

SOCIAL SECTOR PROGRAM IN SUPPORT OF THE POVERTY REDUCTION STRATEGY

(BO-0203)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Bolivia	
Executing agency:	Ministry of Finance	
Amount and source:	IDB: (FSO)	US\$40 million
	DFID ¹ cofinancing:	<u>US\$ 4 million</u>
	Total:	US\$44 million
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	2 years
	Interest rate:	1% in first 10 years and 2% thereafter
	Inspection and supervision:	1%
	Credit fee:	0.5%
Objectives:	To support government efforts to reduce poverty and promote human development, through implementation of the Bolivian Strategy for Poverty Reduction (EBRP), while helping to maintain the country's macroeconomic stability.	
Description:	The program is a sector loan that will be executed over a period of up to 24 months, in two disbursement tranches of US\$20 million each. Disbursements will be conditional upon concrete action by the Government of Bolivia in the following areas:	
	(i) EBRP monitoring, participation and social control	
	In this area of the program, the Government of Bolivia has committed itself to take actions and policy measures with a view to: (a) institutionalizing the office responsible for monitoring the strategy; (b) defining a set of quantitative and qualitative indicators for monitoring the EBRP; (c) expanding participation by civil society in the public policy decision-making process; and	

¹ United Kingdom Department for International Development.

(d) strengthening social control by improving existing mechanisms (watchdog committees and those created under the National Dialogue Act) and access to and use of information on the results of public management. The expected impact will be an improved capacity on the part of the Government of Bolivia to monitor and evaluate poverty reduction policies. This, together with stronger participation by civil society in public decision-making and the reinforcement of social control, will ensure the transparency of public management and the sustainability of poverty reduction efforts.

(ii) Prioritization of social expenditure

This area of the program seeks, in a fiscally sustainable matter, to prioritize selected program funding in the areas of education, health and support for children, during the period 2002 and 2003. These Priority Social Programs (PSPs) have preference within the EBRP and funding is being provided to them through the Bank, the World Bank, bilateral cooperation and domestic resources, either by central government agencies (including the investment funds) or by departmental and municipal governments. Expenditures related to the programs to be prioritized include capital spending as well as certain non-wage current expenditures. Prioritized expenditure in 2002 amounts to US\$91.3 million, and a similar amount in 2003, to be updated with the addition of new credits and donations. This budgetary protection is necessary, at a time of fiscal contraction, to minimize the social costs of adjustment and to ensure that the level of social spending on areas with a high poverty impact does not become a variable in fiscal adjustment. The expected impact will be to promote human development and to guarantee the sustainability of programs for reducing infant mortality, maternal mortality and the incidence of communicable diseases, malnutrition and illiteracy.

(iii) Social inclusion

Under this area, disbursements will be conditional upon preparation and implementation of policy instruments and activities to guarantee appropriate treatment for indigenous and aboriginal peoples, and to consolidate gender equity as a focus of public policy. To fulfill the agreed conditions, action will include preparation of a draft Indigenous Development Act and the creation of a Legal Assistance Service for Indigenous and Aboriginal Peoples. In the education field, the following will be included: the strengthening of intercultural relations and the promotion of bilingualism, indigenous education projects, institutional strengthening at the decentralized level, and

financing of measures to ensure the sustainability of the educational reform. In the health area, measures will be taken to reinforce Basic Health Insurance for Indigenous and Aboriginal Peoples and the Indigenous Health Council, by giving effect to its regulations, and support will be provided for the creation of intercultural health offices in nine hospitals. As well, the program includes implementation of Supreme Decree No. 26350 on public policy instruments to promote gender equity, and execution of the National Plan for Gender Equity, the Plan for the Prevention and Eradication of Violence, and the Program to Reduce Poverty among Women. The program is expected to further the process of building a multilingual and multicultural nation and to diminish social exclusion and discrimination towards indigenous and aboriginal people and women, by improving the accessibility and quality of justice, education and health services, and enhancing their standard of living.

**The Bank's
country and
sector strategy:**

Consistent with the EBRP, the central focus of the Bank's strategy in Bolivia is to combat poverty in three ways: (i) economic growth and creation of opportunities (consistent with the EBRP objective of expanding employment and income generation opportunities for the poor); (ii) development of human capital and access to basic social services (consistent with the strategic component for developing the productive capacities of the poor through the EBRP); and (iii) governance and consolidation of reforms (a cross-cutting issue in the EBRP).

With adoption of the EBRP as the principal instrument for guiding government efforts and those of the international community in Bolivia, the Bank has identified, in the context of this operation, the principal challenges in implementing the EBRP and the actions needed to address them in a manner consistent with its strategy in the country, and with the objective of moving more quickly to reduce poverty.

**Environmental
and social
review:**

Because of its sectoral nature, the program does not call for the financing or management of works. Therefore it will have no negative impact on the environment and no actions to protect the environment will be needed during its preparation and execution. On the other hand, the program will have positive social impacts thanks to its support for efforts to strengthen democracy, enhance the social inclusion of vulnerable groups, and protect social spending at a time of fiscal adjustment (see paragraph 3.15 to 3.17).

Benefits: The program identifies actions to reduce poverty (especially among the most vulnerable groups such as indigenous peoples and women): it is the poorest groups, therefore, that constitute the principal beneficiaries of this operation. Systematic monitoring of EBRP implementation will help the country accumulate experience with respect to the relationship between measures adopted and results obtained, thereby enhancing the capacity to manage and evaluate the impact of poverty-reduction policies. As well, promoting participation by civil society in decision-making, and supporting the establishment of social supervision and control mechanisms, will help strengthen democracy and the sustainability of public policies. The principal benefit from prioritizing PSPs spending, under this operation, will be to guarantee the continuity of the investments needed to develop human capital, so that the country's fiscal adjustment will not result in cutbacks to PSPs budgets that are supposed to meet the needs of the poorest segments of the population. Finally, the relevance and timeliness of social service delivery will be improved, thereby reducing discrimination against indigenous people and women and fostering social inclusion.

Risks: The economic stagnation of 2001 and the low-growth outlook for 2002, within an uncertain international and regional setting, are placing great pressure on the Government of Bolivia to increase public spending as a means of reactivating the economy and generating employment. This, together with lower fiscal revenues, could imply a larger fiscal deficit, and an increase in domestic financing of it, which could compromise macroeconomic stability during the coming years and make it more difficult for Bolivia to comply with its macroeconomic program with the International Monetary Fund (IMF)². The sector program, by providing quick-disbursing and freely available funds, will help in part to reduce the needs for internal financing.

The position of the country's new authorities (a new administration will take office in August 2002) with respect to the agreements negotiated under the program with the current administration could compromise the processing of disbursements for the second tranche. This risk has been reduced by limiting the scope of the program to actions on which there is a broad social consensus as to their relevance and priority and which, moreover, will contribute to successful implementation of the EBRP. In any case, the progress achieved under the first tranche will be significant in its own right, since it will produce an institutional and regulatory framework for

² In December 2001, an IMF mission will visit Bolivia to discuss macroeconomic goals with the government and to define a sustainable fiscal program that will not compromise the country's medium-term economic outlook.

moving forward with the EBRP and will provide instruments for measuring its performance and impact, social spending will be prioritized, and the barriers that now impede access by low-income and indigenous people to basic social services will be reduced.

The institutional weakness of the public sector constitutes a risk to proper implementation of the EBRP, and could be reflected in a lack of confidence in the political system that might make it impossible to establish conditions conducive to economic growth and to undertake policies and actions called for in the EBRP. The program will strengthen institutional capacities to monitor the strategy and will reinforce social oversight of public spending, so as not only to provide lessons on the relationship between actions and results, but also to ensure the transparency and accountability of the different levels of government.

Special contractual clauses:

The disbursement of funds under each tranche will be subject to the borrower's meeting the following conditions, to the satisfaction of the Bank: (i) maintain a consistent macroeconomic setting as agreed with the IMF; and (ii) take the policy steps agreed for each tranche, as specified in Chapter II and in the policy matrix contained in Annex II-1 of this document (see paragraph 3.6).

As well, the following will be conditions precedent to the first disbursement: (i) submission of evidence that the ministries involved have the necessary funds to carry out the policy actions agreed under the two disbursement tranches; and (ii) maintain specific and separate Bank accounts for handling the funds (see paragraph 3.8).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Under the guidelines in that document, the program, as a quick-disbursing sector loan, does not qualify as a poverty-targeted investment (PTI) (see paragraph 3.15).

Exceptions to Bank policy:

None.

Procurement:

Resources from the Bank loan will be used to finance a project in support of the national public sector. The procurement procedures applied will be those for sector loans, which do not require international competitive bidding.