



MARCH 2006 • NIEK DE JONG, JUAN CARLOS AGUILAR,  
GESKE DIJKSTRA, CECILIA LARRERA

Evaluation of Poverty Reduction  
Strategies in Latin America – 2005  
Executive Summary

# Bolivia: To Dialogue or to Govern?





# Preface

The poverty reduction strategy responds to a legitimate concern for the problem of persistent and high poverty in many developing countries. The PRS process intends to reduce poverty through a participatory, long-term, and result-oriented strategy that seeks to bring together both government and civil society in finding solutions to the country's poverty problems. The commitment of the donors is to support the strategy with resources and debt relief.

The Swedish International Development Cooperation Agency, Sida, has requested the Institute of Social Studies (ISS) in The Hague, to monitor and evaluate the PRS processes in the three Latin America countries eligible for debt relief: Bolivia, Honduras and Nicaragua. The study will be carried out over a period of 5 years, beginning in 2003.

Each year five reports will be elaborated, including three country reports, one regional report and a thematic report. The country reports to be submitted in 2005 provide an update of the progress with the PRS process in terms of strategy definition and implementation. This year specific attention is paid to the budgeting process in relation to poverty reduction policies and the problems countries are facing in making the budget process more transparent and more results-oriented. The analysis of the country reports is supported by a detailed and systematic stakeholder analysis, including the stock taking of local actors through visits to several municipalities in the three countries. A comparative analysis of the experience in the three countries is presented in the regional report, highlighting lessons to be learned for governments, civil society and the donor community. The thematic report for 2005 focuses on the potential of result-oriented budgeting in the case of basic education.

The five reports aim to make a contribution to existing evaluations of the PRS process through the regional focus and an impartial assessment of the PRS, resulting from the ISS's complete independency in the process of design, implementation and financing of the strategies.

All reports can be downloaded from the following website: <http://www.iss.nl/prsp>.

*Rob Vos  
Project Coordinator  
September 2005*

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"Bolivia: To Dialogue or to Govern?"

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Authors: Niek De Jong (Institute of Social Studies), Juan Carlos Aguilar (Strategy Advisors for Government Reform - SAXgr), Geske Dijkstra (Erasmus University Rotterdam), Cecilia Larrea (SAXgr)

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# Executive Summary

## **The Economic, Political and Social Context for Poverty Reduction**

1. In Bolivia, the numerous presidential successions in the last years have had serious institutional and financial consequences, as well as consequences regarding the performance of economic and social policies.
2. In spite of these problems, 2004 and 2005 registered the highest economic growth rates of the last five years. However, the main determinants of growth have been favourable external conditions and the Bolivian economy continues to be very vulnerable.
3. The two major themes in which the government of President Mesa got involved – the gas policy (hydrocarbon laws) and the Constituent Assembly – and Mesa’s desire to govern without the support of political groups in Congress (as a result of various conflicts with Congress), together with the lack of managerial capacity shown by his collaborators in the Executive, complicated his governance, leading in the end to his resignation in June 2005.

## **National Dialogue Productive Bolivia (DNBP)**

4. A National Dialogue Productive Bolivia (DNBP) was held in 2004, of which the preparations started in 2003. Following the events of October 2003, the initial orientation of the DNBP – discuss the revised PRSP – was changed towards a more integrated orientation. However, in the process of development of the methodology, no sufficient basis, nor practical instruments were established, that permitted articulating the Integrated Productive Strategies (EPIs) that resulted from the different working groups with budgets of corresponding institutional levels, and determining how the results of these strategies would be linked to the General Government Budget (PGN).
5. The participation of representatives of the national government in each of the working groups of the dialogue, as well as the signing of productive agreements (“pactos productivos”) between representatives of the public sector (at national, departmental and municipal level) and organized civil society, has not generated major commitment on the part of the public sector to implement these agreements. The intervention of the government could have been more fruitful if it had been clear that its main task would start once the dialogue

process was concluded. This task would include an adequate systematization of the results, relating these results to public policies and resources available at each institutional level to implement the policies, signalling the existence of institutional or policy gaps where relevant, to generate more specialized discussion processes and to reach agreements which are more likely to be implemented. Other opinions indicate that the government should participate more as a listener in this kind of process, and reserve the right to prioritize the proposals that come up from this process, in order to translate them later into plans to be implemented.

6. The Dialogue process never received a genuine support from President Mesa, who apparently looked at the DNBP as a process that could promote more popular support for his government, but not such as to generate ideas that could later be translated into policies that his government would eventually implement. The DNBP process pretended to generate and confirm a new vision of development and generation of wealth, as a sustainable means to alleviate poverty. Unfortunately, this was not made good use of, nor well led by the Mesa government.
7. The DNBP allows rescuing some positive aspects of the dialogue. The capacity of civil society organizations to participate in discussion processes on public policies with the government continues to be strengthened, this time in potentially better conditions supported by a pre-dialogue process, which allows various groups to improve their capacity to come up with proposals for public policy. Steps have been taken in many civil society organizations to generate a positive attitude towards the elaboration of productive proposals and not merely requests for help. Furthermore, more or less serious reflections have been made on the productive potential of various local spaces that could serve to improve the quality of municipal development plans and to identify modalities of cooperation between the local governments and productive organizations in their territories. In some cases, complementarities have been identified between local spaces to generate productive proposals.
8. One of the aspects that clearly needs to be improved further is the methodological development that avoids exhausting completely the dialogue processes and continues to limit itself to forums where demands are expressed that are subsequently appropriately analyzed and honoured by the national government, let alone being incorporated in its plans and budgets. The credibility of the State will be questioned if it is not capable of generating processes that lead to a proper utilization of these spaces. This reflection is even more important when it is established by law that the country needs to create these spaces for discussion at least every three years, something of which the usefulness would also need to be discussed profoundly and which may need to be revised.
9. The 2005 report confirms the hypothesis formulated in an earlier report, in the sense that the PRS process does not function in Bolivia as predicted by the theory developed in the context of the approval of the HIPC II initiative. This framework, on the contrary, considers the existence of a PRSP the back bone of the entire process of relationships with the international cooperation, and has been converted into a straight jacket for the government in many occasions, or in other words, an impediment for a more fluid working relationship.

## **Implementation of Poverty Reduction Policies**

10. The orientation of the poverty reduction policies has not changed much with the PRSP that was approved in 2001 and which incorporated all the pre-existing policies within this framework. In one way or another, these policies have continued to be implemented and the allocation of public resources among the three institutional levels has basically remained the same, with largely unchanged shares in total public expenditure. Neither has the efficiency of public expenditure improved substantially. Logically, the policies, plans and programmes to reduce poverty have had problems and delays in their execution, due to the almost permanent conflict situation in which the country has been since 2003, not only because of the three changes of president, but also as a result of frequent changes of the responsible in public administration. Given the political agenda of next year, the situation will probably not be very different in 2006.
11. This suggests that Bolivia will continue to experiment a situation of political uncertainty even after the general elections, given that the realization of an election for the Constituent Assembly will take the form a sort of “second round” and the struggle for power and the favour of the voters to reform the constitution in the direction of the interests and the vision of the country of different political groups and social movements. A substantial number of pending issues regarding governmental decisions have not been resolved and passed on to the current government, which will certainly need some time to deal with them.
12. This situation of political and social instability has contributed to the fact that the different governments in the past three years have also not presented a revised PRSP based on some degree of political consensus, if not consensus with civil society, which has hindered the arrival of external aid to support these efforts.

## **The Role of International Cooperation in the PRS Process**

13. In the absence of a revised PRSP based on consultation, the country continues without a PRGF with the IMF and a PRSC with the World Bank which should mobilize other external resources for poverty reduction. As long as this not changes, a good part of the bilateral cooperation will continue to delay its contribution and use this argument to justify the lack of disbursements.
14. The political instability of the country has contributed the fact that there is little progress in coordination and harmonization with the donor community. The changes of presidents and ministers has limited the possibility that the governments take adequate leadership in the execution of the main public policies and coordinate better the international cooperation around them.
15. By means of the Multi-donor Budget Support Programme (MDBS, or PMAP according to the Spanish acronym), the international cooperation intends to contribute to the improvement of the management of public finance in the country and, in particular, the budget process and systems. In this area there has been important progress following enhanced ownership on the part of government and compliance of a large number of commitments, including the improvement of the quality of information on public expenditure and its poverty-reduction orientation, which will be consolidated with the approval of the Budget Framework Law presented to Congress in

late 2005. However, the majority of the donors that are signatories of PMAP have considered this progress insufficient and are not complying with their commitment to disburse budget support in the year 2005.

### **The Current Budgetary Process**

16. The current budgetary process in Bolivia starts with the *preparation* phase in which the aggregate annual budget ceiling is defined on the basis of projection of the main macroeconomic variables, followed by the phase of *formulation* of the budget by the Ministry of Finance and the entities of central and decentralized government, and subsequently leading to the *approval* by Congress. *Modifications* to the approved budget are made during implementation in the *execution* phase, in which the expenditures are controlled by cash-flow management. Finally, there is a *control* of the budget execution and, in some cases there can be *monitoring and evaluation* of the results of the policies.
17. Each year the budgetary cycle starts between July and August with an instruction from the Ministry of Finance and the fixing of ceilings per institution, once the overall budget ceiling has been defined on the basis of the projections of the revenues. The budgeted revenues are often overestimated, to create space for negotiation with the different public institutions.
18. The Congress makes adjustments to the budget formulated by the Executive, approves the adjusted budget and publishes the commitments. In general, the adjustments made by Congress are related with increases in items concerning public investment in the regions, which are almost always political commitments.
19. Once a year (in the second half of the fiscal year), Congress approves the required *modifications*, to formalize the situation that require prior authorization. There are budget reallocations within the entities which can be made and authorized throughout the year, because they do not need approval by Congress, but only by the Ministry of Finance. The modifications normally result in increases of the budget.
20. Some modifications made by Congress are subsequently neutralized by the *cash-flow management* carried out by the Treasury. This implies reductions in relation to the approved annual budget. The reduction is not proportional for each entity, where the relations of relative power or political pressure play a role, often resulting in a distribution of expenditures that does not reflect the original distribution of the approved budget.
21. Whereas it is expected that the budget is based on expenditures by programmes, in practice its structure and composition do not permit the complete identification of programmes, nor their link with specific goals. For this reason, it has until now been very difficult to identify specific poverty reduction programmes in the national budget, and one has had to use other criteria to “identify” pro-poor public expenditure, such as those established in the original PRSP to define pro-poor spending.
22. In general, the control and monitoring of the public policies in Bolivia does not go beyond monitoring physical and financial indicators, though often it is limited to the tracking of the latter. An exception is the monitoring of the Millennium Development Goals (MDGs), for which recently a broad institutional framework has been

developed. Various monitoring systems developed by different institutions would allow carrying out this task, but they are not well integrated and tend to duplicate efforts.

23. At the national level, the monitoring of the budget execution is mainly done on the basis of the information that contains the Integrated System of Administrative Management and Modernization (SIGMA). Both SIGMA and the Unique Treasury Account (CUT) serve as mechanisms of *internal control*, in the sense that they do not permit expenditure that does not have (sufficient) budget allocation, although in practice the coverage of the internal control by SIGMA is still not completely effective.
24. The role of *internal auditing* is conceptualized as a control or ex post evaluation of public expenditure regarding the procedures that are followed. In practice, the internal auditing is not very effective due to several factors, of which the most important are the turnover of existing personnel, the low levels of remuneration and the lack of training and technical capacity to adequately comply with these functions. There is also a lack of understanding of the role that internal auditing ought to play to improve the public institutions, apart from a lack of incentives to improve the internal control of public entities.
25. *External auditing* is the responsibility of the General Comptroller of the Nation (CGR), which has operational, technical and administrative autonomy and which is independent from the Executive. In spite of the efforts of this institution to improve the execution of its tasks in the framework of the SAFCO law, as well as progress observed to improve its procedures (which allowed its processes to obtain an ISO9000 certificate), its capacity to audit 327 municipalities and over 100 national, sectorial and decentralized institutions is still limited. This is also the reason that the ex post evaluation of the actions of public institutions – a task within the mandate of the CGR – has not been developed. The absence of this type of evaluation makes it very difficult to target public expenditure at better uses or according to a cost-effectiveness analysis.
26. At the local level, the Municipal Governments have the obligation to send information on budget execution to the Municipal Council, the Dirección General de Contaduría of the Ministry of Finance and to the CGR (before 31 March of each year). In practice, they do not always comply with this obligation for various reasons, among which the lack of institutional capacity in some municipalities to generate adequate financial information, the lack of understanding of the role that these legal requirements play, and even political factors. The in compliance with these requirements has led to the freezing of the accounts of many municipalities (over eighty in 2005) by Congress, until those situations are normalized, at the possible cost of limiting the normal development of the activities of these public institutions and their territories.
27. In Bolivia, not many evaluations of public policies are carried out. There is no culture of evaluation, nor awareness of the importance of those practices in the design of better policies and public expenditure. In a sense, some of the PSIA elaborated by the World Bank as of 2003 can be considered (*ex ante*) evaluations of the impact of certain public actions, although they are still not used as the instruments that help to take more adequate policy decisions (such as those concerning the cost of the diesel subsidy and its main beneficiaries).

## **Result-oriented Management: Does it Have a Feasible Framework in Bolivia?**

28. With the proposal of the 2006 Budget presented to Congress, the Government of Bolivia has initiated a process to gradually introduce a multi-annual budget with better orientation at results, which could be an important instrument to improve the effectiveness of the poverty-reduction policies.
29. Whereas political support and political will at all institutional levels is a key factor to establish result-oriented management, it is also important that efforts are made to reduce the resistance to the creation of an environment of more rigorous internal control in the public sector entities. Other important factors include the creation of more capacity in the application of basic accounting, well-oriented internal auditing, and adequate knowledge of the evaluation of programmes and projects. Finally, it will be necessary to have sufficient financial resources for the implementation of the above-mentioned improvements and the establishment of an adequate legal framework, something which the Framework Budget Law in Congress could provide.
30. One important progress realized in 2005 is the introduction of the functional classification of the expenditures in the budgets. As of 2006, the presentation of the budgets by the public institutions will take this form of organizing the information. Further progress has been made in the large municipalities, with the introduction of SIGMA with this type of classification. Continued efforts were made to adapt SIGMA and SINCOM for use in median and small municipalities. Finally, Congress has decided to create a Technical Budget Office, in coordination with the Executive, which will try to be the technical support unit in those issues.
31. A limitation to establish a result-oriented management system is also the resistance on the part of public servants to the introduction of information systems like SIGMA in their institutions. In addition, there appears to be lack of a genuine monitoring and evaluation system of results, which would cover all activities of the public institutions and that is integrated into the budgetary processes and systems. This is something which the existing system SISER does not comprise.
32. A decision to implement a result-oriented budgeting system does not imply that one would have to start from scratch to assign institutional roles. One would rather have to establish which existing institutions could assume new functions, where one could arrive at better results by means of a reassignment of institutional roles (*i.e.*, a reorganization of functions and personnel), and to what extent it would be necessary to create new institutions to this end.
33. Moreover, on the part of government there exists already sufficient ownership of the recommendations and identification of the institutions responsible for the implementation of a result-oriented budgeting, included in various reports prepared by the IMF, the World Bank and the Inter-American Development Bank. Similarly, there exists a high degree of ownership of the indicators of budgetary processes reflected in the PMAP framework and incorporated in the Strategic Plan for the Strengthening of Public Finance, elaborated by the government.

34. Basically, the donors could contribute in three areas: *(i)* financial and technical support for the introduction of better information and accounting systems, *(ii)* technical assistance for improving the budgetary processes, and *(iii)* technical and financial support for expansion and improvement of data collection to measure the impact of policies. This support should be oriented at entities both at the central and decentralized levels. In each area, the support and ideas of the donors should be adapted to the plans and initiatives of the government.
35. A key factor that has permitted to initiate the implementation of the improvements in the budgetary process is the political will to realize this kind of change that the Ministry of Finance has had during 2005. However, it should not be lost out of sight that there are still other public institutions that will have resistance to changes. For this reason, it will be necessary to create initiatives that adequately explain the benefits of the changes and that generate more support.
36. The major obstacles to the implementation of a result-oriented management system are probably not found at the national level, but rather at the local level, where there are more institutional weaknesses. The initiatives that reinforce capacities should incorporate the principles that allow for bringing about improvements in the budget formulation, execution and control, as well as the monitoring and evaluation of the results of their institutional actions.
37. Given that an important part of the national budget is decentralized to the municipalities, the monitoring of the execution of that part of the budget will not be easy. Neither will this be the case for the monitoring and evaluation of the results. Specific support initiatives will be needed at different institutional levels, to reach the required standards and to facilitate the introduction and implementation of the above-mentioned principles in public management.
38. The above suggests that, in the short run, it will not be feasible to arrive at application of a quite elaborated result-oriented management system. In the medium run, its feasibility could be greater, at least at the national level. This possibility would have to pass the proof of the change of government and confirm whether the ideas introduced in 2005 by the government to make progress in this direction will continue to be priority for the government as of 2006.





*Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.*



SWEDISH INTERNATIONAL  
DEVELOPMENT COOPERATION AGENCY

SE-105 25 Stockholm Sweden  
Phone: +46 (0)8 698 50 00  
Fax: +46 (0)8 20 88 64  
sida@sida.se, www.sida.se