

**USAID/Bolivia**

**Annual Report**

**FY 2004**

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## Bolivia

### Performance:

Background: In recent decades Bolivia made significant progress, including 21 uninterrupted years of democracy and 17 years of far-reaching and fundamental reforms in fiscal management, human rights and democratic decentralization. Thus Bolivia emerged among the top candidate countries for assistance under the President's Millennium Challenge Account. USAID has helped to propel these advances through its carefully targeted assistance program informed by continuous policy dialogue. However, in spite of undeniable progress, the gains have been quite fragile and significant poverty and social exclusion remain, fueling social and political unrest. Bolivia has suddenly slipped and concern has grown about the difficulty of achieving widespread, equitable and sustainable development. Despite important progress in social indicators, Bolivia still has the second highest levels of infant, child and maternal mortality in the hemisphere. Land tenure is a long-unresolved, contentious issue in rural areas, occasionally leading to deadly violence. Illegal coca replanting is a constant threat to the successful implementation of Bolivia's anti-narcotics strategy.

The centerpiece of the GOB's medium- to long-term strategy to resolve its recurrent fiscal deficits and reduce dependence on foreign aid was a plan to export part of Bolivia's abundant natural gas reserves via a pipeline through Chile to Mexico and the United States. This was projected to bring the GOB an additional \$500 million in revenue annually beginning in 2008. However, this proposal met extreme resistance from a broad range of Bolivian society, including indigenous groups, miners, unions, and university students. Opposition to the proposal is deeply rooted in Bolivia's history; specifically, in Chile's seizure of Bolivia's Pacific Coast in 1879 during the War of the Pacific and Bolivia's subsequent geographic isolation, as well as a history of extraction of Bolivia's natural resource wealth that left nothing behind for the country. Opposition to the gas-export proposal combined with long-term frustration with, and resentment of, the GOB over a host of other issues, boiling over into violent street demonstrations and blockades of major roads. The violence and the inability of the Government to bring it under control forced President Sanchez de Lozada to resign and leave the country. His constitutional successor, former Vice-President Carlos Mesa, has pledged to address public concerns, and to consult the population on the gas issue, among others. However, he is severely constrained in his ability to act due to the fiscal crisis and the population's manifest impatience.

Currently, about 58 percent of the Bolivian population lives in poverty, and 24 percent live in extreme poverty. Rural poverty remains over 80 percent. Economic growth and job creation are lagging, due to, among other things, poor productive infrastructure, lack of access to technology and markets, and low levels of education. Bolivia's fiscal crisis stems from a weak economy, corruption, and insufficient tax revenues, which springs from the economic downturn in the region over the last five years that has severely affected its major trading partners, Brazil and Argentina. Although in recent decades Bolivia has made significant progress in overcoming its long history of economic instability, the current macroeconomic environment suffers from stagnant growth and growing unemployment. Gross Domestic Product (GDP) growth has ranged from 0.43% in 1999 to 2.75% in 2002. The most recent projected GDP growth rate for 2003 is 2.9%, though in light of recent events this may be adjusted downward significantly. Per capita GDP has decreased from \$1,005 in 1999 to \$883 in 2002. Unemployment rates have more than doubled between 1997 and 2002, from 3.65% to 8.69%, and under-employment rates increased from 8.4% in 1998 to 12% in 2002. The fiscal deficit has also more than doubled between 1997 and 2002, going from 3.9% to an unsustainable 8.9%. Bolivia's external debt decreased from \$4.7 billion in 1998 to \$4.3 billion at the end of 2002, though this figure could grow substantially in 2003 and 2004.

U.S. Interests and Goals: The Government of Bolivia (GOB) and USAID have a strong and positive partnership. The GOB remains committed to the objectives of USAID's collaboratively developed

strategy. However, the GOB's political weakness and frequent staff turnover, as well as the severe fiscal crisis, severely impede its ability to fully meet its commitments. The private sector has also been significantly debilitated by the recession and its own structural weaknesses. The overriding interest of the U.S. continues to be helping Bolivia defend and consolidate its democracy and achieving broad-based, equitable and sustainable development and a permanent reduction in narcotics production and trafficking. Recent violent unrest and the forced resignation of President De Lozada ultimately have their roots in persistent, severe and widespread poverty, particularly among the indigenous majority. USAID's strategy has focused primarily on the majority-indigenous rural population is designed to address head-on the issues of poverty and social exclusion. Specific approaches include increased and diversified legal income opportunities (i.e., those not involving narcotics production), more responsive and transparent judicial and local government systems, more effective Congressional representation, improved health knowledge, practices and services, sustainable use of natural resources, and improved infrastructure at the local level. USAID/Bolivia is adjusting its current program to help address, in an expedited manner, the causes of the recent violent conflict. Changes include increased focus on the indigenous population and conflict-prone geographic areas, such as the city of El Alto, and measures to increase the state's presence in previously un- or underserved rural and urban areas. "State presence" in this context refers to the presence of the government as a legal authority and arbiter, service provider (including health, education and basic infrastructure), and maintainer of law and order. The effective absence of the state in many areas is a leading contributor to the underdevelopment, poverty, and disorder that prevails there. These program adjustments are tactical in nature and do not alter the current management agreement between the Mission and USAID/Washington.

Bolivia remains a strategic ally of the U.S. in Andean counter-drug efforts and played a leading role in South America in democratic reform and trade liberalization. Improving world-wide and regional economic indicators and second-stage structural reforms bode well for Bolivia. Despite the strong opposition of highly organized militant groups, the new Government appears committed to combating narcotics trafficking. U.S. regional interests in democracy, trade and counter-narcotics are best served by reinforcing Bolivia's financial stability and development.

Donor Relations: Donor coordination is strong in Bolivia, with the participation of eight multilateral and 15 bilateral donors. Thirteen of the bilateral donors are DAC (Paris Club/Consultative Group) members. Principal areas of donor interest are health, education, democracy and poverty reduction. The United States and Japan are the largest bilateral donors, and collaborate in the health sector through the Common Agenda. Multilateral donors include the U.N. agencies, the World Bank, the Inter-American Development Bank and the European Union. The donors' assistance is organized around the Bolivian Poverty Reduction Strategy Paper (PRSP) and the Government of Bolivia's (GOB) Plan of Action. USAID plays an active role in donor coordination and will continue to take a leadership position in the Alternative Development Donor Group. Spain, the United Nations Drug Control Program, and the European Union are active members of this group.

Challenges: USG assistance and support to Bolivia's fragile democracy will be vital during the next twelve months. President Mesa's government needs to implement an emergency plan, thereby mitigating current social tensions and pressures and maintaining the democratic process. This will require donor financing and support. USAID's leadership will be crucial in mobilizing other donors to help Bolivia address these issues. Nonetheless, most donors are increasingly wary of Bolivia's endemic problems and have refrained from offering additional assistance during the current crisis.

Key Achievements: Despite a deep recession, repeated changes of key GOB personnel, and violent social upheaval leading to a change of government, USAID nonetheless achieved significant results in all of its program areas. USAID also provided key assistance to the GOB in preparing for the crucial Fifteenth Donor Consultative Group meetings held in Paris in early October 2003. The USG delegation, comprised of six-high level members, was able to persuade otherwise reluctant multilateral donors to provide additional assistance to Bolivia to help it weather its most severe political crisis in decades.

1. Under its democracy strategic objective (SO), USAID's four principal activity areas are criminal justice system reform, local government capacity building and citizen participation, congressional strengthening,

and anti-corruption. The principal beneficiaries are ordinary citizens, municipal government and the criminal justice agency personnel, and elected legislators. Under the USAID-supported Code of Criminal Procedures (CCP), dramatic improvements have occurred in case-processing time and significant inroads made against impunity and corruption. Criminal case processing time has fallen from over three years to less than one year. USAID has successfully implemented a local participation model for municipal governance that has dramatically increased citizen participation, including budget meetings, and other key decision-making fora. According to national public opinion survey data, local governments now enjoy a level of credibility higher than central government institutions, with USAID-supported municipalities enjoying markedly higher levels of citizen satisfaction.

2. USAID's economic opportunities (SO) assists poor farmers in accessing selected agricultural markets, and credit and financial services through the expansion of microfinance institutions into rural areas, and increases the capacity of Bolivian enterprises to be competitive exporters and to take advantage of the trade privileges under ATPDEA. This increased competitiveness will also help enterprises to better take advantage of Bolivia's accession to the Free Trade Area of the Americas, planned for 2005. Beneficiaries are principally small farmers and small enterprises. Working closely with small farmers in Bolivia's main agricultural valleys, USAID directly assisted over 6,000 families in seven commodity chains (onions, chilies, peppers, oregano, berries, table grapes and tomatoes). Although average rural household income in the region dropped by almost 10% from 2002 to 2003, to \$1,300, beneficiary households' income rose by over 8% to over \$1,700, exceeding the target. USAID has greatly expanded the access of small- and micro-enterprises in both rural and urban areas - many of them owned by poor women - to affordable credit. USAID supported the development of new deposit services and 58 new points of service in rural and peri-urban areas. As of September 30, 2003, there were over 163,000 microfinance deposit accounts in Bolivia, exceeding the target of 150,000. Most notably, during the crisis in October of this year, when many citizens pulled their money from banks, microfinance institutions actually saw an increase in deposits, a remarkable show of faith in their integrity by their depositors.

3. USAID's health strategic objective improves people's health practices, extends the coverage and quality of health services, and promotes a more decentralized and participatory health system. Women of reproductive age are the major beneficiaries of voluntary family planning/reproductive health activities, very young children of child survival activities, young adults of HIV/AIDS prevention activities, and populations in various geographic areas of infectious diseases activities. The Ministry of Health, with USAID support, initiated a massive, nation-wide vaccination campaign, resulting in an increase in vaccination rates from 53% in FY 2002 to 96% in FY 2003, far surpassing the target of 72%. The total number of children vaccinated increased from around 42,000 in FY 2002 to over 49,000 in FY 2003. USAID has continued to support the national HIV/AIDS surveillance system and helped expand the number of sentinel sites from three to six. USAID provided technical assistance to expand the number of Surveillance and Reference clinic sites from 9 to 13, including key border locations with Brazil and Argentina, a key step in tracking the size, shape and evolution of HIV/AIDS prevalence in Bolivia.

4. USAID's environment strategic objective focuses on three major areas: increasing the national and local capacity to sustainably manage natural forests; improving management of national parks and protected areas; and reducing pollution generated by industry. Beneficiaries include citizens in or near parks and protected areas, including indigenous communities, the Bolivian government, forest-product related businesses and populations sharing water resources with industry. All three focus areas produce local benefits, build upon equitable and participatory governance, foster economic development, and create incentives for responsible resource stewardship. Bolivia has become a world leader in certified wood exports. The percentage of wood exports that are certified has risen from 10% in 2000 to roughly 25% in 2002. While Bolivian exports as a whole fell in 2003, the value of certified forest products exported continued to rise, to an estimated \$15,000,000, an increase of more than \$1,000,000 from 2002. USAID's technical support helped create the 540,000-hectare Altamachi-Cotacajes Protected Area.

5. Activities under USAID's alternative development (AD) strategic objective provide viable, legal employment and income-earning alternatives to the cultivation of illegal and excess coca and the production and trafficking of illegal drugs. Beneficiaries are primarily farm families in coca-growing regions (Chapare and the Yungas). The program assists in developing sustainable infrastructure,

national and export markets, and organizations to ensure sustained economic growth and social well-being in the coca-growing regions. In the Chapare, USAID reached approximately 26,000 families in FY 2003 with technical assistance in agricultural and agro-forestry production, planting material, training, and infrastructure, exceeding the target. Successful new strategies increased domestic sales and exports; by the end of CY 2003, banana exports will rise by over 30% to a total of 22,000 metric tons (MT), and pineapple exports will increase 250% in volume, to a total of 900 MT. In the Yungas, over 5,100 AD participant families improved coffee harvest and post-harvest techniques, and thereby increased their income by an average of almost 40%. USAID-funded health services contributed to permanent community improvements. In FY 2003, 22 potable water systems, and 332 human waste disposal and sanitary systems were completed, and over 40,000 people benefited from health education in 434 communities.

USAID's Title II Food for Peace program, implemented by four U.S. nongovernmental organizations, is fully integrated into USAID/Bolivia's strategic plan. Title II activities employ a variety of rural community-based approaches, focusing on regions where food insecurity and extreme poverty are most prevalent. Agriculture-related activities include construction and improvement of rural roads, technology transfer and the provision of tools and improved seed. Health activities include improved nutrition and sanitation, and effective and early detection and treatment of childhood illness. Environmental activities center on training communities in sustainable use of land and water. These activities complement three Mission strategic objectives. The Mission is presently developing a more representative set of indicators to reflect these linkages.

Gender: USAID's assistance program in Bolivia takes into account the gender disparities in income, health, and empowerment that are detrimental to women. Support to small and micro enterprises involves substantial numbers of poor women who are often the only breadwinners in their households. Over half of the farmer beneficiaries of USAID's market access and food security-related activity are women. Maternal, child and reproductive health activities directly benefit women for whom illness too often means an unaffordable cost and a loss of income. USAID conducted a gender analysis in preparation for its new strategy. The analysis and follow-up activities will continue to be implemented during 2004.

**Country Close and Graduation:**

Not applicable.

## Results Framework

### **511-001 Increased Citizen Support for the Bolivian Democratic System**

#### **SO Level Indicator(s):**

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

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

**IR 1.2** National representatives are more responsive to citizen demands

**IR 1.3** Municipalities effectively respond to citizen needs and demands

### **511-002 Increased Income for Bolivia's Poor**

**IR 2.1** Increased access to financial services in underserved areas

**IR 2.2** Increased access to agricultural technology and marketing services

**IR 2.3** Increased trade capacity and competitiveness

### **511-003 Improved Health of the Bolivian Population**

**IR 3.1** Improved health practices by individuals and in the community that can help build a healthy environment.

**IR 3.2** Improved quality and increased coverage of health networks and social networks established at the local level and operated by multiple service providers under national norms.

**IR 3.3** A decentralized, participatory, and equitable Bolivian health system strengthened in its various roles, with civil society exercising social control over the system.

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

**IR 4.1** Sustainable management of natural forests in the Bolivian lowlands

**IR 4.2** Adequate management of protected areas

**IR 4.3** Improved environmental management of urban and industrial pollution

### **511-005 Illegal and Excess Coca Eliminated from Bolivia**

**IR 5.1** New coca plantings prevented

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

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

**IR 5.4** Chapare sustainable alternative development established

**IR 5.5** Licit net household income increased in targeted communities

### **511-006 Economic Stabilization**

#### **511-XXX Increased Confidence in Democratic Institutions and Processes**

**IR XXX.1** Key institutions of the Rule of law are more transparent, efficient, and accessible

**IR XXX.2** Political representatives are more responsive to citizen demands

**IR XXX.3** Local Governments are more effective and efficient in responding to increased citizen demands

**IR XXX.4** Anti-corruption efforts yield more transparent and effective Government