

BOLIVIA COUNTRY STRATEGY PAPER

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1. EU Co-operation Objectives

1.1 EU Regional Objectives

EU relations with Latin America are inscribed in the spirit of the Rio Summit of July 1999, and the accords reached at the same which have since been developed further in different ministerial working groups and will very likely be further strengthened at the Madrid Summit in 2002.

The Rio Summit was conceived as an effort to establish a global framework for the relations between the two regions, Europe and Latin America. Politically it is a demonstration of the European Union's capacity to project a unified presence in the international scene, and for Latin America it represents the important recognition of the region as an attractive global partner.

Enhanced and closer relations between the European Union and Latin America are a logical outcome of the importance of economic interchange between the two regions. The EU is the second most important trading partner for Latin America and it is the second largest investor in the region.

The Summit was also built on the cultural affinities that exist between the two regions as a basis for closer relations. Pronouncements at the Summit emphasized neither the fact that western values, and its resultant effects, are not monolithic nor the exclusive heritage of any one nation. Rather, it is recognized that they have a variety of national expressions, which can only contribute to enrich them.

In the economic sphere the Summit built on the idea that sound economic and financial relations should be based on the enhanced and balanced liberalization of trade and capital flows. In this direction, the more concrete outcome of the Summit was the agreement to launch negotiations for gradual reciprocal trade liberalization between Chile and Mercosur on one side and the European Union on the other.

The Rio Declaration, adhered to by all attending heads of State, underlines the common objectives agreed upon in the political, economic and human domains and outlines the general action plans to reach them. These general action plans have later been defined more specifically at Tuusula in late 1999 into 11 priority actions, as follows:

1. Strengthening of cooperation and consultation in international fora
2. Promotion and protection of human rights
3. Adoption of projects in response to the priorities established under the Peking Declaration with respect to gender issues.
4. Strengthening of cooperation on the protection of the environment and protection against natural disasters.
5. War on drugs and the start of the "Panama Action Plan"
6. Joint measures for the strengthening of the international financial system
7. The promotion of exchanges, principally for the creation of a business forum and the promotion of small and medium enterprises.
8. Cooperation on educational matters and superior studies, as well as research and technology development.
9. Creation of an EU-Latin America cultural forum

10. Promotion of joint initiatives in the area of the information society
11. Support to contacts between research and training institutes, as well as meetings of experts in the area of integration processes.

To better implement the Helsinki Action Plan, the European Commission intends to focus its more immediate actions on three priority concerns: the promotion and protection of human rights, the promotion of the information society and the reduction of social differences. These action lines seek to place the human dimension and civil society at the centre of the relations between the two regions.

These lines of action will be pursued through existing cooperation instruments, particularly through decentralized horizontal programs

The European Commission also contemplates sub-regional lines of action applicable to Bolivia as a member of the Andean Community. These actions aim at: 1) the strengthening of democratic institutions and the rule of law in the political domain: 2) a review of the interchanges and their perspectives for the future with a view to a possible post-SPG regime in the commercial area: 3) pursuit of the war on drugs and the prevention of natural disasters. in the cooperation area.

The other priorities defined in the Rio Summit will be integrated in the Commission strategies and planning for each country and region, taking account of the limitations and objectives of the Commission.

1.2 EU Sectorial Objectives

by HQ

1.3 EU Development Policy

The European Union's development policy has been defined in a November 2000 Statement by the Council and the Commission. This Statement sets out the principle that cooperation is an essential expression of solidarity and is consequently an essential feature of the Union's international activity. The European Union's development policy is conceived in terms of sustainable, equitable and participatory human and social development. It also asserts that the promotion of human rights, democracy, the rule of law and good governance are an integral part of this policy.

Given the current panorama of poverty situations in many regions of the world, a principal aim of EU development policy is to reduce poverty with a view to its eventual eradication. In this respect, it is considered that sustained growth is a necessary, but not sufficient condition, to reduce poverty. More focused, pro-poor actions are necessary to advance in this direction.

At the same time, it is recognized that the integration of the developing countries into the world economy is a precondition for their growth and sustainable economic and social development, and is therefore a precondition for poverty eradication.

Consequently, the EU's development policy envisages that financial support will have to be accompanied by enhanced investment and trading security, the objective in this case being

to help the partner country to benefit from globalization, to manage the impact of that process and to minimise its negative effects.

For its part, the Commission intends to begin the process of revamping its development policy on the basis of increased effectiveness by establishing close working liaisons with other international players in the development sphere.

Of prime consideration in this area will be the coordination that the EU and its Member States must establish with respect to their development policies and programmes in order to maximize their impact.

At the same time, better complementarity will be sought both within the Union, and with other donors, in particular in the context of country-by-country strategies.

The EU intends to concentrate its development cooperation efforts on six areas: 1) the link between trade and development, 2) regional integration and cooperation; 3) support for macroeconomic policies and the promotion of equitable access to social services; 4) transport infrastructure; 5) food security and sustainable rural development; and 6) institutional capacity building

2. Bolivia's Policy Agenda

The current Government's policy agenda was defined in the administration's consultation with civil society in 1997, at the beginning of the current period of Government. This consultation is known as *Diálogo Nacional I*. The policies then adopted were reasserted recently by President Quiroga, at the beginning of his remaining twelve month administration.

2.1 Policy Determinants

Actually, the country's policy agenda has been fairly consistent over the last twenty years as it is largely dictated by Bolivia's history, geography and economic and social conditions. Geographically, Bolivia is located at the centre of South America and is a natural link among the nations of the continent, particularly as it forms part of both the Amazon and the Plate river basins. At the same time, however, the topography of the western third of its territory is difficult, with two mountain ranges traversing it in a south-northwest direction. Bolivia is endowed with rich mineral resources, large forests and extensive grazing and agricultural land. Bolivia also has the second largest reserve of natural gas in South America, after Venezuela, a commodity which most of its neighbours need to develop their industrial base and serve their growing urban centres. In this respect its strategic geographical position acquires an added dimension.

Most of the country's resources, however, have not been developed fully because of a low population base, originally concentrated in the western mining region of the country. Additionally, a large proportion of the population has not been integrated into society for socio-political reasons dating back to colonial times and continued for over a century after independence. In spite of movements to change this situation during the past fifty years, large segments of the country's population still lack education, access to health and basic services and do not participate in national life.

This situation of social exclusion is a major cause of poverty situations in both urban and rural areas, which reduces even further the size of the country's internal markets and limits its overall development potential. Bolivia needs, therefore, to address this situation in its political, economic and social dimensions, if it intends to develop its economy and become part of the modern globalized world.

The existence of large gas reserves in its territory and large demand for the same poses a policy dilemma for the country. There is the risk that Bolivia may embark on a single product development strategy, which would limit the country's growth in the long term. Rather, Bolivia will have to pursue policies to bridge the gap between its potential in large strategic industries and services and the reality of its poor populations, small internal market and undeveloped industry. It will need a more balanced development base to attain sustained growth and address social imbalances.

2.2 The Political Agenda

The principal elements of the Government's policy start with Bolivia's commitment to consolidate its democratic institutions and processes and move from a representative form of democracy to more participatory mechanisms for political expression.

The country is committed to eliminate illicit activities, originating in or passing through its territory, and the principal activity in this area is the war on drugs with a significant reduction in illegal coca plantings.

Bolivia is also committed to continued reform of the Government's administrative structure, emphasizing its regulatory role and seeking a capable civil service form of organization.

In the international area, Bolivia regards the recovery of a direct sea access as a major tenet of its foreign policy. Bolivia lost extensive sea coast territory to Chile as a result of the Pacific War in 1879. Diplomatic relations with Chile have been suspended since the mid 1970's but economic relations between the two countries are strong and are thought to provide a basis for better political understanding in the future.

2.3 The Economic Agenda

Bolivia considers macroeconomic stability as a fundamental condition for economic growth and social development. Since 1985 it has pursued very prudent monetary policies and has adopted fiscal restraint as a major policy directive. The stability of the currency is also a major policy objective, and the exchange rate has been administered under a crawling peg regime, without major adjustments.

The Government is committed to improve the economic and social welfare of the country's citizens and, therefore, seeks to enhance economic activity, expanding opportunities especially for the more disadvantaged. It also seeks to provide the poor with education, health and basic services that will permit them to avail themselves of existing economic opportunities and to participate in the country's political, social and cultural life.

Bolivia has pursued policies to reform and liberalize its economic regime. Bolivia has opened up to trade with relatively low and uniform tariffs and exceptional non-tariff barriers. It has privatized its state enterprises and has reformed its banking sector and replaced the government sponsored pension scheme by a private, individually funded, pension system.

The country sees regional integration as a necessary condition to its own development in an increasingly globalized world economy. It supports agreements in this direction, emphasizing however the need to take account of existing asymmetries when incorporating individual countries into these regional agreements. Bolivia participates in the two major regional integration schemes. It is a founding member of the Andean Community since the early seventies and is an associate member, together with Chile, of the more recently established Mercosur. Its trading pattern reflects this situation, since % of its exports goes to Andean Community partners while % of its imports comes from the Mercosur region,

2.4 The Social Agenda

Since the early nineties it has been Bolivia's policy to aggressively address social inequality situations. During that decade important amounts of public investment funds were channelled to what was called "social investment". Water supply and sanitation projects were implemented, principally in the rural areas where primary education and preventive health services were also increased and improved. In urban areas greater access to health services was made available for the elderly, women and children. However, at present, social welfare indicators reveal that there is still a long way to go in this respect, even to reach conditions comparable to other developing countries of the region.

In 2001 the Government has adopted a Poverty Reduction Strategy (Estrategia Boliviana de Reducción de la Pobreza, EBRP), which translates into the country's overall development strategy for the coming fifteen years. This strategy has been developed in the context of the HIPC II foreign debt alleviation process, and envisages the use of approximately \$us 1700 million of non payable debt funds in pro-poor interventions to be executed at the municipal level over the referenced period.

The principal lines of action to reduce poverty indicators by half over the next fifteen years are outlined in the Strategy as follows:

- 1) expand opportunities for employment and income, by supporting and promoting productive capacity particularly among small, rural and urban producers.
- 2) develop capabilities, by improving the quality of primary and preventive health services and affording access to adequate housing.
- 3) increase the security and protection of the poor, particularly those more vulnerable such as women, children and the elderly.
- 4) promote social integration and participation, so as to strengthen the Decentralization and Popular Participation processes.

Additionally, the Strategy incorporates actions to generate more equitable conditions with respect to gender and in favour of ethnic groups and indigenous peoples. It also outlines actions for the sustainable use of natural resources and the preservation of the environment.

To effectively implement the Strategy, the Government also intends to build up its institutional structure and mechanisms. Measures to be adopted in this respect include:

- 1) establish transparent mechanisms for the allocation and management of funds.
- 2) promote the institutional strengthening of government organizations involved in the Strategy.
- 3) incorporate specific mechanisms for social control by civil society organizations.
- 4) fight corruption at all levels of government.

The more visible of the measures adopted so far in this respect have to do with the appointment of independent, professionally qualified individuals to the boards of directors of the Servicio Nacional de Caminos and the Servicio de Impuestos Internos.

Earlier, the Government had also set up the Directorio Unico de Fondos (DUF) as the sole government financial institution to channel public investment and international cooperation funds directly to regional authorities and the municipalities. Debt relief funds will be allocated to municipalities based on poverty criteria, so that poorer communities will receive proportionately more funds than less poor municipalities. Projects to be executed under the lines of action outlined in the Strategy are to be developed at the local level, depending on the community's perception of their most urgent needs.

An informal network of bilateral donors appraised the Strategy and concluded that the consultation with civil society, at the local and sectorial level, was a key positive element of the Strategy. The consultation was initially carried out in 2000 to collect society's concerns to incorporate into the Government document, and will be renewed periodically as established in the Ley del Diálogo Nacional to review the implementation of the Strategy and recommend necessary adjustments to the same.

The bilateral donors also regard as generally positive the decentralized character of the Strategy, but are concerned that in the short term difficulties in implementation may arise for two reasons. First, the DUF is currently headed by an interim chairman, has yet to complete its staffing at the operational level and still needs to fine tune its systems and procedures. Second, most municipalities are not prepared to assume the responsibilities to develop feasible projects, execute them and manage the funds allocated to them. Over time and given focused technical assistance actions, this situation may be solved, but in the meantime it can handicap the execution of the Strategy.

The medium and long term economic sustainability of the Strategy was another area of concern, since the projections for economic growth underlying the Strategy, around 5% annually, are thought to be optimistic. This concern has now extended to the financial sphere because even short term projections for economic growth this year have proven wrong. Recently the government admitted there may be no growth in 2001 and the macro picture is affecting the fiscal deficit which may reach 6% this year. Financing the fiscal deficit with internal borrowing is costly and may reduce funds available for public investment and expenditure in the strategic areas outlined by the Government.

A final concern of the donor community relates to an apparent lack of prioritization, focus and concreteness of the Government's proposed actions, but this concern was defused by Government assurances that the Strategy will evolve over time and can include more specific actions as necessary. The Government and the donor community agreed to develop some bench marks in this direction in the context of the preparatory work for the XIV Consultative Group meetings.

2.5 The EU's Potential Contribution

solidarity

political dialogue

policy objectives in relation to Latin America

complementary development aid,

technical assistance,

trade

investment

technology transfer

2. Political, Economic and Social Situation

3.1 Political Situation

Bolivia has enjoyed, for almost two decades, successive civilian, democratically elected governments. With the exception of the Siles Suazo administration, between 1982-1985, which had a populist left-of-centre tint, all other administrations have had a centre or right-of-centre political orientation. Basically two coalition groups have alternately held power. The MNR ruled between 1985-1989 and between 1993-1997, while ADN-MIR governed between 1989-1993 and now since 1997. Minor parties ally themselves temporarily with either group, principally based on expediency considerations.

In general terms Bolivia has advanced significantly, during this twenty year period, in strengthening its democratic processes and institutions. Impartial electoral boards have been appointed by Congress to oversee elections in transparent, rigging-free processes. Municipal elections are now held to elect mayors and city council members in all municipalities. Channels have been instituted for participation in certain aspects of Government by representatives of civil society.

To provide a financial base for citizen participation at the local level, public funds are also now distributed for administration by the municipalities. (Ley de Participación Popular). Additionally, both in 1997 and in 2000 consultations were held with civil society on the actions that need to be carried out in the political, economic and social areas and in individual sectors. (National Dialogue I and National Dialogue II). The results of these consultations were largely incorporated in the Government Program for 1997-2002 and in the Estrategia Boliviana de Reducción de la Pobreza adopted in 2001.

In the area of the promotion and protection of human rights, successive administrations have had laws approved in Congress protecting women's and children's rights and the institution of the Ombudsman (in the case of Bolivia, an Ombudswoman) was established,

with a good track record of interventions in the brief time of its operation. The Penal Code was reformed with an emphasis on due process and transparent prosecution.

Other judicial processes are also expected to benefit from the establishment of the Consejo de la Judicatura, as the administrative arm of the Judicial System and also charged with the induction of recognized professional jurists to preside over the courts at different levels, as well as to enforce sanctions in cases of malpractice. While this was a positive development, its implementation in practice is encountering difficulties and strong opposition on the part of some judges and court personnel.

The Tribunal Constitucional was also set up as the proper judicial instance for review of actions, public or private including legislation that may be contrary to the country's Constitution which embodies basic human and citizen rights.

Currently, Bolivia is entering a pre-electoral period with elections scheduled for June 2002. This fact clouds the political panorama inasmuch as different parties have already begun jockeying for positions and floating electoral trial balloons on different issues.

Additionally, the present political situation is characterized by a weakened government coalition, after the departure of a minor partner (NFR) in 1999 and constant threats of similar conduct by UCS, the third most important member of the coalition. This has resulted in difficulties by the current Administration in getting legislation and important appointments approved by Congress. Also within the ruling party, ADN, there are open divergences, more based on personality differences rather than on substantive issues, that are hampering the day to day business of government.

The opposition, led by the MNR, has repeatedly tried to capitalize on this situation and went as far as proposing, last May, the resignation of the President, who they claimed was not providing the required leadership to face the country's difficult economic situation. In August, however, the MNR's petition became a non issue as President Banzer resigned for health reasons, after being diagnosed lung and liver cancer. Vicepresident Jorge Quiroga assumed the Presidency on August 7th amidst expressions of optimism for change on the part of most political analysts.

Some optimism warranted.

Electoral board nominations,

campesino conflict solved, although at high cost.

A kind of political truce with the opposition.

A renewal of trust. .

Challenges remain: economic crisis and corruption.

But greater in-fighting within ADN, other potential conflicts building up.

Some tough decisions on fighting corruption.

3.2 Social Conditions

Miners, campesinos, poor communities, indigenous groups.

Unemployment

Education

Health

Basic services

Social Exclusion - INDICATORS!!!!!!

Social and racial tension

Pension system

In the social area, for the past two years the country has been constantly convulsed by social protests from different groups, ranging from school teachers to hospital staff, campesinos, bank debtors, and retired civil servants. Demands from these and other sectors have twice this year led to road blockages and confrontation with government forces, in April and July. The root cause of social unrest is the economic situation, which has resulted in large unemployment, reduced incomes and loss of economic opportunities. However, social sector demands, usually drafted by extremist spokesmen, often go beyond reasonable claims that make for added difficulty in the solution of conflicts. The Catholic Church has tried to act as an intermediary for the resolution of conflicts, including that with the opposition over the nomination of members of the electoral boards. In this respect the Church was successful in defusing many explosive situations, but it is hard to predict how long the Church can continue to assume this role credibly in the face of non-compliance with agreements by the parties in conflict.

There is, therefore, great uncertainty with respect to political developments and the social situation.

3.3 Economic Situation

Traditionally Bolivia's economy was based on mining, principally of tin, silver and zinc. However in the last three decades productive activity has diversified to oil and gas production, large scale agriculture and agro-processing industries, together with some enlargement of the services sector. Also, within the past two decades the country adopted an open economy model reducing tariffs and other barriers to trade, reforming its financial sector, restructuring fiscal finances and pursuing prudent monetary policy management.

During the 1990's the country embarked on a privatization program which is now basically completed, with no major enterprise currently under government control. Actually Bolivia's privatization acquired special characteristics in the mid-nineties when the major oil, telecommunication, energy and transport companies were offered to potential investors. At

that time, the Government sought to enlarge these enterprises by having potential buyers make investment commitments equal to the value of the enterprise in order to acquire 51% of their stock and obtain management rights. The remaining 49% remained the property of Bolivian citizens in a fund administered by the AFPs (private pension fund administrators).

This plan has worked well in the oil and telecommunications sectors, both of which have expanded significantly in the last three years. The plan's success in developing the energy sector was milder and its effect on enlarging the transport companies was negligible. Then also, while it is clear that privatized companies are now run more efficiently, it is questionable whether they are more profitable, since reported annual returns have averaged around 6% of net worth to the detriment of minority Bolivian shareholders.

All of these developments have allowed the country to diversify its exports and absorb the employment and consumption demands of a growing population (2.5% annual growth) and attain growth rates averaging 4% per annum during the past decade, while maintaining fiscal and monetary stability. This situation has changed drastically in the past three years.

PIB has dropped

Unemployment is a problem

Informal sector has grown

Fiscal situation getting out of hand

Exports did well in 2000 but have stagnated in 2001

Financial system in problems

Private sector laden with debt, drop in sales

agricultural areas under cultivation have been reduced, industrial plant closings are reported weekly, the services sector is faltering, and exports are falling behind previous levels while unemployment grows and bank credit arrears escalate.

As of the end of 1999 Bolivia's economy remained one of the smallest in the Continent and comparative data with other countries reveals the fragility of advances made in previous years.

This panorama was allowed to deteriorate in 2000, as the Government delayed in acknowledging the seriousness of the situation and made timid attempts to address the depressed state of the economy. The actions that have been taken so far, limited to proposals for refinancing corporate debt and poorly funded emergency public expenditure programs, are not having any significant impact in spurring growth.

Additionally, internationally, Bolivia will soon begin to feel the effects of the crisis in neighbouring Argentina. Already the Boliviano has devalued more rapidly this year than before, to keep pace with Brazil's rapid devaluation of the Real. If Argentina were to go down the same path, the pressure on the Boliviano would be much greater and devaluation is bound to affect production costs and the cost of living in a country which imports most of its consumer articles, raw materials and capital equipment. This would certainly lead to further depressed conditions in the economy.

Yet, the Government's pronouncements, in the face of the most serious economic slump in twenty years, refer to Bolivia's macroeconomic strength (years of monetary stability and fiscal prudence) to withstand such possible adverse effects. It is questionable that macroeconomic balances would be enough in this case, since at present the main problem is a marked lack of confidence in the basic dynamics of the economy, which can only be aggravated by any indications of potentially significant exchange rate adjustments.

The new President, Jorge Quiroga, is counting on a 12 Month Action Plan, which covers political and social issues as well as economic measures, to regain public confidence in his administration and in its capability to face problems. This is a key ingredient in any effort toward economic recovery. The President also counts on international cooperation commitments to an Emergency Employment Program to generate income and spur demand.

Still, Bolivia's immediate economic future lies in the development of the oil and gas industry. Proven gas reserves have quadrupled in less than two years to make the country the second largest holder of gas reserves in South America, after Venezuela. Gas exports are expected to reach a value equivalent to \$us 600 million by 2005, and the principal buyer, Brazil, is in even greater need of strategically available Bolivian gas to reduce its energy deficit. There are prospects of gas exports to Mexico and the West Coast of the United States. Gas production is also expected to receive a boost from the expansion of thermoelectric energy generation and the development of petrochemical industries.

Gas-based projects

However, gas and telecommunications will not develop the economy. They can contribute to overall growth, but are not labour intensive, nor do they have significant multiplier effects. Internal market needs to be strengthened, bringing into the market large segments of population now at the poverty line. Exports need to be promoted, particularly for processed products. Foreign investment also needs to be promoted.

Finally, the greatest obstacle to economic well being is the condition of poverty affecting almost two thirds of its population.

Poverty

INDICATORS !!!!!!!

4) OVERVIEW OF PAST AND ONGOING EC COOPERATION

The main instruments of EC Cooperation used in Bolivia come from two sources:

1. The ALA (Asia - Latin America) Lines of the General Budget of the European Union that finance Technical and Financial as well as Economic Cooperation, both at the national and at the regional level.
2. The Food Security Budget Line.

Other Budget Lines financing Development Cooperation activities in Bolivia are NGO Co-financing, Environment, Tropical Forests, Human Rights and Democracy, Emergency Aid.

Grant financing averages 40-50 Meuro/year, mostly committed under Technical and Financial Cooperation and Food Security.

The main purpose of the Bolivia Country Strategy Paper is to bring the whole range of development activities carried out in Bolivia under a single and comprehensive framework, consistent with EU and GOB Policies.

The Country Strategy Paper constitutes an assessment by the Commission of the development potential of Bolivia and of the constraints to this development.

4.1 Past and ongoing EC Co-operation: results analysis, lessons and experience

Development Co-operation is a fundamental aspect in the relations between the European Union and Latin America.

The involvement of EU Co-operation in Bolivia can be summarised into three phases: Past, Present and Future. The Future is described in Chapters 5 and 6.

The Past (before 1998)

EU Co-operation has been active in Bolivia since the mid '70s. From its initial support to NGO Projects, the Co-operation then moved during the '80s to Food Aid and Technical and Financial Cooperation, aiming at poverty reduction. The main programmes were in integrated rural development, mainly in the Altiplano with the "Programas de Autodesarrollo Campesino (PACs)" and in flood protection. In this sector, the Commission supported the preparation of the Master-Plans for the Pirai River Valley and for the Lake Titicaca Basin (of regional interest to both Bolivia and Peru), then co-financed civil engineering works for protection against floods, thus preventing major disasters.

The assessments of EC interventions by the beneficiaries pointed out the positive impact of Flood Protection Works in the economically active areas of Santa Cruz Department and in the Altiplano Region.

In 1994 the European Commission and the Bolivian Government signed a first Memorandum of Understanding and agreed to concentrate EU aid into four areas: fight against poverty, modernisation of the State, private sector development and regional integration.

During this period, the EU evolved progressively from providing direct food aid to food security programmes. Until 1993 Bolivia received modest quantities of food aid. From 1995 the EU has only financed food security operations on a cash basis.

The Present (1998-2000)

In the last years, there have been interventions in the Water / Sanitation, Education and Health sectors. The EU also started to support the Alternative Development Strategy of the Bolivian Government, both in the coca growing region of the Chapare and in the work-force expulsion zones of the Altiplano and High Valleys of Cochabamba.

As far as the Food Security operations are concerned, these have benefited, in general terms, the target population living in conditions of "food insecurity" either through projects implemented at the Municipal level, in the spirit of the Popular Participation and Administrative Decentralisation Laws, or through sectorial programmes managed by the Ministry of Agriculture. The Programa de Apoyo a la Seguridad Alimentaria (PASA) constitutes the main food security operation. PASA is managed by the Government and consists of three components: Institutional Support, Investments and Microfinance. A smaller operation is financed directly through NGOs.

EVALUATIONS AND LESSONS LEARNT

In 1995 there was a Country Evaluation of 20 years of cooperation between the European Commission and Bolivia. There is also a mid-term Evaluation in all EC main Programmes (Technical and Financial Cooperation, Food Security) and in some cases there is an ex-post evaluation, always carried out by external consultants.

Most evaluations point out that EC Cooperation usually fulfils the objectives of the Financing Agreements in the different sectors / areas of intervention, with little or no conditionality attached to the aid granted to Bolivia. In some cases (PACs) there was a tendency towards fairly expensive and complex solutions.

A constant comment found in most reports has to do with the complexity of EC procedures and on the fact that EC Cooperation is, usually, slow. The little coordination among different cooperation instruments used by the EC in its cooperation with Bolivia has also been pointed out and shall be taken into account in the design and implementation of future interventions.

1995 Country Evaluation
 1997 PRODIZAVAT
 1997 SEARPI
 1998 PACS
 1998 PROMMI
 2001 PASA
 2001 PRAS Beni
 2001 APEMIN
 2001 PRAEDAC (to be carried out)
 2001 PRODEVAT (to be carried out)

INSTRUMENTS AND MAIN POLICY AREAS

This table summarises the EC interventions according to the Instruments used per Policy Area:

	Main Policy Areas		
	Rio Summit		
Instruments	EU-Lat. America Cooperation	Regional Integration	Development / PRSP
Technical and Financial Cooperation /MoU	-	X	X
Econ. Coop./MoU	X	-	X
Regional Coop./ Technical and Financial Cooperation	-	X	-
Food Security	-	-	X
NGOs	-	-	X
Environ./Trop. Forests	-	-	X
Human Rights	X	-	-
Science & Technology	X	-	-
ALIS / Informatics	X	-	-
Horizontal: ALFA	X	-	-

URB-AL	X	-	-
ALURE	X	-	-
AL-Invest	X	-	-

4.2 Information on EU Member States Cooperation Programmes

Bolivia receives development aid both from bilateral and multi-lateral Donors. Some EU Member States have important bilateral aid programmes that are summarised in Annex XXX (use **ACH summary table for EU Member States**). Almost all sectors are covered by EU aid.

4.3 Information on Cooperation Programmes of other donors

Multilateral and other Donors active in Bolivia are the Interamerican Development Bank, the World Bank, the Corporación Andina de Fomento, the UN Agencies, US Aid, Japan, Canada and Switzerland (**ACH establish a table like the EU one**).

5) EC RESPONSE STRATEGY

5.1 Principles and Objectives for Co-operation

The country strategy for Bolivia, in keeping with the Commission's objective of developing a wide range of relationships with the Latin American countries, has two basic converging directions: a Regional (= Latin American) Theme and a Country Specific (=Bolivia) Theme.

The EC response strategy spelled out in this Chapter for Bolivia rests upon two other main themes / determinants: EU Policies and EU-Latin America Dialogue.

5.1.1 The EU Policies / Regulations Theme (Chapter 1 should include this paragraph)

EU Treaties (Rome-Maastricht-Amsterdam-Nice) Objectives

EU Development Policy (summary in Annex/Table)

EU Trade Policy in the context of OMC negotiations

EU Regulations concerning Budget Lines:

- Technical and Financial + Economic Co-operation: N° 443/92, evaluation ongoing, to be reviewed in 2002.
- Food Security: N°
- Environment
- Tropical Forests
- NGOs
- Etc.

5.1.2 The EU-Latin America Dialogue Theme

Rio Summit Objectives

5.1.3 The Regional Context Theme

The first strategic direction seeks to reach the common objectives defined, together with the partner countries, in the Rio Summit process, aimed at consolidating and strengthening relations between the European Union and the Latin American region in a variety of fields, such as: political, economic, cultural, educational, scientific and other.

In this respect, in spite of the small size of its economy and relative minor weight in continental affairs, Bolivia can be considered a key participant in this process. Its commitment to democratic practices pre-dates those of other nations in the Continent. Its record of economic stability and implementation of structural reforms is one of the most consistent in the region. The country participates in the two regional accords, in the Andean Community as a full founding member, and in the Mercosur as an associate member. The country's geographical position is a crossroads for the North-South and East-West articulation of the South American continent. Bolivia has large energy resources that will permit the development of its own industry, but also those of its neighbouring countries, Brazil being a prime customer for the country's gas reserves.

The EC response to its objectives in the framework of the Rio Summit with respect to Bolivia must take account of these opportunities for the country's effective participation and contribution to this process. In this context EC relations with Bolivia should involve all the elements of the dialogue that is carried out with the region as a whole. A number of these elements can be developed via general cooperation programmes for the region while some will be the subject of bilateral programmes specific for Bolivia.

In the area of bilateral cooperation, initially, the Commission is planning support in the road infrastructure sector. Bolivia has an international highway connection with Chile and Peru, and their Pacific Ocean ports, that runs through Bolivia's main cities: La Paz, Cochabamba and Santa Cruz. This international highway requires the completion of the Santa Cruz-Puerto Suarez section to complete a continental link, inasmuch as Puerto Suarez is on the Brazilian border, where there exist road connections to Sao Paulo, other Brazilian cities and ports on the Atlantic Ocean. Puerto Suarez, and its neighbouring river ports Puerto Aguirre and Puerto Busch, will also afford ocean to ocean connections via the Paraguay and Paraná rivers to Argentine sea ports on the Atlantic.

EC joint financing, with the Interamerican Bank, other donors and possibly private contractors, of the Santa Cruz-Puerto Suarez highway will not only benefit the agricultural activity in the eastern region of Bolivia and increased internal trade, but will permit easier and less costly intercontinental transport flows.

In the future, as commercial flows increase and possibly Mercosur and the Andean Pact come closer in their overall relations, Bolivia can also become a hub for telecommunications and distribution centres. In this respect the EC response should contemplate support to elements in the country contributing to the development of the information society and e-commerce.

Regional integration

Integration to the world economy.

The development of enhanced reciprocal trade and investment relations between the EU and Latin America will continue to be supported through regional programs such as AL-INVEST and ALURE. Bolivia participates in these programmes and will continue to do so. To further the effectiveness of these programmes, the Commission will continue to work closely with the local AL-INVEST operator, the Eurocentro established in Santa Cruz.

Additionally, in the same direction, the Commission is planning to implement an Economic Cooperation Programme for Bolivia, with some specific elements to develop the country's competitiveness and its potential for foreign investment. It is recognized that business encounters sponsored under regional programmes tend to attract businessmen more interested in the larger economies of the region, bypassing potential opportunities in the smaller countries. An Economic Cooperation Program would contribute to identify these opportunities more specifically and prepare entrepreneurs to present them to potential partners or investors.

Continuation of the Andean GSP scheme

Horizontal educational, social and scientific programmes

Political Dialogue on democratic institutions and processes, and on human rights

5.1.4 The Country Specific Theme

The second strategic direction relates to Bolivia's condition as one of the poorer nations in the Continent and the need to support its poverty reduction strategy and overall development efforts. In this direction, the Commission intends to use technical and financial cooperation instruments as well as food security programmes and NGO projects to channel assistance to this end.

rural development

improve conditions in peri-urban areas

work at the local level

develop project execution capabilities

forestall adverse social developments – alternative development – work force expulsion zones

continue work with NGOs

coordination

coherence

complementarity

New Relationship Framework

Directorio Unico de Fondos

Política Nacional de Compensación

5.2 Priorities and specific objectives for co-operation

The **Goal** of EC Cooperation with Bolivia is to improve the access of socially and economically marginalised communities to better living conditions and to enhance their economic opportunities.

The **Country Strategy Purpose** is to support the policies of the Bolivian Government aiming at assisting the target populations in the retained priority areas.

The **Priorities** of the Country Strategy are: Poverty Reduction; Economic Regeneration; Regional Integration and Cooperation.

The Log. Frame Matrix presents a summary of the above and the relations of the Country Strategy with the three main instruments / Budget Lines used in Bolivia: Technical and Financial Co-operation; Economic Co-operation; Food Security. The relevant links and justifications with regard to the EU Development Policy (Nov. 2002), with the PRSP and with the Rio Summit Conclusion are also presented in the Matrix.

5.2.1 Memorandum of Understanding

The Commission and the Bolivian Government signed in October 2001 the Memorandum of Understanding that summarises the joint orientations of EC Co-operation with Bolivia relative to Technical and Financial Co-operation and Economic Co-operation. The two parties agreed to follow the guidelines and objectives spelled out below:

- Regional Physical Integration

Establish a trans-oceanic corridor, in principle the one linking Brazil, through Bolivia, to Chile (and vice-versa) by constructing an all weather road.

- Water and Sanitation

Provide access to drinkable water and to sanitation systems for disadvantaged and poor communities, with a view to the sustainability of the investments.

- Alternative Development

Support sustainable, long-term economic development of areas both of illicit coca cultivation and of labour-force expulsion. There will be a strong emphasis on non-agricultural productive activities.

- Economic Co-operation

Strengthen bilateral trade and investment relations between the European Union and Bolivia in the context of the mutual interest of the two parties.

5.2.3 Horizontal Themes

The Commission will ensure that the Horizontal Themes spelled out in the EU Development Policy are duly taken into account in the implementation of the Bolivia Country Strategy as well as in the design and implementation of the Programmes that will translate the Strategy into concrete action. Particular attention will also be paid to conflict prevention in areas of implementation of Alternative development Programmes.

5.2.4 Food Security

The Commission plans to fund a second phase of PASA from 2003 onwards. Its formulation will take into consideration the Poverty Reduction Strategy, the experience of the food security operations from 1996 to 2000 and the need to enhance the focus on the actual target group. NGO projects under the Food Security Budget Line are expected to be reduced.

5.2.5 Other instruments / Budget Lines

As far as these are concerned, the Commission will go along the following lines:

- NGO Co-financing: The Commission wishes to support NGO projects outside the Bolivian “Eje central” (the cities and suburbs of La Paz / El Alto, Cochabamba, Santa Cruz), in sectors consistent with the Poverty Reduction Strategy of GOB and with EU Development Policies. In general, European NGOs should strengthen local / municipal institutions, both public and private ones.
- Environment / Tropical Forests: The Commission wants to promote intra-regional financing of an Amazon Eco-System Conservation Programme, as a joint collaboration effort of the respective Governments and the EC Delegations of Bolivia, Brazil and Peru. The Commission wants to avoid financing several small and unrelated projects in Bolivia.
- Science and Technology (S&T): This Budget Line should support research into areas / subjects that are in line with the main Cooperation activities of the Commission in Bolivia (e.g.: Aflatoxin / Brazil nut and Food Security).
- Horizontal Programmes (AL-Invest, ALFA, URB-AL, ALURE, ALIS, Synergie, etc.): Once the Deconcentration process is concluded, the EC Delegation in Bolivia will take a pro-active role and will involve itself in the design of project proposals with the local counterparts. The management of the Horizontal Programmes will continue to be, for the near future, responsibility of Headquarters services.
- Regional Cooperation in Latin America: The participation of Bolivia to regional activities will depend on the progress of intra-regional debate on integration, in particular between the Andean Pact and Mercosur. The Commission will support these initiatives, according to the demands both at regional and at the national level. In particular, the Commission will look into the possibility of associating Bolivia to initiatives concerning within Mercosur (macro-economic coordination, harmonisation of statistics, etc.).

In general terms, the Commission will also establish closer links among different co-operation instruments used in Bolivia, as between Technical and Financial Cooperation and NGOs or Food Security and S&T.

5.3 Coherence

The main EU Policies relevant to Bolivia are those presented in 5.1.1. **(HQ does it in a similar format for all CAN countries).**

EU policies relevant to Bolivia are those concerning Development Assistance, Trade and Drugs. The Commission designs its programmes jointly with the Bolivian Counterparts within the guidelines and orientations of these policies.

It will be important to fine-tune Alternative Development Programmes with the evolving debate concerning Drug Production and Narco-traffic Policies. Another theme that deserves particular attention is the link between trade and development, a priority of the EU Development Policy. The Commission will ensure the linkage of Technical and Financial Cooperation and Economic Cooperation, as relating productive components of, say, rural development / food security programmes with national, regional and international markets.

5.4 Complementarity within the EU and with other Donors

The Commission and Member States Co-operation, as well those of other Bilateral and Multilateral Donors, fit within the Co-operation Matrix of the Bolivian Government (**GV provide Annex**). The latter has the leading role in ensuring that proper Donor Co-ordination takes place.

The Commission, both at the level of Headquarters and in Bolivia through its Deconcentrated Delegation, will continue to promote intra-EU co-ordination along the orientations of the European Council and the guidelines agreed upon by the EU Member States and the Delegations in March 2001 (Annex).

The Delegation and the EU Member States Embassies in Bolivia have established a coordination system and are advancing towards closer links along the whole of the Programme / Project Cycle, sharing information on the identification and implementation of their respective Programmes.

IMPLEMENTATION MECHANISMS

The Commission is planning to move the implementation of its development cooperation activities towards sectorial programmes under the responsibility of the local counterparts, if and when there are sound sectorial policy frameworks and effective institutions that ensure appropriate and honest management. There are already some sectors (food security) where this is being implemented.

In other sectors (road construction), conditions are not yet mature. Therefore, until these conditions are fulfilled, moving to a full sector programme approach would risk inefficiency and possible misuse of development aid.

The Food Security Programme will thus continue to work as a sectorial programme through decentralised Government channels, with particular regard to the Municipalities. The main food security operation – PASA, a programme already fully integrated into the Government budget and management systems – will continue to be implemented through Ministries / Centralised Institutions (sectorial or vertical interventions) or through the Municipalities. The possibility of involving NGOs more directly in the implementation of the programme will be explored.

As far as Technical and Financial Cooperation is concerned, the Commission will establish new programmes with an “evolutive clause” that foresees a move to a sector programme system once the conditions exist.

6) Work Programme 2001-2006 (Programmable instruments)

The strategic response outlined above in Chapter 5 will be implemented in the context of the agreements between the Bolivian Government and the European Commission. The two parties have defined the main elements of their Co-operation for the period ending in 2006 and formalised their agreement by signing two basic documents:

- The Framework Agreement that sets the mutually recognised standard procedures (Contracts, Tenders, Technical and Financial Cooperation Programmes).
- The Memorandum of Understanding that sets 4 areas of concentration for 126 Meuro of EC aid to Bolivia for the 2001-2006 period.

The Commission and the Bolivian Government will jointly design the new Technical and Financial Cooperation and Food Security Programmes, taking into account the Framework Agreement and Memorandum of Understanding and the GOB Policies most relevant to Development Co-operation: the Poverty Reduction Strategy and the “Nuevo Marco de Relacionamento”.

The EC Delegation in Bolivia will operate under the new and challenging context of Deconcentration and, with the presence of Sectorial Specialists, will take active part to the Donors to Government and intra-Donors political debates surrounding the relevant pieces of development, economic and social legislation.

From the Sectorial Orientations summarised in 5.2 above, the Commission and the Bolivian Government will jointly define concrete programmes, one per Specific Objective as a norm (see Log. Frame Matrix).

Out of a total budget of 126 Meuro for the 2001-2006 Programming, as agreed upon in the Memorandum of Understanding, the indicative resource allocation per sector is:

- Regional Physical Integration: 45% or 50-55 Meuro. A single contribution to the construction of one part of the Santa Cruz – Puerto Suarez road. This is the missing link of the Atlantic to Pacific corridor, allowing the year-round east-west connection of Bolivia and Chile to Brazil and of the Atlantic to the Pacific.
- Water and Sanitation: 35% or 40-45 Meuro. A single, sectorial programme.
- Alternative Development: 15% or 18-20 Meuro. The main Programme (12 Meuro, 6 years) will be identified for the Yungas illicit coca production zone, whereas there will be second phases for two ongoing (at the end of 2001 – early 2002)

Programmes: PREADAC, in the Chapare Region, and APEMIN, in the labour expulsion zone of the depressed mining industry of Western Bolivia.

- Economic Co-operation: 5% or 6 Meuro, partly going to the Bolivian component of Horizontal Programmes, partly going to a Bolivia country-specific programme.

Food Security (= PASA II, 2003-2010): 50 – 100 Meuro. GOB and the Commission will negotiate further assistance in this Focal Area during 2002-2003, along the PRSP guidelines and the orientations of the above 5.2.6.

Other Budget Lines: it is not possible to provide approximate amounts. The NGO Cofinancing averages 6-8 Meuro/year and it is not likely to change much.

7) Annexes

THE EUROPEAN COMMUNITY'S DEVELOPMENT POLICY						
FOCAL AREAS	I) Link between trade and development	II) Regional integration and cooperation	III) Support for macro - economic policies and promotion of equitable access to social services	IV) Transport	V) Food security and sustainable rural development	VI) Institutional capacity building
HORIZONTAL ASPECTS	Promotion of human rights					
	Equality between men and women					
	Children's rights					
	Environmental dimension					
Other aspects	Spreading information and communication technology in LDC					

LOGICAL FRAMEWORK MATRIX

GOAL	To improve the access of socially and economically marginalised Bolivian communities to better living conditions and to enhance economic opportunities.					
STRATEGY PURPOSE	To support the policies of the Bolivian Government aiming at assisting the target population in the retained focal areas.					
PRIORITIES	Fight against poverty, Poverty reduction		Economic regeneration		Regional integration and cooperation	
SPECIFIC OBJECTIVES	Promotion of equitable access to social services	Food security and sustainable rural development	Link between trade and development	Economic cooperation	Transport infrastructure	Strengthening regional networks
OWNERSHIP (PRSP compatibility)	Chapter xx	Chapter xx	Chapter xx	Chapter xx	Chapter xx	Chapter xx
	EU Policy Base					
Rio Follow-up	-	5	7	5,6	-	8,9,10,11
EU Developm. Policy	III	V	I	I	I, IV	II
EC Instruments:	TFC, FS	TFC, FS	GSP, ECOP	ECOP	TFC	LA Horizontal Programmes
I) Ongoing Programmes	HIPC Trust Fund (14 M €) Health Tar. Potosí (25 M €) PRAS Beni (6 M €) PRAS Santa Cruz (25 M €) PRAS Pando (6 M €)	PASA I (80 M €) PRODEVAT (6 M €) APEMIN I (5 M €) PRAEDAC I (19 M €)	Components of TFC Programmes	Eurocentro ALINVEST		Pilcomayo river basin master plan (12 M €)
II) Planned Programmes	Water and Sanitation (30-40 M €)	PASA II (50-100 M €) Yungas I (12 M €) APEMIN II (3-4 M €) PRAEDAC II (4-5 M €)	Ad hoc Bolivia Programme (4-6 M €)		Santa Cruz – Puerto Suárez Road (40-50 M €)	@LIS
Budget line, if relevant	B 7-310	B 7-620, B 7-310	B 7-311	B 7-311	B 7-310	B 7-310, B 7-311
HORIZONTAL ASPECTS	Promotion of human rights					
	Equality between men and women					
	Children's rights					
	Environmental dimension					
	Spreading information and communication technology in LDC					

TFC: Technical and Financial Cooperation

FS: Food Security

ECOP: Economic Cooperation