistance quickly and efficiently in support of USAID's program objectives as opportunities arise to support policy reform. Such activities supported by the Fund will necessarily cut across AID functional lines. It is therefore neither possible, practical, nor advisable to attempt to fully identify all activities that would eventually be undertaken by the Fund. While some areas may be identified at this point, others would be identified during the course of project implementation.

The categories of Fund assistance are an indication of the activities that may be carried out under each area described below. While activities should be regarded as illustrative and not definitive for the reasons indicated, those listed below are consistent with present GOB and USAID priorities.

There exists a potentially interesting phenomena in Bolivia regarding policy reform. UDAPE will expand and branch out to include 1) macroeconomic analysis, 2) sectoral analysis, and 3) social analysis. At the same time the USAID/Bolivia Mission has specific policy reform agendas weaved inside its five strategies. Also, at the same time, the World Bank has taken a renewed interest in advocating educational reform in Bolivia; PAHO has demonstrated the same kind of interest in the health sector.

C. MANAGEMENT

USAID/Bolivia would enter in to a Project Agreement with the GOB Ministry of Planning and Coordination in the amount of \$3.0 million. The grant for this Fund would be managed by the Program Office of USAID/Bolivia. The Fund would be implemented directly by USAID/Bolivia through a coordinating unit to be chaired by the Program Office and represented by all the technical and support offices.

The Ministry of Planning could submit proposals for funding of policy reform activities. Requests for funding would be initiated by USAID/Bolivia technical offices and be submitted to the USAID/Bolivia Program Office. Requests from the GOB would be submitted to the USAID/Bolivia Program Office.

USAID/Bolivia would most likely develop an annual plan that contains input from the USAID technical offices and also could include some GOB institutions. This annual plan will contain illustrative list of priority areas by strategy areas that could be supported by the Fund. The work plan will contain more detailed and standardized selection criteria for the given activities. The USAID/Bolivia Director will approve the annual work plan. The work plan will be a guideline of activities and should not be construed as restrictive as this Fund is intended to retain a good deal of flexibility.

A PIO/T or PIO/P would most likely be required for each activity.

D. SELECTION CRITERIA

The Fund needs to establish some selection criteria for funding policy reform and institutional development activities. The following are some guidelines for establishing those criteria that should be considered:

- USAID/Bolivia should develop a standard format for submission of requests for funds for policy reform. This request form would have standard requirements such as objectives, purposes, intended activities, inputs, expected outputs, level of fund request, recommended implementing institutions, a draft scope of work, and plan of activities.
- The request form would also recommend the contractual arrangement recommended such as an IQC, PSC, purchase order, national or international RFP, or other similar contractual arrangements.

- The Technical Committee within USAID/Bolivia would be formed by representatives designated by the different technical offices. A representative of the Program Office would chair the Technical Committee.
- Some system of voting and consensus should be devised. The more scientific route is to have a grading or point system. A more informal approach would be simple majority vote or consensus. The proponent of the proposal for funds would get the opportunity to present the project before the committee.
- Projects that have direct relevance for the policy reform and institutional development in line with the concepts presented in this technical report and the draft PID should have preference for selection. The selection guidelines should attempt to avoid specific operational projects.
- The Fund mechanism is intended to be flexible. Notwithstanding, the Technical Committee should establish internal regulations to avoid overnight project funding and so-called "fire fighting" funding. This will raise the quality of the selection process.
- Each project selected should be registered in a central file in the Program Office.
- An evaluation mechanism should be established by the Program Office to monitor completion of the project activity as intended. Some simplified tracking mechanism should be established. The Program Office would be responsible for monitoring, accounting, and evaluating each project.

E. PROJECT INTERVENTIONS

The Fund supports the Mission's five strategic objectives. A brief description of each Mission Strategy is followed illustrative but realistic activities that would ensue to implement each strategic objective at the policy reform level. These specific activities are extrapolated from the Action Plan 1992-93.

1. Trade and Investment

Strategic Objective: This strategic objective states that increased trade and investment are key elements in the achievement of broadly-based, sustainable economic growth in Bolivia. This also supports the USG foreign policy towards Bolivia in alternative development, enterprise for the Americas, and strengthening democracy. This strategy is to increase non-traditional exports as well as private investment. USAID's trade and investment program is to focus on two areas: supporting Bolivia's integration with international markets, and encouraging improvements in domestic financial markets. Other related areas are microenterprise finance and pension reform.

Policy Issues: The key policy issues identified in the Action Plan to be addressed are:

- **Non-traditional exports.** There is still considerable work needed to get Bolivia competitive in the international market. Although considerable work has been done, and progress is being made, further work is needed. This is important more recently with the opening of the Pacific port for Bolivia.
- **Foreign investment and private investment.** Both kinds of investments lag way behind other Latin American countries.
- **Financial markets.** Bolivia lacks serious financial market policies that inhibit investors.
- **Privatization.** Policies regarding privatization are required. At present there is much talk but still reluctance to take meaningful steps to.
- **Credit union systems.** By all accounts the credit union system in Bolivia is below par.
- **Social security pension system.** The pension system is good source for funds and needs to be explored more fully.

Studies: To support and further refine the policy issues, most likely the Fund would sponsor additional studies that supported the advancement of trade and investment as follows:

- **Export promotion of non-traditional products.** Studies and technical papers required on policy issues still not resolved. Would help to study major barriers and constraints on non-traditional exports.
- **Industrial transition and reconversion.** A think piece would be helpful outlining critical variables and steps required to shift Bolivia industry. Very important in light of recent Andean Group decisions.
- **Microenterprise development in Bolivia.** Although Mission supports a microenterprise project the Action Plan mentions need for comprehensive review of this informal sector for manufacturing as well as job creation.
- **Private investment possibilities.** A technical paper on investment opportunities and comparative advantage issues is warranted.
- **Domestic financial markets strengthening system.** Related to policy reform of financial markets, a think piece on ways to strengthen the financial market system.
- **Study of the pension system for generating investment.**
- **Study on improving the credit unions.**

Policy Dialogue and Seminars: Based on these studies a series of activities of networking, conducting policy dialogue, and seminars would ensue. Some possible areas taken from the Action Plan are:

- Seminar: "Creating investor confidence in Bolivia." Would be geared for public sector in how to create better investment environment.
- Seminar: "Bolivia integration with international markets." Seminar geared toward Bolivian private sector and international investors with special focus on the Andean Group countries.
- Workshop: "Encouraging domestic financial markets." Practical discussion of ways to improve domestic financial market.
- Workshop(s): "Strengthening the credit union system."

Technical Cooperation: The Action Plan suggests the need for technical assistance in this mission strategy. This is especially important in areas to follow-up on studies and seminars, as follows:

- Technical Assistance: Work with GOB and regional corporations on "Privatization of regional corporations."
- Technical Assistance: "Resolving specific barriers affecting non-traditional exports"
- Technical Assistance: "Policies and systems to improve the credit system."

Training: Several options for training have been identified, including:

- Observation visits to well-known social security pension systems in other Latin American countries.
- Short-term courses for bankers in Bolivia on financial markets.
- Short term course in Bolivia on industrial reconversion.

2. Alternative Development

Strategic Objective: USAID's strategic objective is to provide viable economic alternatives to cocoa cultivation and processing. Alternative opportunities need to be created throughout the economy and not just the specific cocoa growing regions. USAID engages in an active economic policy reform dialogue with the GOB so that the projects and the overall economy operate within the market oriented economic framework needed for economic growth to succeed in the long run.

Policy Issues: Policy issues extracted from the Mission Action Plan that could be addressed are:

- Regional development policy issues. Use of regional corporations to stimulate employment and agricultural production.
- Export promotion as a means for stimulating alternative development. Coincides with strategic objective above and geared toward creating jobs.
- Microenterprise development. Geared toward job creation in informal sector.
- Urban development initiatives.
- Alternative development strategy statements. Policy issue is elaborating global strategy for Bolivia.
- Employment issues facing Bolivia. Bolivia needs to establish employment generation policies.

Studies: Potential studies required supporting or expanding on policy issues are:

- Study on "Regional development as a source for job creation.:"
- Technical paper on "Alternative development policy strategy statement."
- Study of "Export promotion through the new Pacific port."
- Study of "Employment creation in Bolivia."

Policy Dialogue and Seminars: It is envisioned that the project could support policy dialogue and seminars in the following areas:

- Seminar: " New export opportunities in Bolivia Pacific port."
- Workshop: "Creating new jobs in the economy."
- Workshop: "Regional development strategies."

Technical Cooperation: Project funding might support technical assistance in:

- Expert: Assist the GOB in setting up port facilities and handling of products.
- Technical Assistance: Diminishing the barriers and constraints for export of non-traditional products.

Training: Possibilities in alternative development could be critical. The Mission has large projects now in Alternative Development, but additional training, extracted from the Action Plan, may be helpful as follows:

- Site visits to regional development projects in other Latin American countries
- Short-term training in microenterprise development

3. Strengthen Democracy

Strategic Objective: The Mission's strategic objective is to improve the transparency, accountability, and accessibility of national and local institutions which are fundamental to democratic development. The purpose is to increase citizen participation in the decision-making process concerning public/private policy and enable access to services. Also, its purpose is to strengthen law-making processes, improve respect for and application of the rule of law, and improve citizen confidence in the management of public resources and institutions.

Policy Issues: Principal policy issues from the Action Plan are:

- The use of public resources. How public resources are allocated.
- Strengthening law making processes. Emphasis on role of Congress to establish laws in Bolivia.
- Application of the rule of law. Judicial process.

Studies: Studies envisioned are:

- Technical Report: "Institutionalization of democratic processes in Bolivia."
- Study: "Voter participation in electing representative officials."
- Technical Report: "Proportional representation principles."

Policy Dialogue and Seminars: Fund support could be substantial in lifting some consensus issues regarding Congress, the judicial process, and elections in a free society. On a more specific level specific seminars could take place in the following:

- Seminar: "Law making processes in Bolivia."
- Workshop: "Strategies for law formulation."

Technical Cooperation: Technical assistance would be useful as follows:

- Technical Assistance: Setting up a congressional research service

- **Technical Assistance:** Revamping and reviewing the voter registration system
- **Technical Assistance:** Assisting in bill drafting in Congress
- **Technical Assistance:** Assisting SAFCO at the Ministry of Finance in maintaining its public financial management system

Training: Some recommended training opportunities, extracted from the Action Plan, are:

- Electoral juror training programs
- Short-term training in public policy formation

4. Social Sector

Strategic Objective: The strategic objective is to improve social sector throughout Bolivia. The purpose is to improve the development and implementation of social policy and to improve institutional capabilities within the public/private sectors to provide social services.

Policy Issues: Policy issues identified in the Action Plan were:

- Develop a comprehensive health policy for Bolivia
- Self-financing of primary health care
- AIDs prevention and control
- Education policy reform and decentralization of the educational system
- Relationship of health to sustainable economic growth

Studies: Studies contemplated to support this strategy are:

- Study: "Improving the health care system."
- Study: "Non-government sector involvement in curative functions."
- Technical Report: "How to improve MOH preventive services."
- Technical Report: "Improving community health infrastructure."

Policy Dialogue and Seminars: Illustrative policy dialogue and seminar topics are:

- Workshop: Review of Bolivian health policies

- Seminar: " Self-financing of primary health care."
- Seminar: "The economics of health."

Technical Cooperation: Technical cooperation could be offered in the following:

- Technical Assistance: Schemes for self-financing in primary health care
- Expert: Educational policy formation
- Expert: Health policy formation

Training: The kinds of training identified are:

- Participant observation to health policy groups in other countries
- Participant observation to educational policy groups in other Latin American countries

5. Environment

Strategic Objective: The strategic objective to reduce Bolivia's degradation of forest, soil, and water resources. The purposes are to build consensus with Bolivian public and private sectors on key environment/natural resources management problems and opportunities; improve public and private institutional capacity for sustainable resource use and environmental protection; Increase public awareness of environmental protection and sustainable natural resources management issues; and to strengthen sustainable forestry, soils and water management initiatives.

Policy Issues: Policy issues identified in the Action Plan for this sector are:

- Natural resource/ environmental problems and opportunities
- Resource use and environment protection
- Sustainable forestry, soils, and water management initiatives

Studies: Studies gleaned from the Action Plan that most likely would help this sector are:

- Technical Report: "Protection of tropical forests and biological diversity."
- Technical Report: "Implementing the Environmental Framework Agreement."
- Study: "Forest, soil, and water degradation."
- Report: "SEGMA environment plan"

Policy Dialogue and Seminars: Expected policy dialogue and seminars are in the following areas:

- Workshop; Consensus on key ENR constraints and opportunities
- Seminar: "Resource use and environmental protection."

Technical Cooperation: The Action Plan could be furthered by short term technical assistance in the following areas:

- Technical Assistance: Assist in developing GOB environmental action plan
- Technical Assistance: FONAMA to set priorities and coordinate national and international funding on the environment

Training: Training could be used well in the following:

- Short-term courses in environmental impact assessment
- Resources inventory procedures training seminar
- Short-term course on participatory resources planning
- Short-term course on forest management

F. EXPECTED RESULTS

From the Mission Strategy and Action Plan, 22 policy issues were identified that could require some kind of intervention. The following chart summarizes the 63 interventions described above and in accordance with the type of intervention.

The expected results from these actions are:

- Positive changes toward consensus on general policy reform issues.
- Specific changes made in specific policy reform issues. Bottlenecks and barriers resolved in some cases.
- Completion of short, medium, and long term analytical studies used by the GOB to further implement its social and economic development strategy.

| PLANNED INTERVENTIONS | | | | | | |
|---------------------------------|----------|----------|----------|----------|----------|----------------|
| AREAS | 1 | 2 | 3 | 4 | 5 | TOTAL S |
| Policy Studies | 7 | 4 | 3 | 4 | 4 | 22 |
| Policy Diag. and Seminar | 4 | 3 | 2 | 3 | 2 | 14 |
| Technical Cooperation | 3 | 2 | 4 | 3 | 2 | 14 |
| Training | 3 | 2 | 2 | 2 | 4 | 13 |
| Totals | 17 | 11 | 11 | 12 | 12 | 63 |

Note: 1= Trade and Investment; 2= Alternative Development; 3= Strengthen Democracy; 4 = Social Sector; 5 = Environment.

| COSTS OF INTERVENTIONS (Thousand Dollars) | | | | | | |
|--|----------|----------|----------|----------|----------|----------------|
| AREAS | 1 | 2 | 3 | 4 | 5 | TOTAL S |
| Policy Studies | 175 | 100 | 75 | 100 | 100 | 550 |
| Policy Diag. and Seminar | 300 | 225 | 150 | 225 | 150 | 1050 |
| Technical Cooperation | 120 | 80 | 160 | 120 | 80 | 560 |
| Training | 210 | 140 | 140 | 140 | 280 | 910 |
| Totals | 805 | 545 | 525 | 585 | 610 | 3070 |

Cost Calculations:
 Studies \$25,000
 Seminars 75,000
 Tech. Asst. 40,000
 Training 70,000

Note: 1= Trade and Investment; 2= Alternative Development; 3= Strengthen Democracy; 4 = Social Sector; 5 = Environment.

V. ISSUES FOR PROJECT PAPER REVIEW

This section outlines some areas requiring further review to prepare for the development of the project paper. These are divided between the UDAPE and the Policy Reform Support Fund components.

UDAPE

Issues for Project Paper Review:

1. **Sustainability of UDAPE:** USAID currently supports UDAPE 100%. The Ministry of Planning has no plan to include UDAPE as a line item in its or any other Ministry's budget. There is some sentiment that it would be prudent to maintain full USAID funding of UDAPE over the life of the project to avoid politicization. There are several alternatives available for future funding, each of which carries serious implications for the future operation and nature of UDAPE. These alternatives should be carefully examined.
2. **UDAPE'S expanded scope of work:** The new project calls for UDAPE to expand into the area of social sector analysis and expand operations in the macro-sectoral area. There are serious questions regarding organizational strengths and capacity, relations with constituents, relative emphasis and impact on organizational mission and objectives that have been raised in UDAPE, the Ministry of Planning and elsewhere, all of which need to be carefully considered.
3. **Technical Assistance:** Both long- and short-term assistance will be required, especially in the new and expanded areas of activity. Questions such as the use of an institutional contractor or a PSC, the role of UDAPE in determining technical assistance, contracting efficiency and agility, and access to a wider net of consultants in critical areas all need to be examined.
4. **UDAPE -- UDAPSO:** The apparent inevitability of UDAPSO raises questions regarding the relationship between the two organizations and mechanisms for communications. The issue of distinguishing UDAPSO from UDAPE's social sector unit is important, both in terms of its scope of work as well as how it relates to UDAPSO. Very careful examination of these issues will be required both during the institutional assessment and the project paper preparation.
5. **Board of Directors:** The reactivation of the Board has serious implications for the current pattern of work within UDAPE as well as the current relationship between UDAPE and the Ministry of Planning. It is important that there be full agreement between the Mission, UDAPE, and the Ministry on these issues. Caution should be taken in addressing these issues to avoid heavy-handedness, which might have negative repercussions internally in UDAPE. Again, this issue

will require careful examination at the institutional assessment and project paper preparation stages.

POLICY REFORM SUPPORT FUND

- 1. Involvement with USAID/Bolivia Projects:** Since the Fund is to support policy reform for Mission projects, it is important to plan carefully the kinds of activities that the Fund will support. This requires an examination of Mission projects that would be candidates for policy reform initiatives. The PPs on file from Costa Rica and Colombia with similar fund mechanism projects offer relevant perspective on this issue.
- 2. Technical Committee:** The Technical Committee for this Fund needs to be reviewed carefully. It is agreed that some technical committee is required but further review is required concerning its membership and roles and responsibilities. Especially important is a review of the involvement of the GOB and their involvement in work plans and decisions.
- 3. Contracting Procedures:** IQC or institutional contractor is planned. Most likely there will be mini-RFPs, PSCs, purchase orders, and other contractual arrangements. The selection criteria must be reviewed and made clear. All of this has implications for management of the fund and needs for appropriate staffing.
- 4. Redundancy and overlapping with UDAPE activities:** UDAPE will be involved in both sectoral and social policy reform issues. The Fund is not intended to duplicate or overlap those activities but rather complement them with other interventions. During PP preparation a careful review of roles and responsibilities is required.

APPENDICES

Appendix A

Scope of Work

Implementing Policy Change
(TQC with MSI)
PIO/T No. 511-0571-3-9

Attachment A

Delivery Order Statement of Work

The contractor will provide technical services to USAID/Bolivia in the development of a preliminary design plan for the Technical Support for Policy Reform project (511-0617)

Background

In May 1991, USAID/Bolivia with the assistance of MSI, conducted a final evaluation of the Policy Reform project (511-0571) which is a predecessor to the Technical Support for Policy Reform project. The evaluation findings justified the approval of a follow-on project which will basically continue financing the operations of the GOB's Economic Policy Analysis Unit (UDAPE) and will also provide assistance to other sectors in areas requiring analysis for structural reform.

The overall goal of the project is to support Bolivia's maintenance of a sound economic policy through an effective policy framework in order to assure sound public investments and encourage new and expanded private productive interventions.

As a follow-on the original Policy Reform project, this project will have two elements. The first element will continue to implement GOB macroeconomic, sectoral and social policy reforms aimed at improving economic productive reactivation through the operation of UDAPE. The second element will provide funding to an expanded program monitoring and coordination capacity, which will help the GOB and the Mission address key policy and institutional reform issues.

The project will provide \$8.0 million in DA funds, supplemented by Government of Bolivia (GOB) local currency ESF funds to continue improving the analytical information available to formulation of public policy.

The contractor will help USAID/Bolivia to (a) identify areas of intervention by UDAPE and by other project implementors, (b) structure the new project in a way that will help avoid duplication of efforts and (c) will help develop implementing mechanisms for non-UDAPE activities as well as criteria for selection of sectoral studies to be undertaken under the project.

ARTICLE I - TITLE:

PROJECT: Implementing Policy Change Project No. 936-5451 with Management Systems International (MSI) - Contract No. DHR-5451-Q-00-0110-00.

ARTICLE II - OBJECTIVE:

The contractor is to supply two members of a team which shall provide technical assistance to USAID/Bolivia in the preliminary design plan for the Technical support for Policy Reform project (511-0617).

ARTICLE III - STATEMENT OF WORK:

This work order calls for the provision of two consultants for a total of four weeks (two week each) to perform the following specific tasks:

1. Review the Technical Assistance for Policy Reform project identification document (PID) developed by the Mission and, with the assistance of the Project Manager, analyze areas requiring further attention in preparation for the development of the project paper (PP).
2. Help develop a PP outline.
3. Develop criteria for selection of studies/activities to be undertaken by the non-UDAPE portion of the project and provide suggestions on implementing mechanisms to be used by the Mission Coordinating unit.
4. Provide any additional inputs for the design of the PP.

Upon arrival to Bolivia, the Contractor will conduct a two-day planning meeting with the PP design team.

Four days before departure from Bolivia the Contractor will submit a draft report addressing each one of the tasks described above, including suggested courses of action for the design of the new project.

ARTICLE IV - REPORTS:

The Contractor will develop two team planning meetings, one before the consultants arrive La Paz, and a second one upon arrival in Bolivia. A final report will be presented to DP, USAID/Bolivia and UDAPE, and other relevant USAID/Bolivia offices. The report will include recommendations.

ARTICLE V - RELATIONSHIP AND RESPONSIBILITIES:

The Contractor will work under the general technical direction of the USAID/Bolivia Development Planning Office Director, the Project Manager and the Project Development and Implementation backstop. The Contractor will coordinate activities with UDAPE and other GOB officials, as needed.

ARTICLE IX - SPECIAL PROVISIONS:

Special Medical Requirements

For short term T.A., the following applies:

The altitude of La Paz (13,400 feet above sea level) can have a deleterious effect on the health of persons with pre-existing medical problems and/or respiratory infections. Individuals with hypertension, diabetes, angina pectoris, coronary heart disease, asthma, emphysema, chronic bronchitis, or any history of heart attack, heart disease, or lung disease, should have a thorough evaluation by their physician prior to La Paz. Persons with any respiratory infection, such as colds, bronchitis or pneumonia should delay travel to La Paz until they have fully recovered.

USAID/Bolivia requires a doctor's statement declaring that incoming short-term personnel are not afflicted by any of the above pre-existing medical problems. If such problems exist, a full physical exam is required prior to departure for Bolivia.

Adjustment to the altitude usually requires only a few days. Personnel should, if at all possible, limit their physical activity for the first 36-48 hours after arrival in La Paz.

Infectious hepatitis, amoebic dysentery, bacillary dysentery, giardiasis, rabies and typhoid are endemic in Bolivia. Yellow fever and malaria are present in tropical areas of Bolivia. The usual sanitary precautions concerning food and water should be observed and all immunizations should be up to date prior to arrival in country. Yellow fever vaccine is required for all personnel traveling to tropical areas. Rabies pre-exposure prophylaxis (not the low-dose intradermal injections) is recommended for all personnel who plan to spend considerable time outdoors on foot. The Embassy Health Unit can advise personnel traveling to tropical areas concerning malaria prophylaxis on a case by case basis. The precautions and need for medications are determined by the duration of travel, the extent of exposure, and drug allergy history.

ARTICLE X - LOGISTIC SUPPORT:

The Contractor will provide all necessary logistic support.

ARTICLE XI - ACCESS TO CLASSIFIED INFORMATION:

The Contractor will not have access to classified information.

ARTICLE XII - STUDY POST:

The Duty Post for the delivery order will be USAID/Bolivia.

ARTICLE XIII - WORK WEEK:

The Contractor is authorized a six day work week with no premium pay.

Appendix B

UDAPE Policy Reform Project Design Paper

(Ampliacion del Proyecto UDAPE*)

(* Paper written by Executive Committee of UDAPE in conjunction with strategic management exercise conducted with the Committee.)

AMPLIACION DEL PROYECTO UDAPE

1. ANTECEDENTES Y DESEMPEÑO DE UDAPE

El actual convenio entre USAID/B y el Gobierno boliviano acerca del proyecto UDAPE fenece el 30 de junio de 1992. Sin embargo se encuentra en trámite en USAID/B un nuevo convenio que permita la continuidad de las labores de UDAPE.

Al presente, los objetivos para los que fue creado UDAPE, Decreto Supremo No. 19758 de 22/08/83, han sido ampliamente alcanzados, habiendo logrado un prestigio institucional en términos de labor de asesoría y de investigación en el campo de la economía aplicada.

El objetivo básico del proyecto era dar asesoría al Gobierno en materia de política económica para la toma de decisiones del gabinete económico, principalmente, a través del análisis y diseño de políticas macroeconómicas de corto plazo.

Institucionalmente el Proyecto se encuentra vinculado al sector público a través de los miembros del directorio de UDAPE y en relación directa con el Ministerio de Planeamiento.

Beneficiarios del Proyecto

El beneficiario más directo ha sido el Ministerio de Planeamiento y Coordinación; luego los miembros del Gabinete Económico: Ministerios de Asuntos Campesinos y Agropecuarios, de Energía e Hidrocarburos, de Industria, Comercio y Turismo, de Minería y Metalurgia, Finanzas y Banco Central de Bolivia; así como los componentes del Consejo Directivo de UDAPE, encabezada por el Subsecretario de Política Económica del Ministerio de Planeamiento y Coordinación.

Otros organismos e instituciones involucrados, con indicación de su rol.

UDAPE depende directamente del Ministerio de Planeamiento y Coordinación y del Consejo Directivo en lo que respecta a la labor técnica que desarrolla; de USAID/B tiene la supervisión administrativa, como responsable de la implementación del Proyecto, conjuntamente con DIFAD para el control y seguimiento de los aspectos económico-financiero.

El proyecto cuenta con su propia Unidad Administrativa, responsable del control y supervisión del aspecto económico-financiero así como de los recursos humanos, equipos y materiales.

Principales resultados logrados por el proyecto a la fecha.

El principal logro del Proyecto, es el de haberse constituido en un importante "órgano pensante" del Gobierno en materia de política económica y de aspectos relacionados con la consecución del crecimiento económico.

Es decir, que la labor de UDAPE, trascendió los objetivos originalmente planteados, y que estaban referidos en primera instancia, al seguimiento de las variables macroeconómicas asociadas al sector fiscal, monetario y externo (estabilidad macroeconómica), orientando su accionar cada vez en mayor proporción a la elaboración de propuestas de política económica.

Esta labor se refleja en los muchos estudios que el Proyecto ha producido, los cuales exceden largamente (1000%) a las metas cuantitativas establecidas. En el orden cualitativo es importante destacar que los trabajos analíticos, metodológicos, estadísticos y ayudas memorias han contribuido oportunamente a: i) la estabilidad, seguimiento de la coyuntura, definición del programa monetario-financiero, a la toma de decisiones de política económica

en relación a los precios, las tasas de interés, política cambiaria, inversión pública, etc; ii) a la política de exportaciones que se refleja en el régimen de exportaciones; iii) al fortalecimiento de los ingresos tributarios; iv) al Desarrollo Alternativo que sirvió para que el Sr. Presidente de la República presentara la tesis boliviana de Coca por Desarrollo; v) Políticas Macroenergéticas relacionadas con el proyecto de integración energética con el Brasil, que sirvió para que el Banco Mundial, BID y el Gobierno del Japón evaluaran su participación en el financiamiento; vi) a la formulación de la política agropecuaria en aspectos tales como la posición del Gobierno respecto a la política triguera y sobre la posición boliviana en los esquemas de integración, zonas de libre comercio; viii) adicionalmente se han elaborado documentos oficiales del Gobierno para su presentación en eventos tales como el Club de París, CEPAL, y otros seminarios internacionales; y ix) a la elaboración de la Estrategia Social la cual se constituye en la principal propuesta del Gobierno en materia social.

Estos productos, son resultado del capital humano con el que cuenta el proyecto, así como de todo el instrumental analítico y de apoyo computacional desarrollado, entre los que se pueden citar: a) Modelos de Equilibrio General (CGE) estáticos y dinámicos para evaluar las políticas económicas y la inversión pública; b) Modelos de Previsión para estimar la evolución del nivel de la actividad del año en curso; c) Modelos de Inflación; d) Modelos de Corto Plazo para predecir la evolución en el corto plazo de las principales variables macroeconómica; f) una amplia base de datos; y g) la implantación de una red que permite alimentar, procesar la información de la base de datos, así como racionalizar y hacer más eficiente el uso de software y del hardware.

Información Adicional

En varias oportunidades el proyecto ha sido la contraparte de muchos estudios, investigaciones, análisis sectoriales, requeridos o realizados a solicitud de organismos internacionales.

Por otro lado, hay un proceso continuo de formación de capital humano al interior del proyecto, de gran importancia para el logro de los objetivos de la institución. En efecto, a través de becas, seminarios, discusiones y presentación de investigación aplicada han permitido elevar el nivel de capacitación del personal técnico de UDAPE. Esta es una de las tareas en las que se hará permanentemente un mayor esfuerzo, ya que se constituye en uno de los elementos determinantes en el éxito del proyecto.

Otra de las tareas del proyecto que debe mencionarse y que se encuentra dentro de los objetivos de creación del proyecto, es el amplio apoyo prestado a diferentes instituciones del sector público, a través de la capacitación técnica a través de seminarios, charlas, difusión de metodologías y desarrollo de paquetes computacionales.

2. FUTURO ROL DE UDAPE

Dada la evolución que ha experimentado la economía boliviana desde 1983 hasta la fecha, pasando desde una situación de agudos desequilibrios macroeconómicos (1982-1985), un período de ajuste con prioridad en la estabilización (1985-1989) y un proceso de ajuste estructural a objeto de alcanzar un mayor crecimiento económico con equidad (1988 a la fecha), y considerando la mejora de la capacidad técnica de las instituciones relacionadas con la administración de la política económica, se hace necesario revisar el rol del proyecto UDAPE para su nueva fase.

En este entendido, el objetivo central de UDAPE será el de prestar asesoría técnica al gobierno en materia de crecimiento y desarrollo económico en un marco de estabilidad. Este objetivo si bien implica dedicar las tareas a la investigación de las fuentes de crecimiento de la economía y los mecanismos para desarrollarla, no significa que la tarea tradicional de diseño y evaluación de la política macroeconómica sea abandonada sino que, por el contrario debería ser ejecutada en forma continua pero no como el trabajo principal de la Unidad, tal como fue ejecutado hasta hace un año atrás.

En consecuencia el objetivo del proyecto en el futuro exige que los esfuerzos esten dedicados, simultáneamente al logro de los equilibrios macroeconómicos, la aceleración de las medidas de cambio estructural y reducción de los desequilibrios sociales que en definitiva posibilitarán el desarrollo sostenido y equitativo de la economía boliviana en un marco de estabilidad de precios.

La amplitud del asesoramiento, estará en directa relación a los requerimientos, prioridades y necesidades de las autoridades de Gobierno, así como de temas que se consideren estratégicos para la implantación del modelo económico adoptado. Este asesoramiento estará dirigido, al Ministro de Planeamiento y Coordinación cabeza del Gabinete Económico así como a los diferentes ministerios cabezas de sector y otras instituciones gubernamentales involucradas en el proceso productivo de la economía.

Se espera con esto el proyecto logre consolidarse plenamente como un organismo staff del gobierno (think tank), que sea capaz de formular y establecer el "hilo conductor" para el diseño de política de corto, mediano y largo plazo del Gobierno; tarea que se halla implícita en los procesos de ajuste estructural y mantenimiento de la estabilidad económica. De manera el proyecto sería el encargado del análisis de las acciones tendientes al logro

de los grandes objetivos nacionales y de la supervisión de la política económica.

Para alcanzar su objetivo central, UDAPE requiere el uso de dos instrumentos de análisis que actualmente ya están operando y que corresponden a dos divisiones: análisis de políticas sectoriales y análisis de políticas macroeconómicas.

3. ANALISIS DE POLITICAS SECTORIALES

La idea es que a través de este instrumento se analicen los fundamentos microeconómicos de crecimiento y desarrollo de los principales sectores de la economía, incluyendo un equipo especial para el análisis del capital humano, como otra fuente importante de crecimiento económico.

Los sectores que se abordaran en la división correspondiente serian:

- i) Agropecuario.- concentrándose las tareas en los siguientes campos:
 - Fortalecimiento institucional, que tiene que ver con la transferencia de conocimientos y asesoría técnica al Ministerio de Asuntos Campesinos y Agropecuarios.
 - Diseño y evaluación de la política sectorial, que tiene relación con el conjunto de instrumentos específicos destinados a desarrollar el sector agropecuario en un esquema compatible con la política económica global.
 - Investigación sobre las fuentes de crecimiento del sector, relacionado con estudios acerca de como acelerar la tasa de crecimiento del sector y como mejorar el bienestar en el área rural.

El beneficiario directo de este campo de análisis constituirá el Ministerio de Asuntos Campesinos y Agropecuarios.

ii) Energía e Hidrocarburos.- concentrándose las tareas en los siguientes campos:

- Evaluación económica de los proyectos energéticos, relacionados con la exportación futura de hidrocarburos y energía eléctrica a los países limítrofes y las inversiones que éstas demandan.
- Política de precios y tarifas públicas, que tiene que ver con un sistema de determinación de precios de productos energéticos de acuerdo al costo de oportunidad.
- Sistema tributario a la que está sometido el sector.
- Inversión privada, relacionada con el análisis de la inversión extranjera directa así con la inversión privada nacional en el sector.

Los beneficiarios en este campo de análisis, son el Ministerio de Energía e Hidrocarburos, el Ministerio de Finanzas y el Ministerio de Planeamiento y Coordinación.

iii) Industria y sector transable, cuyas labores se concentrarán en:

- Desarrollo del sector transable, que tiene que ver con las posibilidades de crecimiento de las actividades exportadoras así como de las industrias sustitutivas de importación.
- Diseño y evaluación de la política sectorial, relacionada con el conjunto de instrumentos específicos destinados al

desarrollo del sector transable y los efectos sobre su rentabilidad.

El beneficiario en este caso será el Ministerio de Industria, Comercio y Turismo.

iv) Evaluación sectorial de la Inversión, cuyas tareas se concentraran en:

- Análisis de la inversión privada, relacionada básicamente con la inversión extranjera y la inversión privada nacional en los sectores extractivos, la industria y los servicios.
- Análisis de la inversión pública, que se relaciona con la evaluación macroeconómica y microeconómica de la inversión pública en infraestructura y apoyo al sector productivo.

Los beneficiarios constituirán, el Ministerio de Planeamiento y Coordinación y los Ministerios Sectoriales.

v) Política Regional, cuyas tareas se concentrará en:

- Elaboración de un sistema de indicadores regionales que permita determinar la situación socio-económica de las regiones.
- Evaluación del impacto del programa económico en el ámbito regional.
- Análisis de los lineamientos generales que debe guiar la política regional en el futuro próximo.

El beneficiario de este campo de análisis constituirá el Ministerio de Planeamiento y Coordinación.

vi) Análisis de la Política Social, cuyas labores se concentraron en:

- Análisis de la inversión en capital humano como fuente de crecimiento.
- Mecanismos para asegurar una adecuada distribución del ingreso y con ello un crecimiento sostenido con equidad social.

Los trabajos de este campo de análisis se constituirán en el nexo entre el enfoque económico y el enfoque social, constituyéndose como beneficiarios directos los Ministerios Sectoriales.

4. ANALISIS DE POLITICAS MACROECONOMICAS

Dentro del futuro rol de UDAPE, el objetivo de esta división no es concentrar los esfuerzos en el control de la estabilidad de la económica, sino en el análisis de las políticas de ajuste estructural y su efecto en el crecimiento económico. No obstante, se considera que UDAPE va a continuar teniendo presencia en el diseño y evaluación de la política macroeconómica, principalmente en la fase de compatibilización de los diferentes equilibrios macroeconómicos y las políticas sectoriales.

Las áreas que se abarcarán en este sector son:

i) Ajuste fiscal, cuyas tareas estarían concentradas en los siguientes aspectos:

- Análisis de eficiencia del gasto público, relacionada con la investigación de la composición óptima del gasto, de manera que el presupuesto de gastos del gobierno sea un instrumento que contribuya a acelerar la tasa de crecimiento de la economía.
- Análisis de eficiencia del sistema tributario, que tendría que ver con las posibilidades que existen en materia de impuestos para elevar los ingresos, vía eficiencia de los mecanismos de administración y vía modificaciones en el sistema impositivo.
- Impacto fiscal de los procesos de privatización y descentralización, relacionado fundamentalmente con los costos y beneficios de estos procesos y su efecto en la situación financiera del sector público.

Los beneficiarios de este campo de análisis constituirán el Ministerio de Finanzas y el Ministerio de Planeamiento y Coordinación.

ii) Intermediación Financiera, concentrándose las labores en los siguientes campos:

- Desarrollo del mercado de capitales, en relación con investigaciones acerca de la posibilidad de crear nuevos instrumentos financieros, mejorar la eficiencia de la intermediación bancaria y diversificar el ahorro financiero.
- Eficiencia de la política monetaria, que tiene relación con las posibilidades que tiene el Banco Central de realizar política monetaria pura, en una economía altamente dolarizada.

Los beneficiarios en este caso constituirán el Banco Central de Bolivia y el Ministerio de Finanzas.

iii) Comercio Exterior, cuyas tareas estarán concentradas en los siguientes campos:

- Promoción de exportaciones, relacionada con las políticas de fomento a las exportaciones y los servicios de apoyo que puede ofrecer el sector público a fin de mejorar la rentabilidad del sector exportador.
- Política de Integración, relacionada con las posibilidades que tiene la economía para ampliar sus mercados externos y lograr una mayor apertura al exterior. Este campo está íntimamente relacionado con la política comercial.
- Política de endeudamiento que tiene que ver con el análisis de una estrategia de endeudamiento externo óptimo, de manera que se considere la capacidad de endeudamiento y pago de la economía boliviana.

Los beneficiarios de este campo de análisis serán el Ministerio de Industria, Comercio y Turismo, el Ministerio de Relaciones Exteriores y Culto y el Banco Central de Bolivia.

iv) Diseño y seguimiento de la política macroeconómica, cuyas tareas estarán concentradas en:

- Actualización y construcción de indicadores como tarea permanente para el análisis macroeconómico.
- Seguimiento de la coyuntura económica, relacionado con el monitoreo de la estabilidad, los equilibrios macroeconómicos y correcciones requeridas.

- Evaluación del comportamiento económico, que tiene relación con el análisis acerca del desempeño de la economía en el corto plazo.

Los beneficiarios constituirán el Ministerio de Planeamiento y Coordinación, Ministerio de Finanzas y el Banco Central de Bolivia.

5. ORGANIZACION INTERNA Y PERSONAL TECNICO

Como se podrá deducir de lo manifestado anteriormente, UDAPE continuará operando con dos grandes divisiones:

División de Análisis Macroeconómico

División de Análisis Sectorial

En relación al personal técnico, será necesario internalizar el cambio en el enfoque realizado en las tareas hasta el presente. El nuevo enfoque consistiría en analizar los fenómenos económicos, las políticas e instrumentos desde el punto de vista de las fuentes de crecimiento de la economía y no solamente desde el punto de vista del control de la economía para maneter la estabilidad.

Considerando lo anterior, se hace necesario capacitar al personal técnico en aspectos sectoriales con mayor profundidad, teniendo como objetivo contar con macroeconomistas especializados en aspectos sectoriales.

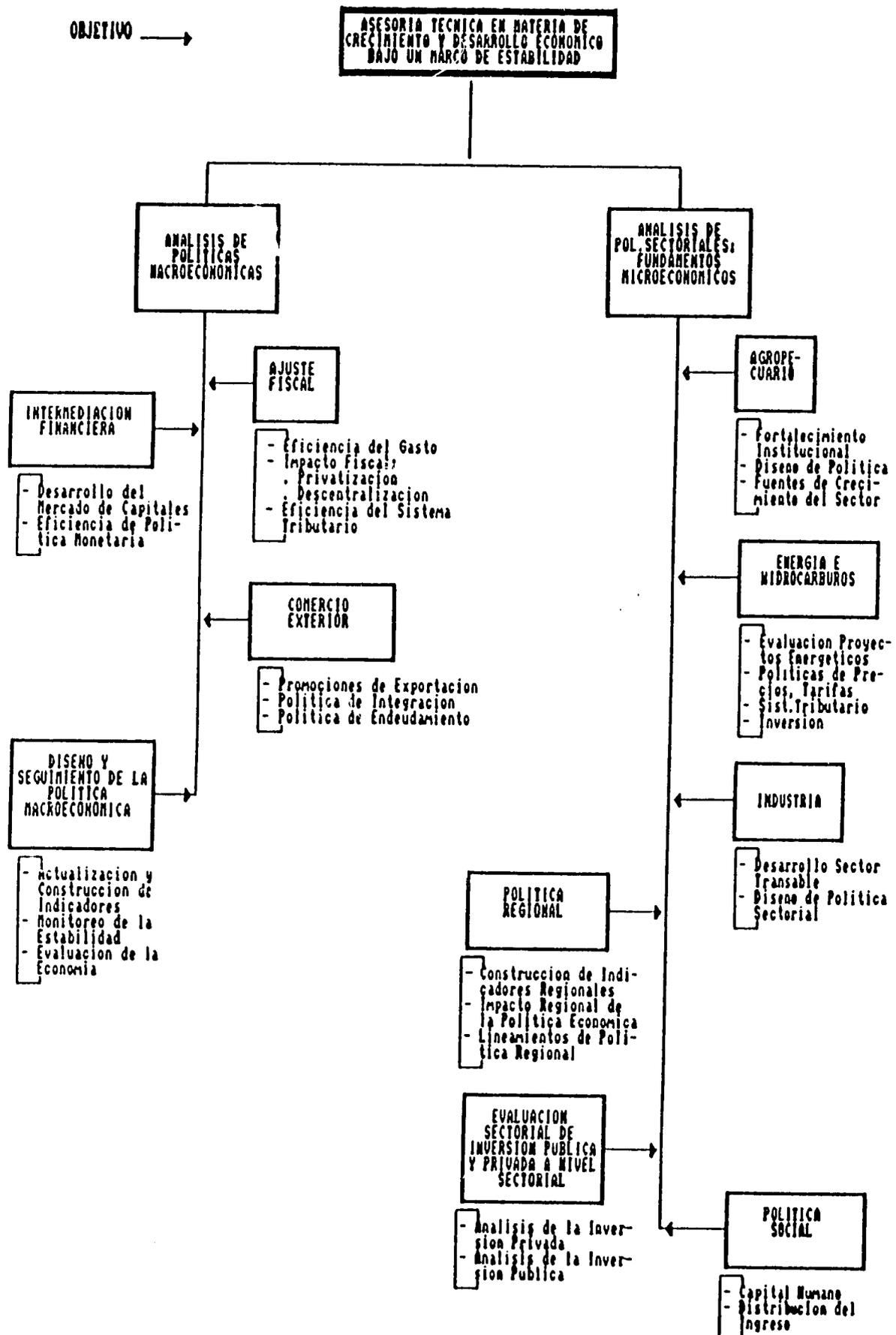
6. ASISTENCIA TECNICA

Compatible con lo manifestado en el punto anterior, sera necesario contar en materia de asistencia técnica con asesores o consultores cada vez más especializados en aspectos sectoriales.

Cada consultor que se haga presente en UDAPE, deberá trabajar necesariamente con un equipo de técnicos de la Unidad de manera que la estadía del consultor sea aprovechada al máximo.

Será conveniente asimismo, que la asistencia técnica sea muy flexible en el entendido de que UDAPE pueda exigir y sugerir los especialistas con los que desea trabajar.

ESQUEMA DE LA ORGANIZACION Y ROL DE UDAPE



Appendix C

Revision of PID for Policy Reform Project (511-0616)

I. INTRODUCTION

In 1983, the GOB passed Decree No.19758 to create an economic policy analysis unit under the Ministry of Planning and Coordination. This unit, known as UDAPE (Unidad de Analisis de Politicas Economicas), has played a major role within the Bolivian Government in the analysis and formulation of macroeconomic and sectoral policies aimed at increasing economic stability and stimulating economic growth in Bolivia.

UDAPE has become one of the most competent GOB decentralized institutions, and much of its success is a result of USAID/Bolivia's cooperation. To date the Mission has provided UDAPE, under the Policy Reform Project Agreement No. 511-0571, signed with the GOB in June 1983, with approximately \$5.0 million through technical and financial assistance to carry out all its activities.

A final evaluation of this project, carried out in May 1991, concluded that "UDAPE has been, and continues to be, a very effective institution. The quality of UDAPE's work and technical capacity is widely recognized both in and out of the government of Bolivia and has recently begun to acquire serious recognition." Policy Reform evaluation findings justify the approval of a follow-on project.

This new project will continue to address USAID/Bolivia's strategic objective to reinforce and support the GOB's ability to formulate and maintain sound macroeconomic policy. It will support maintenance of a sound economic policy through an effective policy framework in order to assure sound public investments and encourage new and expanded private productive interventions in Bolivia.

The new project has two components. The first component continues support of UDAPE in continuing its work in macroeconomic policy reform and then assists UDAPE expand into sectoral and social policy reform issues. The second component establishes a policy reform support fund administered by USAID/Bolivia that supports policy reform activities in the Mission's five strategic areas.

II. BACKGROUND

The Bolivian economy has arrested the hyperinflationary crisis of the early and mid 1980s. The period was characterized by political instability, a crushing debt burden, extensive controls on economic activity, a huge and inefficient public sector, and erratic macroeconomic management.

The impetus for developing the policy Reform Project was the US Government desire to strengthen the GOB's macroeconomic management capability, which, in turn, would address other economic difficulties. The Economic Policy Analysis Unit (UDAPE) has undertaken economic analyses and has formulated policy alternatives for the consideration of GOB decision makers.

In 1985, the Paz Estenssoro Administration assumed power and called for drastic measures to restore confidence and bring about economic stabilization and recovery. It restored price stability by increasing public sector prices, raising revenues, and imposing tight controls on expenditures, and Central Bank credit. At the same time, the GOB initiated a comprehensive liberalization of markets, including adoption of a free exchange system, the elimination of most quantitative trade restrictions and reduction of tariff rates, elimination of interest rates ceilings and foreign transactions controls, removal of price controls, and began the decentralization of Bolivia's main state enterprises.

After taking office in August 1989, the Paz Zamora Administration followed its predecessor's policies and promulgated Supreme Decree No. 22407, which confirmed the GOB's commitment to a free market economy, along with the necessary economic measures to stability and resumed economic growth.

Bolivia faces a difficult future in which continued development requires courageous and far-sighted economic policy. Any deviation from effective and efficient policies can have far reaching implications for the whole economic program. Lack of implementation of necessary public sector administrative reforms and improvements, inadequate investment and expenditures, a fragile mix of and uncoordinated economic policies, all impair the effectiveness of economic policy and help undermine public confidence.

It is recognized that macroeconomic, sectoral, and social policy reform must go hand in hand in fostering stabilization, growth, and human resource development. Bolivia must be aware of the need to have well-coordinated and reinforcing reform policies. UDAPE can play a significant role in consolidating economic stability, spurring economic growth, restructuring the public sector, reforming the financial sector, identifying alternative development and investment programs to provide incentives to the private sector, all of which are major tasks on the GOB agenda.

The project also sets up a policy reform support fund that will address other strategic policy reform issues that reflect the intersection of GOB interests and the Mission's strategic objectives for Bolivia. Certain policy reform issues are critical for study and discussion that fall outside of UDAPE's competence yet are important for specific policy reform in other areas.

III. PROGRAM FACTORS

A. Conformance with the GOB Strategy

The proposed project will directly contribute to the improvement of economic conditions in Bolivia as it will support the GOB in the area of policy and institutional reform, and will support the implementation of the GOB's and USG alternative development program.

The project is one of Bolivia's highest priorities as it is instrumental in providing the GOB with the necessary analytical tools to develop and adopt policy reform in order to strengthen and establish the conditions required to encourage the public and private sectors to successfully carry out productive development efforts.

Specifically, the project will fund UDAPE, which has the mandate to provide technical advice and analysis to the GOB on all areas of economic policy matters. UDAPE will provide services in 1) the analysis and design of macroeconomic policy, 2) the monitoring and evaluation of Bolivia's financial and short-term economic programs to assure a continuous and efficient implementation of the stabilization process, 3) the analysis and design of sectoral strategies aimed at accelerating growth and complementing the macro-economic development model, and 4) the design and evaluation of social sector strategies that will enhance the successful implementation of Bolivia's macro-economic model and its sectoral growth strategies.

In this last area, UDAPE will directly participate in the formulation and implementation of a national social strategy. The social strategy is an important and complementary element of the GOB's global development strategy. The social strategy is not intended to jeopardize economic stabilization; on the contrary, when designed to complement the market economic model adopted by the GOB, social strategy is a fundamental mechanism to fight poverty, improve living conditions, and focus all sectors of the Bolivian population toward improving the country's competitive productive activity.

Also in conformance with GOB strategy, the project will establish the policy reform support fund to address policy reform in other sectoral areas outside the UDAPE mandate.

B. Relationship to Mission Strategy

USAID/Bolivia's general strategy is to support LAC objectives to maintain the achievement of broadly based sustainable economic growth. The principal USAID tool to formulate sound policies has been the Policy Reform Project, which has provided continuing support to UDAPE within the Ministry of Planning. The Technical Support for Policy Reform Project, which is a follow-on to the Policy Reform Project, will continue providing assistance to UDAPE to produce relevant studies designed to assist policy makers in arriving at sound economic policy decisions, including consideration of alternative policies and their impact on the economy. In addition, Bolivia will benefit from other technical assistance and programs to be financed under the proposed project. The project will continue to be instrumental in assisting the government to successfully carry out its economic program, with the cooperation of

international donors. Therefore, this project directly supports the Mission's objective of helping Bolivia implement its socioeconomic program.

IV. PROJECT DESCRIPTION

This section provides description for both components in areas of commonality with each component treated separately.

A. Perceived Problem

The GOB has achieved relative economic stability since 1986. The government has adopted a number of measures to stimulate economic reactivation, including the liberalization of the economy from all controls, promulgation of a reactivation decree in 1987, and the drafting of a number of decrees and codes designed to promote investment. However, there are still a number of actions that need to be taken in order to have a more vigorous economic recovery.

Overall, the GOB must continue to maintain economic stabilization but needs to concentrate more fully on growth. It is also imperative to address more fully social issues, especially those affected negatively by structural readjustment.

Realization of Bolivia's export potential will require continued commitment to the macroeconomic framework, maintenance of an appropriate exchange rate, improvements in transport infrastructure and power, and elimination of unnecessary and time consuming bureaucratic requirements that restrict exports and discourage foreign investment.

The reforms of the social sector, particularly education and health, are also important. It is imperative to carry out the reform of the education system through a careful decentralization process and greater privatization before any massive resources are directed to the sector. Likewise, the health sector needs to shift its focus from curative services to primary health services.

An important impediment is the lack of dialogue with the private sector. According to private sector leaders, the rules of the game are as yet undefined, or at least not implemented in a consistent manner. The signals given by the government to the private sector are confusing and contradictory.

The progressive positive results in the reduction of illicit coca production and processing, and the need to replace them with alternative crops, is a major task that requires effective sectoral policies, particularly in the agricultural sector. New productive activities have to be promoted to compensate for the reduction of foreign exchange availability, and lower income and employment levels.

Finally, the GOB must concentrate more fully on policy reform issues that go beyond the day-to-day project implementation efforts. There must be policy reform that guides the project activities.

B. Project Goal and Purpose

The overall goal of the project is to support Bolivia's maintenance of sound economic policy through an effective policy framework in order to assure efficient public investment and encourage new and expanded private productive interventions.

Component No 1 Purpose: Implement GOB macroeconomic and stabilization research and analysis and at the same time begin to address growth issues with sectoral policy reform issues and social sector issues dealing with human resource capital.

Component No 2 Purpose: Provide a flexible mechanism for addressing policy reform issues in other strategic areas through research, policy dialogue, technical cooperation, and training.

The project will provide \$8.0 million in DA funds, supplemented by Government of Bolivia (GOB) local currency ESF funds to continue improving the analytical information available to the formulation of public policy.

C. Project Components

1. UDAPE Policy Reform Support

This component is to strengthen and expand UDAPE so that it will be capable of 1) continuing its vital role in the area of macro-economic policy analysis and implementation, 2) analyzing and designing priority sectoral policies that will contribute to solid and sustainable growth in line with the GOB's macro-economic program, and 3) assist in the articulation and re-definition of the social agenda for accelerated development of human capital.

In order to accomplish the expanded role just described, the UDAPE component will have the following inputs and characteristics:

- UDAPE's organization will be expanded to three divisions: the Macro-economic, Sectoral Analysis, and Social Policy Divisions, each headed by a Senior Analyst or Division Chief reporting to the Executive Director. The Macro-economic Division will remain much as it is, while effort is made to rationalize the increasing demand for fire-fighting. The Sectoral Division will be expanded moderately in order to meet increasing demand for analysis and technical assistance from the line ministries. The new Social Policy Division will be staffed by economists with experience and/or particular skills/sensitivities in social policy issues.
- The role of the Executive Director will be modified to include an interlocutory or brokering role between the three divisions, a more expanded role in organization outreach and communication, more emphasis on the management of UDAPE's constituents, and a greater role in the design and management of technical assistance.

- UDAPE's Board of Directors will be activated to take on a greater role in support of the Executive Director and in setting analytical and program priorities. The Board will examine its current composition in terms of UDAPE's needs and make modifications, itself accordingly. It will also help develop strategies to assure the sustainability and institutionalization of UDAPE.
- UDAPE will develop an outreach program in order to enhance understanding and consensus around the GOB's macro-economic, sectoral and social policies and strategies. Programs will be undertaken to expand UDAPE's constituencies and to inform key groups (including AID, other donors, media commentators, legislators, etc.) on critical economic policy issues.
- UDAPE will also undertake development of strategies to assure the organization's sustainability and institutionalization. During the first year of the new Policy Reform Project, alternatives including a budget line item, conditions precedent, or an endowment, and the implications of each will be explored. Decision thresholds will also be specified.
- In order to monitor and evaluate the impact of its activities UDAPE will develop indicators to measure the impact of its studies in both the sectoral and social policy areas, and update those in place in the macro area and integrate those into an improved management information system. UDAPE will also create an "implementation committee" to track progress in the development of new and expanded programs and toward decision thresholds.

Technical Assistance

The technical assistance to be provided under this project will be the most important input. Therefore, a significant percentage of project funds will be used for this purpose.

An institutional contractor will be financed by the project to provide direct technical assistance to UDAPE in management and institutional strengthening and coordinate UDAPE's long- and short-term technical assistance.

Technical assistance to UDAPE: the role of technical assistance in the follow-on project will be directed at 1) increasing UDAPE's capacity to take on new and additional tasks in the area of sectoral and social policy, and 2) complementing research and analytic capacity in the monitoring of short-term macro-economic policy and the evaluation of the macro-economic model. To carry out the former, first, a personal services contractor will be hired to work with the Executive Director of UDAPE in the development of a new organizational structure and in developing systems for implementing and managing the new structure. At the same time, technical assistance will be directed at the creation of an outreach program, the management of relations with clients, the revitalization of the Board of Directors, and the assessment of training needs in the new areas of responsibility. Short-term technical assistance will complement the support of the PSC in all these areas.

Second, short- to medium-term technical assistance will be funded to support UDAPE in strengthening its analytical capacity in both sectoral growth strategies and social sector and human capital development policies. Some illustrative areas in which technical assistance will be provided include: economic and trade policy, financial markets and regulatory agencies, strategies to increase agricultural production and agro-processing, and health and human capital development policies. It is anticipated that this assistance will have a large training/tutorial content at the outset but as the project progresses the assistance will evolve toward a more "joint venture" or collegial assistance. The institutional contractor long-term advisor will aid UDAPE's director in establishing criteria for technical assistance scopes of work and in the recruitment of consultants.

The expected achievements and accomplishments of the policy reform project are to assist the GOB to a) make sound policy decisions with the advice of a strengthened Policy Analysis unit (UDAPE), b) improve its technical capability to implement policy changes efficiently, and c) establish priorities to ensure that resources are invested in conformance with sound global, sectoral and social strategies.

2. Policy Reform Support Fund

This Policy Reform Support Fund (Fund) supports policy reform in the five USAID/Bolivia target areas through a) study and analysis, b) policy dialogue, c) networking, d) seminars, e) technical cooperation, and f) training.

The USAID/Bolivia Mission has five principal strategies in 1) Trade and Investment, 2) Alternative Development, 3) Strengthening Democracy, 4) Social Sector, and 5) the Environment. Project activities support and implement those strategies. In each strategy there are both general and specific policy reform issues that address either the more conceptual or specific policy reform or formulation required to increase efficiency and effectiveness in that Mission Strategy and in accordance with GOB priority strategies. This fund will be used to address these general and specific policy reform issues where there are not specific or adequate funds for this purpose within existing or proposed projects. This Fund is designed to complement and effectively support USAID's program objectives while not overlapping with UDAPE project activities, other USAID initiatives, or other donor funded projects.

USAID program strategy, with its strong emphasis on supporting the GOB's economic liberalization and the development of economic alternatives, requires significant levels of specialized studies and analysis, policy dialogue, technical cooperation, and training in order to formulate policy reform. There is also a need for specialized and targeted activities that do not fit the requirements of other Mission projects' activities. These interventions are geared at the policy formation level and are not operational activities.

The Fund is designed to provide assistance quickly and efficiently in support of USAID's program objectives as opportunities arise to support policy reform. Such activities supported by the Fund will necessarily cut across AID functional lines. It is therefore neither possible, practical nor advisable to attempt to fully identify all activities that will eventually be undertaken by the

Fund. While some areas may be identified at this point, others will be identified during the course of project implementation.

The Fund will serve the role of facilitating the advancement of USAID/Bolivia's strategy by facilitating programming and funding of Fund activities, processing of procurement documentation, and tracking of Fund expenditures.

The categories of Fund assistance are an indication of the activities that may be carried out under each area described below. While activities should be regarded as illustrative and not definitive for the reasons indicated, those listed below are consistent with present GOB and USAID priorities.

USAID/Bolivia will enter in to a Project Agreement with the GOB Ministry of Planning and Coordination in the amount of \$3.0 million. The grant for this Fund will be managed by the Program Office of USAID/Bolivia. The following administrative arrangements will be in force to regulate the expenditures for this Fund.

- Requests for funding can be initiated by USAID/Bolivia technical offices and be submitted to the USAID/Bolivia Program Office. Any requests from the GOB shall be submitted to the USAID/Bolivia Program Office.
- USAID/Bolivia will develop an annual plan that contains input from the USAID technical offices as well as GOB institutions. This annual plan will contain an illustrative list of priority areas by strategy areas that could be supported by the Fund. The work plan will contain more detailed and standardized selection criteria for the given activities. The USAID/Bolivia Director will approve the annual work plan. The work plan will be a guideline of activities and shall not be construed as restrictive as this Fund is intended to retain a good deal of flexibility.
- USAID/Bolivia will develop a standard format for submission of requests for funds for policy reform. This request form will have standard requirements such as objectives, purposes, intended activities, inputs, expected outputs, level of fund request, recommended implementing institutions, a draft scope of work, and plan of activities. The request will also recommend the kind of contractual arrangement recommended such as an IQC, PSC, purchase order, national or international RFP, or other similar contractual arrangements. A PIO/T or PIO/P will be written for each activity.

Inputs

The Fund will support studies, networking/policy dialogue/technical cooperation, seminars, and training in order to achieve the Fund objectives.

Studies will consist of assessments, technical papers, policy review papers that deal with a general or specific issue related to one of the five strategic areas. Studies will generally be directed toward a policy reform issue. It is expected that the studies will lead toward

interventions in one of three following inputs. Funds would be available for dissemination of the technical papers produced.

Networking/policy dialogue/technical cooperation activities will be funded to support the policy reform issues in the five strategic areas. These activities can range from broad policy reform policy dialogue to specific technical assistance to resolve a specific problem. The Fund would support policy reform issues and not project design or evaluations.

Seminars will be funded that support policy reform. Most likely these seminars will be related to the above-mentioned studies or in connection with UDAPE technical papers. They would not normally support seminars within given USAID/Bolivia projects.

Training will be funded that can include participant observation, short-term training, or attending international conferences.

Outputs

- Positive changes toward consensus on general policy reform issues.
- Specific changes made in specific policy reform issues. Bottlenecks and barriers resolved in some cases.
- Completion of short-, medium-, and long-term analytical studies used by the GOB to further implement its social and economic development strategy.

The Fund provides a flexible mechanism that can provide policy reform that supports Mission Strategies and also USAID/Bolivia projects. Many projects have specific and targeted outputs but not the mechanism for the broader policy reform issues in a given sector. This Fund provides an excellent mechanism for studying and applying policy reform at this more broad level.

The Fund will be implemented directly by USAID/Bolivia through a coordinating unit to be chaired by the Program Office and represented by all the technical and support offices.

V. FINANCIAL PLAN

The estimated amount of \$12,250,000 will be used to carry out the activities described under this five year project. The total A.I.D. contribution will be up to \$8,000,000 in grant funds to finance: 1) Up to \$5,000,000 for the strengthening of UDAPE's capability to continue implementing the GOB's macroeconomic and sectorial policy reforms and initiate social sector policy reform activities, and 2) Up to \$3,000,000 for a program support fund which will address economic policies, institutional reforms and alternative development issues to cover the GOB's requirements.

The total counterpart contribution to the project is estimated in up to \$4,250,000. This contribution will come from ESF local currency generations to cover mainly salaries and social benefits for the UDAPE staff as well as other operational costs including annual audits during the life of the project.

VI. IMPLEMENTATION PLAN

Component No. I, support for UDAPE, will require USAID/Bolivia's contracting directly long-term PSCs and short-term technical assistance. No institutional contract is planned in order to maintain flexibility and respond to needs quickly.

Component No. II, policy reform support fund, will be managed directly by the Program Office of USAID/Bolivia. No institutional contractor or IQC is planned. It could be expected to issue RFPs for one or several packages of project interventions.

It is anticipated that the Project Agreement will be signed by June 30, 1992 in order to assure continuity of UDAPE operations. Long-term PSCs will be contracted by September 1, 1992.

UDAPE's mandate is to provide technical advice to the GOB in all strategic areas of government. First, UDAPE will continue to provide services in analysis and design of macroeconomic policy which will contribute to accelerating structural changes required by the development strategy, monitor Bolivia's financial program, and evaluate short-term economic programs in order to assure continuity of the stabilization process. Second, UDAPE will increase its involvement in sectorial policy analysis as it relates to growth. Third, UDAPE will begin to participate directly in formulation and implementation of a national social strategy.

The following are illustrative examples of project activities in both components.

Component No. I: UDAPE Policy Reform

Macroeconomic Policies

- Fiscal Adjustment: Fiscal impact of privatization and decentralization; revenue collection; public investment.

- International Commerce: Export promotion; integration policies; debt policies.
- Financial Intermediaries: Development of capital markets; implementation of monetary policies.
- Stabilization: Monitoring and follow-up of stabilization and structural adjustment policies.

Sectorial Policies

- Agriculture: Institutional strengthening of MACA policy formation and agricultural policy design.
- Energy and Hydrocarbons: Evaluation of projects; investments in the sector.
- Industry: Industrial reconversion strategies and policies.

Social Sector Policies

- Identification of target groups for a social policy.
- Conceptualization of a social policy; selective, integrated and decentralized.
- Analysis of the efficiency and coverage of social services to increase the quality of human capital.
- Analysis of the needs of the traditional agricultural sector for productive infrastructure.
- Incorporation of vulnerable population groups into the national productive activity.
- Design of social policy in the areas of primary health, nutrition, and basic education by target group and by geographic region.

Component No.II: Policy Reform Support Fund

Studies, policy dialogue, seminars, technical cooperation, and training in the following strategic areas and themes.

Trade and Investment

- Trade and investment policy reform and congruence
- Trade and investment promotion and organization
- Constraints for trade and investment in Bolivia

Alternative Development

- Tourism development feasibility in Bolivia
- Agricultural credit for non-traditional crops

Strengthening Democracy

- Criminal justice management
- Congressional policy formulation

Social Sector

- Child health care policy reform
- Decentralization of the educational system

Environment

- Fragile lands policies and reforms in Bolivia
- Deforestation and its implications for the environment

VII. MONITORING AND EVALUATION PLAN

During the development of the Project Paper, specific detail will be given to the development of indicators for monitoring project impact, and to the design of a supporting system that will enable project management to determine such progress and/or identify constraints to meeting the purpose of this project.

Project indicators will provide measures for assessing the degree to which UDAPE is an institutionalized resource within the GOB for carrying-out policy analysis. Toward this end, the monitoring system will be developed to include: (a) regular analysis of data addressing the impact of established indicators on project objectives; (b) planned studies on key management and/or impact questions; and (c) procedures for timely feedback of reporting information to USAID. Specifically, this system will be designed to enable UDAPE to report on the quantity and quality of analytical studies completed that support the GOB's social and economic development strategy; and to track complementary activities completed (i.e. training, consultancies, and public education campaigns) that further GOB economic policy and institutional reform objectives. Any additional costs for carrying out this system (such as impact studies or systems development) will be included in the budget at the project paper stage.

A mid-term and final evaluation will be scheduled during the design of the project paper and included in the project budget. The purpose of these evaluations will be to assess the impact UDAPE is having on policy formation and institutional reform in Bolivia. Specifically, the mid-term evaluation will review the organizational structure and operating procedures of UDAPE, and

make recommendations, as needed, to alleviate any constraints to the project having optimum impact on policy and institutional reform in Bolivia.

VIII. INITIAL ENVIRONMENTAL THRESHOLD EXAMINATION

Based on the purpose of the project and the guidance provided in Handbook 3, Appendix 2D, Section 216.2(c), the requirement for carrying out of an Environmental Assessment is not applicable. Nevertheless, the policy analysis nature of the project itself provides a mechanism through which the Government of Bolivia can better address the overall objectives of the National Environmental Policy Act and relevant A.I.D. policies as they relate to its on-going and future development projects.

To this effect, it is recommended that the Assistant Administrator (AA/LAC), find that the proposed project falls within the parameters of those categorically excluded from following the environmental procedures outlined in 22 CFR Part 216 on the basis that it is a "project intended to develop the capacity of the recipient country to engage in development planning."

Recommendation: Negative

**Carl H. Leonard
Mission Director**

Date:

Appendix D

Annotated Inputs for the Policy Reform Project Paper Outline (511-0616)

I. PROJECT SUMMARY

A. The Problem

Bolivia must continue its economic stabilization program. UDAPE needs to continue to undertake economic stabilization studies and to monitor the situation quite carefully. Current efforts at policy reform require other sectors to coordinate in order to integrate economic structural adjustment policies with sectoral strategies for growth and with social policy for an improved level of human capital.

B. Project Goal and Purpose

GOAL: Support Bolivia's maintenance of a sound economic policy through an effective policy framework in order to assure sound public investments and encourage new and expanded private productive interventions.

Purpose 1 Implement GOB macroeconomic and stabilization research and analysis and at the same time begin to address growth issues with sectoral policy reform issues and social sector issues dealing with human resource capital.

Purpose 2 Provide a flexible mechanism for addressing policy reform issues in other strategic areas through research, policy dialogue, technical cooperation, and training.

C. Project Description

- Project is entitled Technical Support for Policy Reform Project (511-0617) and is follow-on to the Policy Reform Project (511-0571).
- Project is for \$8.0 million grant funds; five years; and has two components.
- Component I: Policy Reform with UDAPE is follow-on and supports UDAPE to carry out a) macroeconomic policy reform studies and analysis;

b) sectoral policy reform studies; and c) social sector policy reform studies and analysis.

- Component II: Policy Reform Support Funds sets up a \$3.0 million flexible fund mechanism to support policy reform in USAID/Bolivia's five strategic programmatic areas.

D. Project Costs and Funding

- Estimated \$12,250,000 for five year project; AID grant of \$8,000,000; \$5,000,000 for UDAPE activities; \$3,000,000 for policy reform support fund.
- Counterpart contribution is \$4,250,000 from ESF local currency.

II. PROJECT BACKGROUND AND RATIONALE

A. The Problem

In 1983, the GOB passed Decree No.19758 to create an economic policy analysis unit under the Ministry of Planning and Coordination. This unit, known as UDAPE (Unidad de Analisis de Politicas Economicas), has played a major role within the Bolivian Government in the analysis and formulation of macroeconomic and sectoral policies aimed at increasing economic stability and stimulating economic growth in Bolivia.

UDAPE has become one of the most competent GOB decentralized institutions, and much of its success is a result of USAID/Bolivia's cooperation. To date the Mission has provided UDAPE, under the Policy Reform Project Agreement No. 511-0571 signed with the GOB in June 1983, with approximately \$5.0 million through technical and financial assistance to carry out all its activities.

A final evaluation of this project, carried out in May 1991, concluded that "UDAPE has been, and continues to be, a very effective institution. The quality of UDAPE's work and technical capacity is widely recognized both in and out of the government of Bolivia and has recently begun to acquire serious recognition." Policy Reform evaluation findings justify the approval of a follow-on project.

This new project will continue to address USAID/Bolivia's strategic objective to reinforce and support the GOB's ability to formulate and maintain sound macroeconomic policy. It will support maintenance of a sound economic policy through an effective policy framework in order to assure sound public investments and encourage new and expanded private productive interventions in Bolivia.

The new project has two components. The first component continues support of UDAPE in continuing its work in macroeconomic policy reform and then assists UDAPE to expand into

sectoral and social policy reform issues. The second component establishes a policy reform support fund administered by USAID/Bolivia that supports policy reform activities in the Mission's five strategic areas.

The Bolivian economy has arrested the hyperinflationary crisis of the early and mid-1980s. The period was characterized by political instability, a crushing debt burden, extensive controls on economic activity, a huge and inefficient public sector, and erratic macroeconomic management.

The impetus for developing the policy Reform Project was the US Government desire to strengthen the GOB's macroeconomic management capability, which, in turn, would address the other economic difficulties. The Economic Policy Analysis Unit (UDAPE) has undertaken economic analyses and has formulated policy alternatives for the consideration of GOB decision makers.

In 1985, the Paz Estenssoro Administration assumed power and called for drastic measures to restore confidence and bring about economic stabilization and recovery. It restored price stability by increasing public sector prices, raising revenues, and imposing tight controls on expenditures and Central Bank credit. At the same time, the GOB initiated a comprehensive liberalization of markets, including adoption of a free exchange system, the elimination of most quantitative trade restrictions and reduction of tariff rates, elimination of interest rates ceilings and foreign transactions controls, removal of price controls, and began the decentralization of Bolivia's main state enterprises.

After taking office in August 1989, the Paz Zamora Administration followed its predecessor's policies and promulgated Supreme Decree No. 22407, which confirmed the GOB's commitment to a free market economy, along with the necessary economic measures to create stability and resume economic growth.

Bolivia faces a difficult future, in which continued development requires courageous and far sighted economic policy. Any deviation from effective and efficient policies can have serious implications for the whole economic program. Lack of implementation of necessary public sector administrative reforms and improvements, inadequate investment and expenditures, a fragile mix of and uncoordinated economic policies, all impair the effectiveness of economic policy and help undermine public confidence.

It is recognized that macroeconomic, sectoral, and social policy reform must go hand in hand in fostering stabilization, growth, and human resources. Bolivia must be aware of the need to have well-coordinated and reinforcing reform policies. UDAPE can play a significant role in the consolidation of economic stability, the spurring of economic growth, public sector restructuring, financial sector reform, alternative development and investment programs to provide incentives to the private sector. All of the aforementioned are some of the major tasks in the agenda of the GOB.

The project also sets up a policy reform support fund which will address other strategic policy reform issues of mutual interest between the GOB and the Mission's strategic objectives

for Bolivia. Certain policy reform issues which are critical for study and discussion, fall outside of UDAPE's competence yet are important for specific policy reform in other areas.

B. Relationship to AID Policy and Strategy

USAID/Bolivia's first objective is to reinforce and support the GOB's ability to formulate and maintain sound macroeconomic policy. The principal USAID tool to formulate sound policies has been the Policy Reform Project, which has provided continuing support to UDAPE within the Ministry of Planning. The Technical Support for Policy Reform Project, which is a follow-on to the Policy Reform Project, will continue providing assistance to UDAPE to produce relevant studies designed to assist policy makers in arriving at sound economic policy decisions, including consideration of alternative policies and their impact on the economy. In addition, Bolivia will benefit from other technical assistance and programs to be financed under the proposed project. The project will continue to be instrumental in assisting the government to successfully carry out its economic program with the cooperation of international donors. Therefore, this project directly supports the Mission's objective of helping Bolivia implement its socioeconomic program.

C. Relationship to Host Country and Other Donors

The proposed project will directly contribute to the improvement of economic conditions in Bolivia as it will support the GOB in the area of policy and institutional reform, and will support the implementation of the GOB's and USG alternative development program.

The project is one of Bolivia's highest priorities as it is instrumental in providing the GOB with the necessary analytical tools to develop and adopt policy reform in order to strengthen and establish the conditions required to encourage the public and private sectors to successfully carry out productive development efforts.

Specifically, the project will fund UDAPE, which has the mandate to provide technical advice to the GOB in all strategic areas of government. In economic policy matters, UDAPE will continue to a) provide services in analysis and design of macroeconomic and sectoral policy which will contribute to accelerating structural changes required by the development strategy, b) monitor Bolivia's financial program, and c) evaluate short-term economic programs in order to assure continuity of the stabilization process. UDAPE will advance work in sectoral policy reform in agriculture, hydrocarbons, and industry. UDAPE will also address social policy issues.

Also in conformance with GOB strategy, the project will establish the policy reform support fund to address policy reform in other sectoral areas outside the UDAPE mandate.

III. PROJECT DESCRIPTION

A. Project Goal and Purpose

The GOB has achieved relative economic stability since 1986. The government has adopted a number of measures to stimulate economic reactivation, including the liberalization of the economy from all controls, promulgation of a reactivation decree in 1987, and the drafting of a number of decrees and codes designed to promote investment. However, there are still a number of actions which need to be taken in order to have a more vigorous economic recovery.

Overall, the GOB must continue to maintain economic stabilization but needs to concentrate more fully on growth. It is also imperative to address more fully social issues and especially those areas affected negatively by structural readjustment.

Realization of Bolivia's export potential will require continued commitment to the macroeconomic framework, maintenance of an appropriate exchange rate, improvements in transport infrastructure and power, and elimination of unnecessary and time consuming bureaucratic requirements which restrict exports and discourage foreign investment.

The reforms of the social sector, particularly education and health, are also important. It is imperative to carry out the reform of the education system, through a careful decentralization process and greater privatization before any massive resources are directed to the sector. Likewise, the health sector needs to shift its focus from curative services to primary health services.

One important impediment is also the lack of dialogue with the private sector. According to private sector leaders, the rules of the game are undefined, or at least not implemented in a consistent manner. The signals given by the government to the private sector are confusing and contradictory.

The progressive positive results in the reduction of illicit coca production and processing, and the need to replace them with alternative crops, have constituted a new major task that requires effective sectoral policies, particularly in the agricultural sector. New productive activities have to be promoted to compensate for the reduction of foreign exchange availability, and lower income and employment levels.

Finally, the GOB must concentrate more fully on policy reform issues that go beyond the day-to-day project implementation efforts. There must be policy reform that guides the project activities.

The overall goal of the project is to support Bolivia's maintenance of a sound economic policy through an effective policy framework in order to assure sound public investments and encourage new and expanded private productive interventions.

Component No. 1, Purpose: Conduct macroeconomic and stabilization research and analysis and, at the same time, begin to address growth, sectoral policy reform, and social sector issues dealing with human resource capital.

Component No. 2, Purpose: Provide a flexible mechanism for addressing policy reform issues in other strategic areas through research, policy dialogue, technical cooperation, and training.

B. Project Components

1. UDAPE Policy Reform Support

This component is to strengthen and expand UDAPE so that it will be capable of 1) continuing its vital role in the area of macro-economic policy analysis and implementation, 2) analyzing and designing priority sectoral policies which will contribute to solid and sustainable growth in line with the GOB's macro-economic program, and 3) assist in the articulation and re-definition of the social agenda for accelerated development of human capital.

In order to accomplish the expanded role just described, the UDAPE component will have the following inputs and characteristics:

- UDAPE's organization will be expanded to three divisions: the Macro-Economic, Sectoral Analysis, and social policy divisions, each headed by a Senior Analyst or Division Chief reporting to the Executive Director. The Macro-Economic division will remain much as it is, while effort is made to rationalize the increasing demand for fire-fighting. The Sectoral Analysis division will be expanded moderately in order to take on increasing demand for analysis and technical assistance from the line ministries. The new Social Policy division will be staffed by economists with experience and/or particular skills/sensitivities in social policy issues.
- The role of the Executive Director will be modified to include an interlocutory or brokering role between the three divisions, a more expanded role in organization outreach and communication, more emphasis on the management of UDAPE's constituents, and a greater role in the design and management of technical assistance.
- UDAPE's Board of Directors will be activated to take on a greater role in support of the Executive Director and in the setting of analytical and program priorities. The Board will examine its current composition in terms of UDAPE's needs and modify itself accordingly. It will also help develop strategies to assure the sustainability and institutionalization of UDAPE.
- UDAPE will develop an outreach program in order to enhance understanding and consensus around the GOB's macro-economic, sectoral and social policies and strategies. Programs will be undertaken to expand UDAPE's constituencies and

to inform key groups (including AID, other donors, media commentators, legislators, etc.) on critical economic policy issues.

- UDAPE will also undertake development of strategies to assure the organization's sustainability and institutionalization. During the first year of the new Policy Reform Project, alternatives including a budget line item conditions precedent, or an endowment, and the implications of each will be explored. Decision thresholds will also be specified.
- In order to monitor and evaluate the impact of its activities, UDAPE will develop indicators to measure the impact of its studies, in both the sectoral and social policy areas, update those in place in the macro area, and integrate those within an improved management information system. UDAPE will also create an "implementation committee" to track progress in the development of new and expanded programs and toward decision thresholds.

Technical Assistance

The technical assistance to be provided under this project will be the most important input and, therefore, a significant percentage of project funds will be used for this purpose.

An institutional contractor will be financed by the project to provide direct technical assistance to UDAPE in management and institutional strengthening and coordinate UDAPE's long- and short-term technical assistance.

Technical assistance to UDAPE: the role of technical assistance in the follow-on project will be directed at 1) increasing UDAPE's capacity to take on new and additional tasks in the area of sectoral and social policy, and 2) complementing research and analytic capacity in the monitoring of short-term macro-economic policy and the evaluation of the macro-economic model. To carry out the former, first, a personal services contractor will be hired to work with the Executive Director of UDAPE in the development of a new organizational structure and in developing systems for implementing and managing the new structure. At the same time, technical assistance will be directed at the creation of an outreach program, the management of relations with clients, the re-vitalization of the Board of Directors, and the assessment of training needs in the new areas of responsibility. Short-term technical assistance will complement the support of the PSC in all these areas.

Second, short- to medium-term technical assistance will be funded to support UDAPE in strengthening its analytical capacity in both sectoral growth strategies, and social sector and human capital development policies. Some illustrative areas in which technical assistance will be provided include: economic and trade policy, financial markets and regulatory agencies, strategies to increase agricultural production and agro-processing, and health and human capital development policies. It is anticipated that this assistance will have a large training/tutorial content at the outset but as the project progresses the assistance will evolve toward a more "joint venture" or collegial assistance. The institutional contractor long-term advisor will aid UDAPE's

director in establishing criteria for technical assistance scopes of work and in the recruitment of consultants.

The expected achievements and accomplishments of the policy reform project are to assist the GOB to a) make sound policy decisions with the advice of a strengthened Policy Analysis unit (UDAPE), b) improve its technical capability to implement policy changes efficiently, and c) establish priorities to ensure that resources are invested in conformance with sound global, sectoral and social strategies.

2. Policy Reform Support Fund

This Policy Reform Support Fund (Fund) supports policy reform in the five USAID/Bolivia strategic objective areas through a) study and analysis, b) policy dialogue, c) networking, d) seminars, e) technical cooperation, and f) training.

The USAID/Bolivia Mission has five principal strategies in 1) Trade and Investment, 2) Alternative Development, 3) Strengthening Democracy, 4) Social Sector, and 5) the Environment. Project activities support and implement those strategies. In each strategy there are both general and specific policy reform issues that address either the more conceptual or specific policy reform or formulation required to increase efficiency and effectiveness in that Mission Strategy and in accordance with GOB priority strategies. This fund will be used to address these general and specific policy reform issues where there are not specific or adequate funds for this purpose within existing or proposed projects. This Fund is designed to complement and effectively support USAID's program objectives while not overlapping with UDAPE project activities, other USAID initiatives, or other donor funded projects.

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- USAID/Bolivia will develop a standard format for submission of requests for funds for policy reform. This request form will have standard requirements such as objectives, purposes, intended activities, inputs, expected outputs, level of fund request, recommended implementing institutions, a draft scope of work, and plan of activities. The request will also recommend the kind of contractual arrangement recommended such as an IQC, PSC, purchase order, national or international RFP, or other similar contractual arrangements. A PIO/T or PIO/P will be written for each activity.

Inputs

The Fund will support studies, networking/policy dialogue, technical cooperation, seminars, and training in order to achieve the Fund objectives.

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Networking/policy dialogue/technical cooperation activities will be funded that support policy reform issues in the five strategic areas. These activities can range from broad policy reform policy dialogue to specific technical assistance to resolve a specific problem. The Fund would support policy reform issues and not project design or evaluations.

Seminars will be funded that support policy reform. Most likely these seminars will be related to above-mentioned studies or in connection with UDAPE technical papers. They would not normally support seminars within given USAID/Bolivia projects.

Training will be funded that can include participant observation, short-term training, or attending international conferences.

Outputs

- Positive changes toward consensus on general policy reform issues.
- Specific changes made in specific policy reform issues. Bottlenecks and barriers resolved in some cases.
- Completion of short, medium, and long term analytical studies used by the GOB to further implement its social and economic development strategy.

The Fund provides a flexible mechanism that can provide policy reform that supports Mission Strategies and also USAID/Bolivia projects. Many projects have specific and targeted outputs but not the mechanism for the broader policy reform issues in a given sector. The Fund provides an excellent mechanism for studying and applying policy reform at this more broad level.

The Fund will be implemented directly by USAID/Bolivia through a coordinating unit to be chaired by the Program Office and represented by all the technical and support offices.

IV. PROJECT IMPLEMENTATION

A. Project Management

Component No. I, support for UDAPE, will require USAID/Bolivia's contracting directly long term PSCs and short term technical assistance. No institutional contract is planned in order to maintain flexibility and respond to needs quickly.

Component No. II, policy reform support fund, will be managed directly by the Program Office of USAID/Bolivia. No institutional contractor or IQC is planned. It could be expected to issue RFPs for one or several packages of project interventions.

It is anticipated that the Project Agreement will be signed by June 30, 1992 in order to assure continuity of UDAPE operations. Long term PSCs will be contracted by September 1, 1992.

UDAPE's mandate is to provide technical advice to the GOB in all strategic areas of government. First, UDAPE will continue to provide services in analysis and design of macroeconomic policy which will contribute to accelerating structural changes required by the development strategy, monitor Bolivia's financial program, and evaluate short term economic

programs in order to assure continuity of the stabilization process. Second, UDAPE will increase its involvement in sectorial policy analysis as it relates to growth. Third, UDAPE will begin to participate directly in formulation and implementation of a national social strategy.

The following are illustrative examples of project activities in both components.

Component No. I: UDAPE Policy Reform

Macroeconomic Policies

- **Fiscal Adjustment:** Fiscal impact of privatization and decentralization; revenue collection; public investment.
- **International Commerce:** Export promotion; integration policies; debt policies.
- **Financial Intermediaries:** Development of capital markets; implementation of monetary policies.
- **Stabilization:** Monitoring and follow-up of stabilization and structural adjustment policies.

Sectorial Policies

- **Agriculture:** Institutional strengthening of MACA policy formation and agricultural policy design.
- **Energy and Hydrocarbons:** Evaluation of projects; investments in the sector.
- **Industry:** Industrial reconversion strategies and policies.

Social Sector Policies

- **Identification of target groups for a social policy.**
- **Conceptualization of a social policy; selective, integrated and decentralized.**
- **Analysis of the efficiency and coverage of social services to increase the quality of human capital.**
- **Analysis of the needs of the traditional agricultural sector for productive infrastructure.**
- **Incorporation of vulnerable population groups into the national productive activity.**
- **Design of social policy in the areas of primary health, nutrition, and basic education by target group and by geographic region.**

Component No.II: Policy Reform Support Fund

Studies, policy dialogue, seminars, technical cooperation, and training in the following strategic areas and themes.

Trade and Investment

- Trade and investment policy reform and congruence
- Trade and investment promotion and organization
- Constraints for trade and investment in Bolivia

Alternative Development

- Tourism development feasibility in Bolivia
- Agricultural credit for non-traditional crops

Strengthening Democracy

- Criminal justice management
- Congressional policy formulation

Social Sector

- Child health care policy reform
- Decentralization of the educational system

Environment

- Fragile lands policies and reforms in Bolivia
- Deforestation and its implications for the environment

B. Financial Plan and Analysis

The project will provide \$8.0 million in DA funds, supplemented by Government of Bolivia (GOB) local currency ESF funds, to continue improving the analytical information available to formulation of public policy.

The estimated amount of \$12,250,000 will be used to carry out the activities described under this five-year project. The total A.I.D. contribution will be up to \$8,000,000 in grant funds to finance: 1) Up to \$5,000,000 for the strengthening of UDAPE's capability to continue implementing the GOB's macroeconomic and sectorial policy reforms and initiate social sector policy reform activities, and 2) Up to \$3,000,000 for a program support fund which will address economic policies, institutional reforms and alternative development issues to cover the GOB's requirements.

The total counterpart contribution to the project is estimated in up to \$4,250,000. This contribution will come from ESF local currency generations to cover mainly salaries and social benefits for the UDAPE staff as well as other operational costs including annual audits during the life of the project.

C. Monitoring, Evaluation and Audit Plan

During the development of the Project Paper, specific detail will be given to the development of indicators for monitoring project impact, and to the design of a supporting system that will enable project management to determine such progress and/or identify constraints to meeting the purpose of this project.

Project indicators will provide measures for assessing the degree to which UDAPE is an institutionalized resource within the GOB for carrying-out policy analysis. Toward this end, the monitoring system will be developed to include: (a) regular analysis of data addressing the impact of established indicators on project objectives; (b) planned studies on key management and/or impact questions; and (c) procedures for timely feedback of reporting information to USAID. Specifically, this system will be designed to enable UDAPE to report on the quantity and quality of analytical studies completed that support the GOB's social and economic development strategy; and to track complementary activities completed (i.e. training, consultancies, and public education campaigns) that further GOB economic policy and institutional reform objectives. Any additional costs for carrying out this system (such as impact studies or systems development) will be included in the budget at the project paper stage.

A mid-term and final evaluation will be scheduled during the design of the project paper and included in the project budget. The purpose of these evaluations will be to assess the impact UDAPE is having on policy formation and institutional reform in Bolivia. Specifically, the mid-term evaluation will review the organizational structure and operating procedures of UDAPE, and make recommendations, as needed, to alleviate any constraints to the project having optimum impact on policy and institutional reform in Bolivia.

V. PROJECT ANALYSES

- A. Technical Analysis**
- B. Economic and Financial Analysis**
- C. Social Soundness Analysis**

This Project does not affect socio-cultural practices, nor is implementation subject to difficulties resulting from any socio-cultural factors.

The bulk of the project assistance will be in the form of technical assistance and training for studies, assessments, and administrative/managerial improvements. These activities are to be done within the Bolivian socio-cultural context.

- D. Administrative Analysis**
- E. Environmental Threshold Examination**

Based on the purpose of the project and the guidance provided in Handbook 3, Appendix 2D, Section 216.2(c), the requirement for carrying out of an Environmental Assessment is not applicable. Nevertheless, the policy analysis nature of the project itself provides a mechanism through which the Government of Bolivia can better address the overall objectives of the National Environmental Policy Act and relevant A.I.D. policies as they relate to its on-going and future development projects.

To this effect, it is recommended that the Assistant Administrator (AA/LAC), find that the proposed project falls within the parameters of those categorically excluded from following the environmental procedures outlined in 22 CFR Part 216 on the basis that it is a "project intended to develop the capacity of the recipient country to engage in development planning."