



# Country Study for Japan's Official Development Assistance to the Republic of Bolivia

- *Towards Increased Human Security and Enhanced Productive Capacity* -

ボリビア国別援助研究会報告書

- 人間の安全保障と生産力向上をめざして -

総論編

February 2004

Institute for International Cooperation  
Japan International Cooperation Agency

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03-22

**Country Study for  
Japan's Official Development Assistance to  
the Republic of Bolivia**

*— Towards Increased Human Security and Enhanced Productive Capacity —*

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Japan International Cooperation Agency**

This report is prepared based on the discussion and findings of the Country Study Committee on Japan's Official Development Assistance to the Republic of Bolivia by the Japan International Cooperation Agency (JICA). The views expressed in the report are those of the members of the Study Committee and do not necessarily reflect those of JICA.

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## Foreword

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The Japan International Cooperation Agency (JICA) has been pursuing a development approach that is designed to be better suited to the stages of development and specific conditions in each developing country. The idea is based on the recognition that, while it is increasingly important to address global issues such as environmental degradation, population growth, and the food problem, developing countries need assistance that is fine-tuned to their respective characteristics as well as to their stages of development. To explore the optimal approach for Japan's assistance to these countries, JICA has to date organized a total of 42 country-specific study committees on Japan's official development assistance (ODA) and compiled reports on the results. Among South American countries, Bolivia is the third country that JICA studied in terms of assistance, following Brazil and Peru.

Now that 50 years have passed since the 1952 revolution that marked the threshold of Bolivia's modern history, Bolivia is again at a major turning point in its society and economy. Due to prolonged economic stagnation, income disparities among the people have become more serious, and it is required to reexamine the effectiveness of the PRSP (Poverty Reduction Strategy Paper), which focuses on decentralization and people's participation. To maintain its governance, the second Sanchez Administration (Aug.2002-Oct.2003) had tried to conclude "pacts" with newly emerging groups, such as groups of indigenous people, who account for the majority of the population in Bolivia. As part of this effort, the Sanchez Administration was trying to further promote dialogues with the people.

Bolivia also has significance in terms of international cooperation. It was chosen as one of the pilot countries of CDF (Comprehensive Development Framework) which was initiated by James D. Wolfensohn, President of the World Bank, in 1998. In 2001, Bolivia formulated PRSP, which is defined as an instrument for implementing the CDF principles, and was one of the first to start the process of revising it. In addition, Bolivia is a country to which Japan has provided extensive assistance in various areas for a long period of time.

This study committee consisted of the chairman, Dr. Toru Yanagihara, Professor of Takushoku University, other eminent members and advisors, with a support of a task force composed of JICA staff members, and the secretariat, which was responsible for planning and management. Meetings were held ten times. Field surveys were conducted for the collection of information in April 2003 and for the exchange of opinions in September 2003. In September 2003, the study committee held an open seminar in Tokyo to present the study results and to hear opinions from the parties concerned. The results of these discussions are included in this report.

In October 2003, a dispute over natural gas exports led to a riot and a change of government in Bolivia. Because this report is mainly based on information collected up to September 2003, it does not fully reflect a detailed analysis on the Mesa Administration, which was established in October subsequent to the collapse of the Sanchez Administration. However, despite the change of

government, we believe that the findings and suggestions in this report are valid as basic perspectives on Bolivia's development and future directions for Japan's cooperation to Bolivia.

We hope that this report will prove useful to both policy makers and practitioners of assistance program for Bolivia.

Finally, we would like to take this opportunity to express our sincere gratitude to the chairman, members, and advisors, as well as the organizations concerned, for their tireless efforts and support in compiling this report.

February 2004

**Sadako OGATA**

*President*

*Japan International Cooperation Agency*

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## Preface

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Bolivia faces a grave problem: reorganization of the political and economic system that, from a historical perspective, has lasted for the past 50 years following the Revolution, or for at least 20 years after the reestablishment of democratic polity. The gravity of the situation was fully revealed in the collapse of the government in October 2003, which took place following the spread and radicalization of antigovernment movements since the beginning of 2000. Because the required reorganization is unlikely to be achieved with a mere change of government, there will likely persist many uncertainties in the search for a new political and economic system. These uncertainties should be squarely kept in mind when Japan considers the future direction for its assistance to Bolivia.

In presenting its viewpoints on developmental tasks and prospects, this study committee endeavored to address the fundamental question of the lack of national integration and to present perspectives and goals of future development meaningful for the majority of Bolivian people faced with uncertain prospects for the future, being placed in the middle of economic stagnation and social and political confusion, which have persisted since 2000. Our discussions focused on fundamental factors for understanding Bolivia—the racial, cultural, and regional divisions in Bolivia’s society; the disconnection between macroeconomic growth based on the development of natural resources and the creation of employment opportunities, and the gap between the official, legal, political, and administrative principles and the actual operations and practices. Based on the recognition of these underlying conditions as well as current situations, the committee decided to place priority on the improvement of “livelihood security” at the local level and on the attendant challenge of establishing and strengthening “local systems” for coordination and governance among relevant actors and stakeholders in public and private sectors.

We propose that Japan’s assistance to Bolivia aim not only to ensure “livelihood security” but also to contribute to the “enhancement of productive capacity,” a central issue for long-term development. “Local systems,” when properly established and empowered, are expected to provide an effective institutional basis for achieving both of the developmental objectives. On the question of management of aid bureaucracy, the committee has emphasized a drastic and rapid transfer of decision-making authorities from the Tokyo headquarters to local offices in the formulation, implementation and evaluation of policies, programs and projects. This proposal derives from the dual purpose of being able to operate at the municipal level in collaboration with grass-roots actors and to engage effectively with the central government and other donors in policy dialogue and aid coordination. These tasks will inevitably entail relying more heavily on local expertise in the administration of Japan’s ODA.

The emphasis we have placed on “livelihood security” and “local systems” traditionally has not received wide acceptance in the Japanese development community. However, we believe that it is appropriate to focus Japan’s assistance on such objectives and systems, because they represent only developmental goals that the majority of Bolivian people can relate to under the condition of

lingering uncertainties at present and into the foreseeable future. This new viewpoint will likely entail wide-ranging and drastic changes in the system of formulating and operating Japan's assistance programs. We hope that the current focus on strategy and reform of Japan's ODA in general will be applied to the concrete case of Bolivia.

Lastly, I would like to add my personal opinion to the question of why Japan should provide ODA to Bolivia. This question has arisen in the context of a recent argument in favor of "strategic use of ODA." The argument is summarized as follows: Because the strengthening of economic relations with important countries in East Asia will serve national interests, Japan should strategically deploy ODA to them to meet this objective. This understanding of "strategic ODA" strikes me as narrow-minded and deficient. After all, "strategy" signifies the selection of methods or instruments in accordance with purposes or objectives. Many Japanese would agree that the purposes of ODA should not be limited to narrowly conceived economic ones. As specified in the Preamble of the Constitution of Japan, the Japanese people are concerned with the safety and welfare of the people around the world, desire that "human security" — in other words, "the minimum standards of wholesome and cultured living" (Article 25 of the Constitution) — be guaranteed to all people in the world, and agree to make contribution toward the fulfillment of this ideal. Given that livelihood security is uncertain for the majority of Bolivian people, Japan's assistance to Bolivia for the purpose of ensuring "human security" is a logical consequence of strategic deployment of ODA, directed by the ideal and purpose embodied in the Constitution, reflecting "national concerns" and, I would add, expressing "national identity."

I am deeply grateful to the members, advisors, and taskforce members of the study committee for their valuable contributions. I would also like to thank the JICA office in Bolivia and other related departments, especially the staff of the First Research and Development Division at the Institute for International Cooperation.

February 2004

**Toru YANAGIHARA**

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## Abbreviations

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ATPDEA	Andean Trade Promotion and Drug Eradication Act
CAICO	Cooperativa Agropecuaria Integral de Colonias Okinawa
CAISY	Cooperativa Agropecuaria Integral San Juan de Yapacani
CETABOL	Centro Tecnológico Agropecuario en Bolivia
CG	Consultative Group
CIAT	Centro de Investigación Agrícola Tropical
COMIBOL	Corporación Minera de Bolivia
CONAPE	Consejo Nacional de Políticas Económicas
EBRP	Estrategia Boliviana de Reducción de la Pobreza
FDTA-TH	Fundación para el Desarrollo Tecnológico y Agropecuario del Trópico Húmedo (Foundation for Technological Farming and Forestry Development of the Humid Tropics)
FTAA	Free Trade Area of the Americas
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JOCV	Japan Overseas Cooperation Volunteers
MDGs	Millennium Development Goals
MIR	Movimiento de Izquierda Revolucionaria
MNR	Movimiento Nacionalista Revolucionario
NFR	Nueva Fuerza Republicana
NPE	Nueva Política Económica (New Economic Policy)
ODA	Official Development Assistance
OTB	Organizaciones Territoriales de Base
PGDES	Plan General de Desarrollo Económico y Social
PLANE	Programa de Empleo de Emergencia
PROFORSA	Programa de Fortalecimiento de Redes de Salud
PRSP	Poverty Reduction Strategy Paper
SBPC	Sistema Boliviano de Productividad y Competitividad
SENASAG	Servicio Nacional de Sanidad Agropecuaria
SIBTA	Sistema Boliviano de Tecnología Agropecuaria
SUMI	Seguro Universal Materno Infantil
UDAPE	Unidad de Análisis de Políticas Sociales y Económicas



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## Outline of the Study

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### 1. Background of the study

Bolivia is one of the countries that are facing serious problems of poverty. The Banzer Administration, inaugurated in 1997, launched a five-year action plan, in an attempt to eradicate poverty and achieve the “modernization of Bolivia” through ensuring stable economic growth and promoting respect for human rights. Although the plan produced some positive results in such fields as macroeconomic management and the implementation of coca eradication strategies, it did not lead to an improvement in the living standard of the indigenous people, who account for the majority of Bolivia’s population. Bolivia continues to be confronted with persistent problems of endemic poverty and widening disparities in wealth.

Against this background, the Bolivian government drew up its PRSP or Poverty Reduction Strategy Paper (known in the country as EBRP, standing for *Estrategia Boliviana de Reducción de la Pobreza*), which was subsequently endorsed by the World Bank and IMF in June 2001. Along with the enactment of the “National Dialogue Law (*Ley del Diálogo Nacional*)” in July, the PRSP was officially adopted as Bolivia’s national poverty reduction strategy with four major goals: “To expand employment and income opportunities,” “To enhance people’s capabilities,” “To increase safety and protection for the poor” and “To promote social integration and participation.” The second Sanchez Administration, inaugurated following the general election of June 2002, developed policies focusing on such issues as the elimination of political corruption, creation of job opportunities, improvements in education, and the privatization of gas and oil projects.

Japan has a long history of friendly relations with Bolivia, where as many as 14,000 Japanese immigrants and their descendants currently live. Bolivia is one of the least developed countries in South America, in great need of international cooperation. For these reasons, Japan has been providing extensive assistance to this country.

The JICA country study on Bolivia was launched in December 2002 with the aim of presenting directions for the country’s future development, as well as reexamining Japan’s assistance to it. One of the central purposes of the study was to review the results of the Sanchez Administration’s efforts and the progress of the PRSP process.

In October 2003, after all the scheduled rounds of discussions of the study committee were completed, a riot erupted in La Paz, triggered by public protest against the government’s plan to export natural gas via Chile, resulting in nearly 60 deaths. In the wake of this turmoil, President Sanchez de Lozada left the country, and on October 17, Vice-President Carlos Mesa was sworn in as president of Bolivia. President Mesa has been promoting political reform by opening ministerial positions to non-partisan politicians with appropriate expertise, while maintaining the basic policy outlines established by the former Sanchez Administration. It is still uncertain how successful the Mesa Administration will be in dealing with Parliament and handling anti-government movements. Despite the political upheaval, the viewpoints and perspectives presented in this report should remain valid because they help focus on medium- and long-term development prospects and challenges.

## 2. Purpose of the study

This study on Japan's ODA to Bolivia was launched in December 2002 to accomplish the following major objectives: to analyze present conditions and explore desirable directions for Bolivia's future development and to propose appropriate approaches for Japan's ODA to the country from medium-and long-term perspectives.

## 3. Organization of the study committee

The study committee, chaired by Professor Toru Yanagihara of Takushoku University, consisted of core members from the research community and JICA who regularly attended the meetings and prepared the main chapters and proposal, advisors who prepared some sector-focused chapters, a task force composed of JICA staff, and a secretariat at IFIC in charge of the administrative management of the study committee.

## 4. Structure and synthesis of the report

The final report in the Japanese version comprises three parts: summary discussion in Part I, background analysis in Part II, and outlines of priority areas and approaches for Japan's cooperation in Part III. The English version is comprised of the three chapters from Part I of the original report. The synthesis of the report is illustrated in the subsequent chart (**Overview: Development Issues for Bolivia and Future Direction of Japan's ODA to Bolivia**).

In Chapter 1, the study committee presents its understanding of the fundamental problems confronting Bolivia. The lack of national integration—the racial, cultural, and regional divisions in Bolivia's society, the disconnection between macroeconomic growth based on the development of natural resources and the creation of employment opportunities, and the gap between the official, legal, political, and administrative principles and the actual operations and practices—continues to be a defining feature of Bolivia (**Initial Conditions**).

Next, the committee reviewed “the Bolivia Model”: a comprehensive system comprising economic and political frameworks which had been embraced by consecutive governments since 1985, including a series of institutional reforms adopted (**The Bolivia Model**). This system ensured sustainable economic management not affected by changes in political coalitions in office, put an end to inflation and enabled economic recovery. In addition, under this system, many institutional reforms were carried out in the mid-1990s, including decentralization, popular participation, educational reform, and capitalization-cum-privatization through the introduction of foreign capital.

The Model had its faults, however. Economic growth had been on the decrease since 1999 and had failed to match the population growth. Also, the growth mechanism largely depended on the development of natural gas and soybean and failed to generate employment opportunities, thus

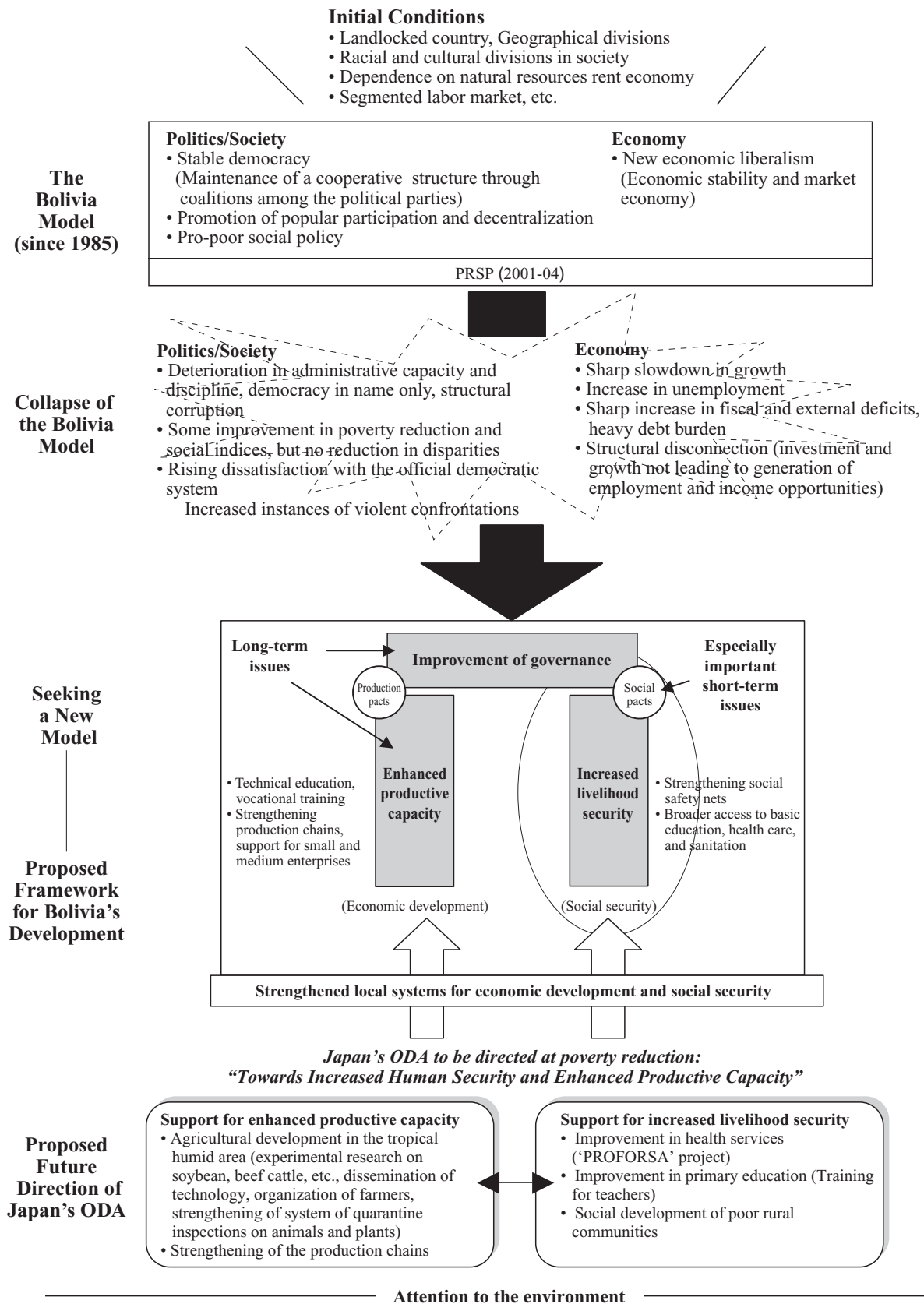


further worsening income disparity. Moreover, coalitions among political parties did not bring about administrative reforms, and changes of government and ministers resulted in discontinuity in administrative operations, impairing governance and giving rise to public dissatisfaction. These critical situations triggered radicalization of anti-government movements, further weakening democratic governance. Social mobilizations and riots revealed the discontent of people who were outside the official frameworks of popular participation or dialogue. Thus, Bolivia is currently at a major turning point and faces a social and political crisis in the midst of economic stagnation (**Collapse of the Bolivia Model**). At the end of Chapter 1, a supplemental analysis is made referring to the riots and the subsequent change of the administration that took place in October 2003.

In Chapter 2, based on the above understanding, the study committee endeavored to present perspectives and goals for the future development of Bolivia that would be meaningful for the majority of Bolivian people, placed in the middle of economic stagnation and social and political confusion and faced with uncertain prospects for the future (**Seeking a New Model**). The following two aspects are emphasized as directions for Bolivia's future development: increase in livelihood security at the local level as an overriding short-term goal, and enhancement of productive capacity as a central long-term challenge.

Chapter 3 describes the direction for the future ODA from Japan to Bolivia (**Proposed Future Direction of Japan's ODA**). To support the increase in livelihood security, the committee places emphasis on the development of effective social security systems, including education, health care, and social safety nets. More specifically, the committee emphasized the improvement both in the regional health care network (PROFORSA) and primary education. For the enhancement of productive capacity, the establishment of a viable economic development system based on production chains is expected to contribute to the generation of employment opportunities over the long term. The committee proposed that agricultural development in the tropical humid area be placed in this context and accorded an important role for meeting production-oriented objectives. In order to achieve both of the above goals, strengthening of "local systems" is needed to provide an effective institutional basis for coordination and governance among relevant actors and stakeholders in public and private sectors. Paying attention to the environment is also imperative to Japan's ODA.

# Overview: Development Issues for Bolivia and Future Direction of Japan's ODA to Bolivia





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# Chapter 1

## Perspectives on Bolivia

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**Toru YANAGIHARA**  
**Shigeo OSONOI**

Fifty years after the 1952 Revolution that marked the start of its modern history, Bolivia is again at a major turning point and faces a social and political crisis in the midst of economic stagnation. In this chapter, the modern history of Bolivia will be reviewed and present conditions and problems identified and placed in a historical context: section 1.1 addresses the significance and consequences of the Bolivian Revolution and major political reforms; section 1.2 discusses current economic stagnation and serious social and political conditions; section 1.3 describes the second Sanchez Administration's development strategy and system; and finally, section 1.4 covers the problems in various sectors and the Sanchez Administration's efforts to tackle them.

### 1.1 Bolivia at a Turning Point

#### 1.1.1 The Bolivian Revolution and its consequences

The Nationalist Revolutionary Movement (*Movimiento Nacionalista Revolucionario*: MNR), which led the 1952 Revolution, promoted democratization (legislation of universal suffrage and dissolution of the army), and government-led economic development (nationalization of tin mining industry, establishment of a public mining corporation (COMIBOL), and start of development of the Eastern region), and national integration (agricultural land reform and introduction of free education), in order to eliminate oligarchic rule by tin-based business tycoons and establish a modern nation state.

However, Bolivia could not establish stable government, and the military ruled the country during 1964-1982. Under the military regime, a government-controlled development model continued to be pursued. Bolivian economy grew rapidly under the Banzer Administration in the 1970s as international markets for its major exports boomed and funds flowed in from international financial markets. At the beginning of the 1980s, however, international economic environments changed abruptly: international interest rates rose and the global economy fell into a recession. As prices of primary products fell sharply, Bolivia faced a serious fiscal deficit and a debt crisis.

The Siles Zuazo Administration, which was established just after democratization in 1982, could not institute economic stabilization policies opposed by domestic vested interests. As a result, fiscal deficits greatly increased and inflation accelerated sharply. In addition, cultivation of coca expanded considerably from the 1980s on partly because unemployed miners moved to the Chapare region, with grave consequences for Bolivia's politics, economy, and society.

### **1.1.2 New Economic Policy and its impacts**

After the election of 1985, held in the midst of economic turmoil, MNR, the party which had led the Bolivian Revolution, returned to power, and the Paz Estenssoro Administration was established. The new government considered that it was essential to seek international assistance and change the economy drastically in order to overcome the crisis. In August 1985, the government issued Presidential Order No. 21060, the so-called New Economic Policy (*Nueva Política Económica*: NPE), as a key design for national reconstruction.

NPE promoted structural reforms aimed at establishing economic stability and market economy, including liberalization of prices, exchange rates and international trade, budget austerity, and streamlining of state-owned corporations. To carry out the reforms, the government proclaimed martial law and utilized military force to suppress demonstrations organized by labor unions. Subsequently, the government's economic management based on economic stability and market economy came to be firmly endorsed by coalitions among various political parties. The newly instituted political and economic system, the so-called Bolivia Model, ensured sustainable economic management not affected by changes in political parties in office, put an end to inflation and enabled economic recovery.

In addition, the Model ensured stability of democratic governance. The political system was characterized as a presidential system that incorporated elements of the parliamentary cabinet system. Under this system, distribution of official positions was used as an effective means of forming a coalition government; this practice bred corruption throughout the bureaucracy, however. As a result, capability and discipline of administrative machinery was seriously compromised, rendering the government democratic only in name.

### **1.1.3 Second-generation reforms and their consequences**

Gonzalo Sanchez de Lozada, an entrepreneur who belonged to MNR and was responsible for planning the New Economic Policy in 1985, won the presidential election in 1993. The amendment to the Constitution enacted in 1994 stipulated the construction of a nation state based on "multiracialism and multiculturalism" (Article 1) for the first time in Bolivian history. The amendment also acknowledged the rights of indigenous peoples to their communal land (Article 171). The government presented a "plan for all the people" (*Plan de Todos*) to extend the benefits of economic reforms to the poor, and started the "Second-Generation Reform" for the modernization of the state under agreements among the various political parties aimed at deepening systemic reforms and focused on modernization of the state.

The second-generation reform covered a broad range of aspects, including Popular Participation (1994), Decentralization (1995), Educational Reform (1995), and Agrarian Reform (1996). In addition, the government privatized public corporations through an increase in capital (under the Capitalization Law of 1994), introduced foreign capital into power, airline, railway and oil companies and connected privatization with Pension Reform (1994). To reorganize the administrative system, the central government gave the local governments independence in

**Box 1 The Bolivia Model**

The government-led development model established after the Bolivian Revolution of 1952 failed in the mid-1980s, an era of hyperinflation that was caused by economic mismanagement, political instability and declines in international tin prices. In 1985, the Siles Zuazo Administration, the first after democratization in 1982, called a general election before his term of office expired in order to put an end to the crisis. As a result of the election, the Paz Estenssoro Administration was formed. The new government introduced New Economic Policy, focused on economic stability and liberalization, successfully controlling hyperinflation and rekindling growth.

Although this neo-liberal economic policy caused great difficulties, such as unemployment due to the privatization of government-owned companies, the policy was instituted and maintained by a series of coalition governments under democracy. Under this political and economic system, many institutional reforms were carried out in the mid-1990s, including decentralization, popular participation, educational reform, and capitalization through the introduction of foreign capital (privatization with an increase in capital). In this report, the “Bolivia Model” refers to a comprehensive system comprising economic and political frameworks established after 1985, as well as the institutional reforms applied to it.

Economic reforms in Bolivia preceded structural reforms in other Latin American countries mostly taking place during the 1990s. While reforms in other countries tended to be accompanied by presidential dictatorship and compromise of democratic principles, Bolivian reforms were carried out based on the agreements among the main political parties, which ensured the continuation of economic policies across changes in parties in power. Moreover, institutional reforms – for example, introduction of the Popular Participation Law, which provided opportunities for local residents to have voice in the planning, execution and monitoring of development projects – drew international attention for its novel approach to decentralization.

The Bolivia Model had its drawbacks, however. An economic growth rate of around 4% per year was not much higher than the rate of growth in population. The economic growth mechanism largely depended on the development of natural gas and soybean and failed to generate employment sufficiently or reduce poverty significantly; rather, it further worsened income disparity. The government placed priority on market mechanisms and did not formulate adequate strategies for economic growth or export expansion. From 1999 on, in the wake of economic crises in Brazil and Argentina, Bolivia’s economic vulnerability became obvious.

Coalitions among political parties did not bring about administrative reforms because the parties maintained traditional conventions of distributing official positions among them. Changes of government and ministers resulted in discontinuity in administrative operations, impairing governance and giving rise to public dissatisfaction. Functions of the national assembly degenerated, and dissatisfied people began protest activities, such as road blockades, further weakening democratic governance. It is true that the much heralded popular participation gave indigenous groups and local communities the opportunity to have their voices heard, but it failed to be backed up by adequate administrative capacity needed to bring about political and social integration of indigenous people.

The economic crisis since 1999 exposed these problems and led to the collapse of the Bolivia Model.

promoting development and transferred funds and authority to the prefectures and the municipalities. In addition, to establish a participatory development system, the government admitted the incorporation of the associations of urban residents and the rural communities of indigenous people under the Popular Participation Law, formalizing public participation in development and public policies. Moreover, the government legislated for the people's participation in adopting the HIPC initiative and PRSP (National Dialogue Law of 2001).

These reforms, which were carried out one after another during the mid-1990s, greatly changed the official principles that regulated the management of political and administrative systems. However, the formal principles did not govern informal activities which dominated significant parts of political, administrative, economic, or social scenes in Bolivia. Anti-official sentiments gathered momentum and became uncontrollable toward the turn of the century.

## **1.2 Present Economic Stagnation and Serious Social and Political Conditions**

Bolivian economy grew steadily at an annual rate of 4-5% in the 1990s, but it plunged into a prolonged recession after 1999. With the continuing recession and worsening employment opportunities, anti-government activities took place regularly, and popular dissatisfaction grew and erupted into violent confrontations amid the economic crisis from 2000 on.

The privatization of water services in Cochabamba met with much greater opposition than anticipated in April 2000, with farmers (including coca cultivators), public servants (such as teachers), and civil and social activists joining forces in staging anti-government activities. The government took tough measures to eradicate coca production using military force. This outraged the coca farmers, who organized nationwide anti-government movements in September and October 2000. There were many casualties as blockades were erected on main highways and clashes with the military and the police continued. Riots seriously affected economic and civil activities for a long time. These activities and riots revealed the existence of many disaffected people who were outside the official frameworks of popular participation or dialogue. This posed a significant challenge to the authorities.

It was under such a tumultuous atmosphere that the presidential and congressional elections were held in 2002. New political parties made remarkable advances in both elections, with the result that the political map was greatly changed. Representatives of indigenous peoples accounted for a fourth of the total number of seats, mainly based on an antipathy against the ongoing recession and the coca eradication policy. At the same time, the political change reflected growing criticisms of the policy management continued since the launch of the New Economic Policy in the mid-1980s. As the Popular Participation Law had opened up new avenues for increased participation in politics, new leaders emerged and increased their political influence over local governments through local elections. The results of the elections disclosed the existence of wide-spread discontent with the style of party politics established in 1982 and the neo-liberal economic management instituted in 1985.

Protest activities by coca cultivators and other farmers broke out during January 13-26, 2003. The

number of deaths amounted to 12. The government managed to tide over a crisis situation for the time being by holding dialogues with farmers and labor associations over contentious national issues, such as gas exports, coca, and the FTAA (Free Trade Area of the Americas). In February, however, when the government announced a plan to increase the income tax rate to 12.5% in order to cut budget deficits in preparation for an agreement with the IMF, police forces opposed the plan and went on strike, which created a void of law enforcement. On February 12 and 13, violent attacks against government agencies and the plundering of shops occurred. In La Paz, 32 people, including civilians, died during a battle between the army and the police. These incidents at the beginning of 2003 diminished the government's authority further and revealed the limits of the coalition government's ability to rule. Political prospects became increasingly and irreparably uncertain under such circumstances.

The Bolivian Revolution and the reforms thereafter did not lead to transformation of the social structure under which indigenous people had been discriminated against or marginalized. There was a considerable gap between the official principles of the constitution that provided for various rights and the actual exercise of such rights by the poor and indigenous people (according to a survey, the number of those who did not have identification cards amounted to almost one million). There were many people who could not enjoy the benefits of democratization and were left out of the existing purview of civil rights. Structural discrimination and inequity were deep-rooted and continued to cause disputes. Newly emerged politicians were the representatives of those who were dissatisfied with the existing social system. The poor and the indigenous people mobilized against the government by means of direct action, such as blockading of roads.

A noteworthy political change in the first half of the 1990s comprised a rejection of the political system in which traditional political parties played a dominant role. Various populist parties emerged reflecting popular dissatisfaction with the neo-liberal economic policy and with the existing parties, only interested in profiteering from official positions distributed and incapable of establishing appropriate relationships with a broad range of social strata. The power of such populist parties declined in the last half of the 1990s. After the election in 1997, they were incorporated into the traditional system of coalition formation among political parties.

The economy went into recession and the employment situation deteriorated from 1999, triggering radicalization of anti-government movements. One notable feature of indigenous groups' ascent in political power in recent years has been their resistance to being assimilated into the national culture and society. Emphasizing their identity and claims, indigenous groups have declared another "nation" (Aymara and Quechua), clearly showing their intention of direct confrontation against the existing "nation." While indigenous groups allowed themselves to be incorporated into the economic and political system in the past, they now refuse that. Since the Bolivian Revolution, every attempt at national integration has failed. Although the government promoted multiculturalism after the amendment to the Constitution in 1994, it is uncertain whether a multiracial and multicultural state can indeed be established.

There are two factors that triggered the anti-government movement and riots after 2000. One is



that many people rejected the neo-liberal economic reforms started in 1985, and the other is that the government's policies, such as the elimination of coca production and increases in taxation, which were carried out in consideration of the relations with the United States and the IMF, directly threatened the livelihood of low-income groups. It is believed that people's distrust of and hostility towards the government (and to the United States and the IMF) are wide and deep.

The Sanchez Administration endeavored to find a means of survival by implementing measures that were expected to contribute to development in a situation in which people's trust in the government had declined significantly and striking a balance between considerations for external relations and for domestic forces was all but impossible.

### **1.3 Development Strategy and System under the Second Sanchez Administration**

In August 2002, the second Sanchez Administration was established as a coalition between MNR and MIR (*Movimiento de Izquierda Revolucionaria*). The new government drafted the Plan Bolivia to tackle the economic recession and to indicate a new direction for development. To promote this plan, the government began the revision of EBRP (*Estrategia Boliviana de Reducción de la Pobreza: Bolivian PRSP*). A development strategy characterized by a "growth strategy," with the emphasis on enhancements in productivity and competitiveness, was to be carried out after building a consensus among the people. The revision of the EBRP, whose objectives are a growth strategy and social development, was meant to be implemented after a series of National Dialogues. The new growth strategy should not be overestimated, however, since the foundation for industrialization is weak and the basic institutional foundation for enhancements in productivity and competitiveness is remarkably unreliable, although it contains noteworthy elements such as local developments based on the development of production chains and manufacturing centers (*maquicentro*) to take advantage of regional integration in South America and a preferential trade agreement with the United States.

#### **1.3.1 Plan Bolivia and the revision of the EBRP**

Plan Bolivia includes not only immediate employment creation, such as public works projects, but also mid-term measures, such as enhancements in productivity and competitiveness in agriculture and manufacturing. It presents the government's policy of carrying out not only social development measures but also an economic development strategy that emphasizes enhancements in productivity and competitiveness. It includes the following measures: (1) public investment in the construction of roads, basic services infrastructure, gas provision for households, irrigation systems, and rural electrification; (2) promotion of the activities of and investment by private companies (including small-scale producers); (3) promotion of eco-tourism and environmental conservation activities; (4) formulation of industrialization policy in natural gas and oil; (5) enhancements in agricultural productivity and agro-industry; (6) education and health; (7) the construction of houses; and (8) prevention of corruption.

The existing EBRP, prepared in June 2001, includes the objective of poverty reduction by the year 2015 and a three-year action plan toward the attainment of this objective. The Sanchez

Administration argued that Plan Bolivia was not an alternative to the EBRP but rather its reinforcement. Maintaining the four main pillars and crosscutting themes of the present EBRP, the government strongly promoted immediate employment measures (*Programa de Empleo de Emergencia: PLANE*) as the focal point of the “Protection and Security” pillar, and enhancement in productivity and competitiveness in agriculture and manufacturing as the main feature of the “Opportunities” pillar. To implement these measures, the government formulated policies for increasing the proportion of public investment to GDP from 8.4% in 2003 to 8.8% in 2007 and for giving priority to the construction of production infrastructure (roads, irrigation, electrification, etc.). In addition, the government planned to compile a multiyear budget covering 2004 to 2007.

The objectives and approaches of the revised EBRP are as follows: (1) reduction of the proportion of people living in poverty by one-third; (2) expansion of economic activities using production chains; (3) increase of exports; (4) creation of direct and indirect employment; (5) achievement of universal primary education; (6) a decrease in the infant mortality rate and the maternal mortality rate; (7) greater access to safe water and basic sanitation; (8) reduction of gender disparities; (9) administrative reform; and (10) introduction of multiracial and multicultural viewpoints. Of these, (5) to (8) correspond to the Millennium Development Goals (MDGs). (4) is an intermediate objective for the attainment of (1). (2) and (3) are important measures for the achievement of (4). (2) is based on the Bolivian System of Productivity and Competitiveness (*Sistema Boliviano de Productividad y Competitividad: SBPC*), introduced by the preceding Quiroga Administration, and covering 14 products. Concerning (3), the government plans to increase exports to the United States of textiles and apparels, wood products, leather products, and gold accessories, utilizing a preferential trade agreement under the Andean Trade Promotion and Drug Eradication Act (ATPDEA).

### 1.3.2 National Dialogues 2003

Although the government was fully aware of the serious economic and social situation, it failed to take any measure for economic recovery beyond direct measures for employment creation. The socio-political turmoil in February 2003 spurred the government to announce a new approach of “concerted economic policy (*política económica concertada*).” Under this approach, the government proposed a new process of policy formulation for economic policies focused on enhancements in productivity and competitiveness in which prior consultations with relevant business circles and producers’ associations played significant roles.

At the end of April 2003, the General Plan for Economic and Social Development (*Plan General de Desarrollo Económico y Social: PGDES*) was submitted to the National Council of Economic and Social Policies (*Consejo Nacional de Políticas Económicas: CONAPE*), the supreme organ for administrative decision-making. Although the government first told the donors that it was planning to have a national consultation (*Concertación Nacional*) before the series of National Dialogues for the revision of EBRP, the government changed the plan and acted in concert with the National Agreement (*Reencuentro Nacional*) proposed by the Catholic Church. The church drew up a draft agreement concerning the activation of the economy, energy policy, natural gas policy based on a

referendum, land policy, coca policy, the improvement of institutional systems, and the amendment of the Constitution. This draft agreement was presented to all political parties at the end of July 2003. In addition to this, the Standing Commission on the Protection of Human Rights held a Social Summit (*Cumbre Social*) with regard to five items (gas, coca, land, FTAA, and the amendment of the Constitution) and carried out activities to reach a social agreement. The government, which plans to conclude the social agreement, is planning to hold a series of National Dialogues (*Diálogo Nacional*) concerning production, social sectors (education and health), and public administration, in order to reach agreement within the government, between the government and the private sector, and within the private sector. The future of Bolivia's politics depends on whether a minimum agreement can be concluded among various interests and whether the government can ease the crisis within the framework of democracy through National Dialogues.

### **1.3.3 Popular participation and decentralization**

Bolivia consists of nine prefectures and 112 counties. The central government appoints a governor (*prefecto*) and a vice-governor (*subprefecto*) for each prefecture.

Local autonomy was drastically transformed by the Popular Participation Law of 1994 and the Decentralization Law of 1995. Under the Popular Participation Law, the country was divided into 311 municipalities (as of September 2003, 324 municipalities were stipulated by legislation, and 314 were actually in existence). Of the tax revenues, 20% are allocated automatically to the municipalities according to the size of the population (*fondo de coparticipación*), and the system of popular participation has been incorporated into the process of decision-making concerning public investment in the areas of education, health, and roads.

While about 90% of grants-in-aid had been allocated to the three major cities before the Law, 50% of them were now allocated among rural governments. Grassroots organizations (*Organizaciones Territoriales de Base: OTB*), such as the newly legalized communities of indigenous people, "alluyu," and associations of urban residents, participated in the decision-making process as representatives of the local public. In addition, Vigilance Committees (*Comité de Vigilancia*) were established to monitor local governments on behalf of the public.

Under the National Dialogue Law, this vigilance system was incorporated as part of the Social Control Mechanism, which was established in each prefecture to monitor the use of HIPC's funds generated by debt reduction. In addition, under the Decentralization Law, the central government's authority was delegated to the local governments, the local development corporations were abolished, and the right to formulate policies concerning education, health, and rural roads was transferred to the prefecture. Although the central government maintained the right to appoint the governors, the Departmental Council (*Consejo Departamental*), consisting of the representatives of the municipalities, was established to monitor the governor.

These reforms increased the opportunities for indigenous people to participate in politics. The indigenous people wielded influence throughout the country, which triggered their challenge to the

urban whites and mestizos who controlled politics. Since the traditional political parties could not effectively respond to the emergence of such new forces, they lost the support of the public as well as effective organizing roles, leading to growing political crisis.

## 1.4 Policies of Sanchez Administration towards Current Issues of Development

As described above, the Sanchez Administration revised the EBRP based on Plan Bolivia and promoted a new economic development plan that focused on production chains and made efforts in the related economic sectors. Concerning social development, the Sanchez Administration increased efforts to attain the MDGs in the following three fields: basic education, primary health, and water and basic sanitation. The government vigorously promoted the construction of infrastructure as a measure for developing the economy and society and as a short-term measure for creating employment. In addition, to tackle these tasks, the government endeavored to reconstruct the systems for promoting development. The problems the government faced and efforts to address them in each area of concern are briefly described in the following sections.

### 1.4.1 Enhancement in productive capacity and competitiveness

The objectives for this area are to strengthen the sectors related to “production chains” and to expand the production of industrial products for export to the United States by taking advantage of the preferential trade agreement under ATPDEA (these objectives partially overlap each other).

The strengthening of “production chains” is addressed by the “production pact” (*pacto productivo*) concluded through national dialogues. After agreements are concluded within the government (between the central, departmental, and municipal levels), between the public and the private sector, and within the private sector itself, the budget for the necessary measures will be incorporated into a multiyear budget (for 2003-06).<sup>1</sup> The government is supposed to play a role in providing support through the SBPC in such fields as technology, management, finance, market, and infrastructure.

ATPDEA will be utilized effectively for the production of textiles and apparels, wood products, leather products, and gold accessories. To accelerate further development, the government is promoting construction of infrastructure, provision of technical aid, and improvement of the legal system, including introduction of Maquilla-type<sup>2</sup> direct investment, promotion of joint ventures, and establishment of manufacturing centers for small enterprises (*maquicentro*).

<sup>1</sup> Concerning quinoa soybeans, grapes, and wine, the production pact was already concluded according to a report by Gray Molina, the Director of UDAPE, at the meeting of JICA Country Study for Japan’s ODA to Bolivia on June 17, 2003. Quinoa is an annual that belongs to the Chenopodiaceae (goosefoot family). It has been widely cultivated as a staple food in the highlands of the Andes region since before the birth of Christ. The seeds, which are similar to Japanese millet, are ground into flour as the ingredient for a bread-like food. They are also used to make a porridge. Since quinoa has a high content of minerals, vitamins, protein, and vegetable fiber, it has attracted the attention of Japan and Western countries as a healthy food.

<sup>2</sup> Maquila-type exportation refers to a scheme that imports unprocessed materials or intermediate goods and exports them after a certain process.

In addition, the government made efforts to develop regional economies. For this purpose, the government also placed importance on the realization of economies of scale by expanding the scale of production for local markets, rather than “production chains” or production for export. The municipal federations (*mancomunidad*) that consist of neighboring municipalities are expected to take the initiative in promoting these efforts.<sup>3</sup>

#### **1.4.2 Improvements in social services**

Concerning social development, the government has committed itself to achieving the MDGs in the following three fields: basic education, basic health, and water and basic sanitation. Among these, primary education in the field of basic education and primary health are addressed by the social pact (*pacto social*) concluded through National Dialogues. After agreement is reached within the government (between the central, departmental, and municipal levels), between the public and private sectors, and within the private sector, the budget for the necessary measures will be incorporated in the multiyear budget (for 2003-06).

To achieve full attendance at primary education (eight years), the government introduced a scholarship program (*beca futuro*), a five-year plan until 2007, which covers 300,000 students. Moreover, to enhance the quality of education, the government is planning to extend school hours and improve in-service training for teachers.<sup>4</sup>

In the field of primary health, the main objectives are to enhance the programs for maternal and child health, to extend the area covered by health services, and to prevent contagious diseases. For achieving these purposes, the government has launched SUMI (*Seguro Universal Materno Infantil*), EXTENSA (*programa nacional de extensión de cobertura en salud*), and EPI (Expanded Program of Immunization), respectively.

In the field of water and basic sanitation, the objective is to improve access to safe water and sewerage. The government is promoting the involvement of local governments and private enterprises to attain these objectives.<sup>5</sup>

#### **1.4.3 Development of infrastructure<sup>6</sup>**

The Sanchez Administration put a great deal of effort into the development of infrastructure through the use of public works (*Obras con Empleos*) to create employment. The government promoted the development of infrastructure to achieve quantitative targets, placing importance especially on roads, irrigation, rural electrification, housing, and household gas supply.

Concerning roads, the government emphasized paving roads and establishing a road maintenance

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<sup>3</sup> As of June 2003, there were 11 municipal federations that aim to strengthen the regional production system, and there are 68 municipalities that participate in the federations (UDAPE (2003) pp. 12-13).

<sup>4</sup> UDAPE (2003) pp.9, 14.

<sup>5</sup> UDAPE (2003) p.17

<sup>6</sup> This section depends to a great extent on UDAPE (2003) pp. 4-6.

system, and encouraged participation of private enterprises. In particular, as for the main roads (Red Fundamental), the government regarded paving them as important and planned to maintain the East-West Corridor using the concession method. According to the *Plan Estratégico Obras con Empleos 2003-2008*, roads totaling 5,884 km will be paved over the six years from 2003 to 2008, with the result that 80% of the arterial road system will be paved. Construction, rehabilitation, and regular maintenance of arterial roads are estimated to require the employment of 25,950 unskilled workers yearly, and 103,800 workers when indirect impacts are included. Concerning local roads (*Red Departamental y Red Municipal*), the EBRP places emphasis on the improvement of roads connected to arterial ones to encourage the transport of products by small-scale farmers. Furthermore, the EBRP shows that the government will decide on priorities according to the degree to which the road will contribute to the promotion of “production chains.”

Regarding irrigation, the government places importance on the improvement and extension of the existing systems, and is planning to encourage local and municipal governments and private enterprises to participate in the project.

Rural electrification includes both an increase in the number of connecting lines to the existing networks of distribution lines and an increase in the number of power stations within each area. The objectives are to improve the living conditions for residents and to strengthen production activities.

The housing project aims at increasing the number of homeowners by providing long-term housing loans especially for low- and lower-middle-income households in urban and rural areas.

The objective of the project for supplying gas to households is to extend the natural gas supply networks and increase the number of households that use the service. The government is promoting the project in all the urban areas and some rural areas. The project is expected to reduce fuel costs and mitigate air pollution, and, moreover, is politically significant in that many people will become beneficiaries of natural resources development.

#### **1.4.4 Reorganization of the development system**

Officials of the President’s Office and the Sustainable Development Department (including *Unidad de Análisis de Políticas Sociales y Económicas (UDAPE)*) are contemplating a change to the method of transferring funds, recognizing that past governments could not effectively carry out measures for poverty reduction through large-scale transfers of budgets to the municipalities (especially in the social sector). They intend to introduce a new method of transferring funds to overcome the following problems: (1) There were delays in implementing budgets due to the inadequate administrative capacity of the municipalities; (2) The principle of “performance-based allocation” was not applied as incentive, rather, poorer municipalities received preferential grants from the central government; and (3) Economies of scale failed to be realized because decisions on public investment were made at the level of municipality under the decentralized system.

It should be noted that the new method reduces the proportion of block grants, which have been used mostly in transferring the funds from the central government to the municipalities, and

increases the proportion of funds transferred according to performance criteria on the basis of the agreements reached through the National Dialogues. The general purpose is to use fiscal funds for economic and social development more effectively. In addition, it was planned that agreements through national dialogues would be incorporated into the multiyear budget (2004-2006), and the assembly members were expected to participate in National Dialogues and consensus building in each electoral district.

### **Supplement: Establishment of the New Mesa Government and Problems It Faces**

In August 2003, President Sanchez started the second year of his administration with reinforced capacity to govern as a result of NFR's participation in the coalition government. This strengthened the government's position in the national assembly and weakened its commitment to governance based on dialogues with the people and consensus among the public. The PRSP was revised after an inadequate series of dialogues with the public. When the government sought public approval for gas exports via Chile as an essential pillar of fiscal revenue, movements against gas exports erupted on a large scale.

A protest arose in El Alto on September 15, 2003, and grew into an antigovernment movement in which residents, farmers, workers, coca producers, and students became involved. They blocked the main roads – especially in the highlands – and the international airport. Although a CG meeting was held in Paris on October 8 and the resulting statement presented international support for the government, it had no effect. On October 11 and 12, the protesters clashed with the security forces and began to call for the resignation of the president. On October 13, the conflicts claimed many victims in La Paz as well.

Vice-president Carlos Mesa dissented and some ministers resigned, while protests gathered force in La Paz. The president revealed his intention to hold a referendum, reconsider the Hydrocarbon Law, and call a national assembly for the enactment of the constitution, but in vain; the military became estranged from the government, and the NFR withdrew from the coalition government. On October 17, President Sanchez offered his resignation to the national assembly, which accepted it. Mesa, the then vice-president, was promoted to president. Sanchez and several ministers fled to the US via Santa Cruz. According to the police, the protest activities cost a total 59 lives.

The most serious crisis since the establishment of the Bolivia Model in 1985 was temporarily averted through constitutional procedures. The new president appointed independent experts as ministers and formed a government totally unaffiliated with the political parties. The president is trying to regain public support by breaking away from the traditional system of operating the government – that is, the distribution of official positions among the coalition parties. New officials were assigned based on their expertise, as high-ranking officials appointed by the Sanchez Administration left office one after another. Similar changes took place in the appointment of departmental governors.

The new government has pledged to hold a referendum on gas exports, as pledged during the

crisis, to reconsider the Hydrocarbon Law, and to call a national assembly for constitutional revision. Since the decision on the term of office is entrusted to the national assembly, the government is characterized as an “interim government.” On the other hand, indigenous people and other influential social sectors declared a political armistice for 90 days to monitor the new government’s implementation of the approved policies.

However, labor movements, indigenous groups, and other socially influential groups have made various demands that are difficult to meet, such as abandonment of the New Economic Policy, rejection of the FTAA, re-nationalization of privatized enterprises (especially oil companies), reconsideration of the coca policy, and title to land. Although the problem of gas exports is an urgent one in terms of public finances, a referendum on gas exports may accelerate repudiation of government policies and stimulate a separation movement in Tarija, center of natural gas development, which may then lead to similar movements by the indigenous people (Aymara and Quechua). The reconsideration of the Hydrocarbon Law, over the issues of royalties and income tax for gas development companies, might worsen investment climates, already damaged by the political upheavals. It is necessary to urgently ensure that public finances are sound, to carry out measures to reduce poverty, and to rebuild the economy based on improvements in productivity and competitiveness. The coca policy is also difficult to revise due to Bolivia’s relationship with the US. While the national assembly has shown a supporting attitude towards the Mesa Administration, it is impossible to judge whether the government, which has no base in the legislature, can ensure effective coordination with it. To cope with the accumulated problems, the new government is required to achieve some results through a dialogue with social groups while maintaining the former government’s policies in principle. It is quite possible that social groups, which experienced the success of forcing the former president into resigning, reject the government again, with the result that the new government may be exposed to the risk of collapse.

In any case, “democracy based on coalitions,” which ensured the functioning of the Bolivia Model from 1985 on, has ended. Bolivia has been forced to reform traditional party politics isolated from the public and is required to establish a new form of democratic politics. Processes that reflect public opinion – that is, referendums and a national constitutional assembly – will be important. The new government is expected to establish a consensus among the people concerning a new vision for the country, such as promoting decentralization, so that national integration be promoted and governing capacity strengthened over time, and to hand power over to a full-fledged government under a new constitution. The international community bears heavy responsibility for the reconstruction of Bolivia. It will be necessary to reconsider assistance by international organizations, such as the IMF, and by donor countries, including the United States among others.

(Written November 7, 2003)

Reference:

UDAPE (2003) *Short & Medium Term Strategy Paper*. June 2003



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## Chapter 2

# Visions for Bolivia's Development: Livelihood Security, Enhancement of Productive Capacity, and Development on a Local Basis

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Toru YANAGIHARA

In the preceding chapter, the economic, social, and political crises confronting Bolivia were reviewed, together with the tasks that the second Sanchez Administration faced and the directions it sought in meeting them.

This chapter presents visions for Bolivia's development as conceived by this study committee, reflecting our viewpoints on difficulties and challenges Bolivia now faces. At the most fundamental level, we need to engage in conceptual and methodological questioning of terms like "development" and "poverty," and in particular, examine whether "poverty reduction" can be viewed as a realistic and meaningful national objective for Bolivia today. We will then discuss prospects and tasks concerning the overall direction of development, economic development, poverty reduction, livelihood security, and development on a local basis.

First, we will discuss conceptual and methodological questions and present the viewpoints we bring to bear in discussing "development," "poverty," and "poverty reduction" in the context of Bolivia today.

### 2.1 Overall Directions of "Development" and Conceptual Issues on "Poverty Reduction"

It is almost impossible to discuss Bolivia's development in its entirety. For one thing, it is impossible to grasp Bolivia as a unified whole. For another, there are many areas for which it is next to impossible to present meaningful directions from the standpoint of "development." Notwithstanding these difficulties, this chapter will try to elucidate the overall directions of development from the economic, social, and local perspectives.

In discussing development, it is customary to make two assumptions. The first assumption is that an entire country can be seen as a single unit for description and analysis. The second is that enhancements of productive capacities as driving forces of economic development are automatically paralleled by improvements in the standard of living. These assumptions on *development*, however, cannot be applied to Bolivia. This is because Bolivia's society and economy are "divided" in various fundamental ways. In discussing Bolivia's *development*, therefore, it is essential to establish a framework for understanding and analysis that properly reflects its characteristic divisions.

In the same vein, in addressing *poverty* or *poverty reduction*, it is necessary to be conscious about the relevance of questions to be addressed and concepts and approaches to be adopted, in view of those divisions that characterize Bolivia as well as recent trends in the international development community.

### **Box 2 “Livelihood Security” as an aspect of “Human Security”**

In May 2003, the Commission on Human Security, which was established through the initiative of the Government of Japan in the UN Millennium Summit in 2000, presented the report of the Commission to Secretary-General of the United Nations, Kofi Annan.

The report proposes that the notion of “Human Security” be established and put into operation through strengthened international efforts to provide individual human beings with protections from threats to their survival, livelihood and dignity. This new notion is proposed as a complement to “national security,” based on the recognition that the state cannot always be trusted as a guarantor of the security and welfare of its citizens. It points to wide-ranging international measures in the areas of both conflict and development. The report recommends a comprehensive approach to the protection and empowerment of individuals, comprising the following main tasks:

- Protecting people in violent conflict
- Protecting people from the proliferation of arms
- Supporting the security of people on the move
- Establishing human security transition funds for post-conflict situations
- Encouraging fair trade and markets to benefit the extreme poor
- Working to provide minimum living standards everywhere
- According higher priority to ensuring universal access to basic health care
- Developing an efficient and equitable global system for patent rights
- Empowering all people with universal basic education
- Clarifying the need for a global human identity while respecting the freedom of individuals to have diverse identities and affiliations

(Reference: Commission on Human Security (2003) *Human Security Now*)

The report establishes the objective of securing survival and livelihood for all human beings under their respective conditions and advocates that enhancing human security, i.e., eliminating or alleviating threats to individuals, groups and communities, be viewed as an integral part of development agenda.

This study committee believes that the most important concerns for Bolivia today consist of “livelihood security” including items (6), (7), and (9) from the above listing. Our views and recommendations can be summarized as follows: Increased livelihood security signifies reduced levels of uncertainty about the future and of uneasiness caused by it. Japanese assistance should be aimed at strengthening conditions for maintenance of livelihood and, on that basis, at promoting improvement of livelihood, thereby alleviating vicious circles of poverty.

First, the concept of *poverty* has been expanded and deepened in the recent past and now incorporates broader and multifaceted perspectives, as presented in the *World Development Report 2000*. The new conception of *poverty* refers not only to a lack of income and a low level of consumption, but also to insufficient access to social services (healthcare and education, among others), weak foundation for livelihood, a weak position in economic, social, administrative, and political relations, as well as attendant psychic conditions such as uneasiness and loss of hope. Based on this broadened conception of poverty, *poverty reduction* now signifies not only a rise in income and consumption levels beyond a certain threshold but also improvements in any of the above-mentioned dimensions of poverty. Our study adopts this new viewpoint and definition.

Second, and in particular reference to the weak foundation for livelihood, the weak position in society, and the feeling of fear and anxiety, it is important to grasp *poverty* and *poverty reduction* not as a phenomenon that can be captured by macro-level statistics, but as conditions and prospects of individuals and households to be understood at the micro level. In this study, poverty is viewed in this micro perspective and from the standpoint of a broad concern for the achievement of well-being and the improvement in *human welfare*. The traditional, narrowly-defined “*poverty reduction*” (that is, a rise in the level of income or consumption) will be related to this concern and evaluated from this perspective.

Third, it is important to see poverty not as a static condition at a point in time but as a phase in the process of change (or lack thereof) over time in the condition of life. This perspective makes for a proper understanding of the characteristics and causes of weak foundations for livelihood and weak positions in social relations; it also enables us to come to grips with dynamic processes, such as the “poverty trap” and the “downward spiral.”

As political unit Bolivia is a state, so it is technically possible to discuss its society or economy as a single unit. However, to present the total vision of *development* and define the task of *poverty reduction*, it is necessary to accurately comprehend the divisions running through the society and economy, and identify present conditions and problems as well as present visions of *development* and prospects for *poverty reduction* for each segment of the socioeconomic mosaic.

The Bolivian society is characterized as an “infusible mosaic society” because of its multiple divisions arising from its geographical, ethnic, linguistic, and cultural diversity. These divisions are fully reflected in disaggregated indices of development and poverty.

The Bolivian economy is comprised of formal and informal economic activities, with the latter accounting for a characteristically large percentage of the total. Traditional agriculture and informal services account for most of the rural and urban informal sectors, respectively. Roughly put, the rest of the economy belongs to the formal sector.

From the standpoint of geography, traditional agriculture is mostly practiced in the western highlands and the central valleys, while larger-scale industrial agriculture is operated mainly in the eastern lowlands (humid tropics region). The locations of mining, oil, and gas operations are based on geological and other natural conditions, while the headquarters are located in major cities. Most manufacturers are located in the three metropolitan areas of La Paz, Cochabamba, and Santa Cruz. Large percentages of formal and informal service industries and construction activities take place in these three metropolitan areas and other urban centers. Most government services are concentrated in urban areas, too.

From the sociological viewpoint, Bolivian economic activities can be classified based on ethnicity, occupational status, and educational background. Indigenous people are mainly engaged in informal sectors in both rural and urban areas. In contrast, employment opportunities in the formal sector are extremely limited for indigenous people. In terms of occupational status, the following comparison is in order.

### Box 3 The “informal sector” in terms of enterprise characteristics and employment status

The informal economy can be considered in reference to enterprise characteristics or employment status. As discussed below, these two viewpoints, distinct as they are conceptually, actually do overlap to a considerable extent.

From a legal perspective, enterprises can be divided into the formal and informal sectors depending on whether they are officially registered or not. There are differences in degree among enterprises in each sector, however, in their observances of official rules, procedures or expenses; these refer to the taxation system (national taxes and local taxes), public charges and rents, social security contributions (national health insurance plans and national pension plans), and compliance with the labor laws. Thus, it is necessary to pay attention to the various aspects of and differences in the pattern of informal management.

Enterprises are classified into the following four types based on legal status and management practice: government or public enterprises; private corporations; private unincorporated enterprises; and family or individual enterprises. Of these, the first two belong to the formal sector, while the other two belong to the informal sector. Statistically, enterprises are often classified according to the size of enterprise (usually based on the number of workers). If its size is beyond a certain level, the enterprise is considered to belong to the formal sector; if not, it is assigned to the informal sector. This statistical classification is nothing more than a convenient approximation.

The distinction between the formal and informal sectors can also be made according to the second viewpoint or criterion, i.e., employment status. Employment status of the working population is primarily defined by their position in the enterprise, although the above classification of enterprises also constitutes a factor. The position in the enterprise, in turn, is classified in accordance with the employment relationship (i.e., employer, employee, independent worker, worker engaged in a family business, or a live-in maid), differences in the type of employment among employees (regular, part-time, or temporary), differences in working conditions (existence of an employment contract, health insurance coverage, and participation in a pension plan), and in some cases, type of job (professional, clerical, or manual). Although employment in a formal enterprise tends to be regarded as formal employment, while employment in an informal enterprise as informal employment, job-related security has many aspects and varies even within a single enterprise, and employment status, or the degree of formality of employment, differs accordingly. According to the table below, even in establishments with more than five employees, almost half of the employees do not participate in social security plans, and the proportion of these non-participants rose markedly in the 1990s. For such employees, employment in a formal enterprise does not necessarily guarantee a secure livelihood.

Table: Proportion of employees who do not participate in social security plans

	Scale of establishment (number of employees)		
	Total	5 or less	More than 5
1989	57.3	88.5	40.3
1997	61.8	90.7	46.9

Source: CEPAL (2000) *Panorama Social de América Latina 1999-2000*. p.102, Cuadro III.5

The informal sector mostly consists of small family businesses where own-account workers, family members, and small numbers of others are employed. Almost all the workers in the informal sector are unskilled workers with little education. On the other hand, those engaged in the formal sector can be divided into employers and employees, and the latter can be subdivided into qualified workers with high levels of education and unskilled workers with little schooling. This classification of occupational status is important as a central factor determining the future prospects that various households can envisage and also the relevant goals for them. As discussed below, in Bolivia today, a large percentage of households could only see the “maintenance of livelihood,” rather than “improvement in livelihood,” as a realistic goal; likewise, the proportion that could posit “improvement in livelihood” as a goal is very low.

## **2.2 Prospects for Economic Development and Generation of Employment Opportunities**

As part of the revision of the EBRP, the second Sanchez Administration lowered its forecast for the economic growth rate, taking into consideration the recession during 1999-2002 and the increases in the budget deficit and the level of debt. Recognizing that the rapidly growing sectors in the 1990s did not contribute to increased employment opportunities, the government sought to change the pattern of economic growth so as to expand employment opportunities and increase the incomes of many workers. In the following sections (2.2.1 and 2.2.2), the prospects for the sectors that are leading economic growth will be examined as well as the new types of economic activities that may contribute to increased employment opportunities.

### **2.2.1 Prospective sectors that could lead economic growth**

Investments that could influence the whole national economy are directed to one of the following three categories: (1) realization of natural resources rent through development and export (oil, natural gas, mining, lowland agriculture, and forestry); (2) provision of infrastructure (telecommunications, electric power, roads, railroads, and aviation) and finance; or (3) formal-sector production activities for domestic consumption (urban commerce and services, manufacturing, and suburban farming).

In the 1990s, investments in (1) and (2) increased productive capacity and contributed to technical and managerial innovations. Moreover, as the domestic markets grew, investments in (3) increased. Investments in (2), which were triggered by capitalization and privatization, are almost complete. In the future, investments in (1) will become relatively more important. To assess the prospects for development in this area and the impact on the economy as a whole, it is essential to examine the prospects for the development and export of major products and their spillover effects. The prospects and problems concerning oil, natural gas, and lowland agriculture are discussed below.

Oil and natural gas are expected to play major roles in earning foreign currencies and fiscal revenues through the expansion of exports. Concerning natural gas in particular, hopes are being placed on the existing long-term contract with Brazil and the plan to export liquefied natural gas

(LNG) to the US. The contract for the export of natural gas to Brazil began in 1999 and includes an agreement on the export of 40 million cubic meters of natural gas per year from 2004 (if the price is \$20 per cubic meter, annual revenues will be \$800 million). It was planned that the export of LNG to the US would begin in 2006 and that the export volume would reach 30 million cubic meters every year from 2007 on. Revenues from the exportation of natural gas and LNG were initially anticipated to reach \$1.2 billion in 2007, prospects are not promising for either plan for the moment.

Concerning Bolivia's export of natural gas to Brazil, Petrobras, the Brazilian state oil company, began to negotiate with Bolivia to make the conditions for a long-term contract (1999-2019) more favorable to the company. Since, after the conclusion of the contract, Petrobras succeeded in developing gas fields in Argentina and Brazil, the obligation to purchase expensive gas from Bolivia has become a heavy burden to the company. As a result of the negotiations (which may be settled through arbitration), Bolivia may have to lower the estimates for foreign-exchange earnings and fiscal revenues.

The plan to export LNG to the US is based on a large-scale project that will cost \$5-6 billion. The construction of domestic pipelines is expected to contribute to the creation of employment, and when the export starts, to the increase in foreign-exchange earnings and fiscal revenues. However, contracts with the purchasers cannot be concluded since the government has delayed the selection of the shipping port on the Pacific coast due to political considerations. In response to popular opposition, the government was forced to put this matter to a referendum. Therefore, it is unavoidable that the final decision will be further delayed. In this situation, prospective purchasers will be increasingly interested in other sources, such as Camisea in Peru. This may result in the cancellation of the plan, which will greatly affect the Bolivian macroeconomic equation.

Concerning lowland agriculture, Bolivia has potentials for further expanding of oil crops (soybeans, sunflower seeds, etc.) and beef. Neighboring countries also produce them, and Bolivian producers are inferior in terms of competitiveness at this moment. However, Bolivian productivity could be improved through the adoption of technical and managerial methods from Brazil. So far, Bolivia was able to increase exports of soybeans in spite of low productivity thanks to the Andean Community's preferential tariff arrangements. Because the agreement on the preferential tariff will expire in 2005, it is necessary for Bolivia to improve productivity immediately. In addition, it is also necessary to create conditions for the formation or expansion of production chains and clusters centering on these products.

### **2.2.2 Increase of employment opportunities**

The second Sanchez Administration recognized that employment opportunities could not be expanded rapidly in the Bolivian economy, mainly because the small- and medium-sized enterprises sector is underdeveloped. The following table indicates this.

**Table 2.1 Classification by gross value added and number of employees according to the size of enterprise (1999)**

Size of enterprise <sup>1</sup>	Production and employment indices	Gross value added (Millions of US\$)	(%)	No. of employees (Thousands)	(%)	Labor productivity (US\$)	Index (Average=1)	Qualified labor <sup>2</sup> (%)
1-9		2,085	25.5	2,984	83.1	699	0.31	23.1
10-19		224	2.7	170	4.7	1,313	0.58	64.2
20-49		274	3.4	123	3.4	2,228	0.98	66.0
50-		5,338	65.3	312	8.7	17,084	7.51	80.0
Total or average		8,169 <sup>3</sup>	100.0 <sup>4</sup>	3,589	100.0	2,276	1.00	31.7

Notes: 1. Classified by the number of employees

2. Proportion of employees with schooling of 10 years or more

3. Including an error (249)

4. Including an error (3.0%)

Source: Compiled by the author based on UDAPE (2003a) p. 6, Cuadro 1.

This table vividly illustrates the dual structure of the Bolivian economy. Large enterprises (with 50 or more employees), which employ highly educated and qualified persons and have high labor productivity, account for 65% of the gross value added, while accounting for less than 10% of the total number of employees. It can be assumed that all large companies are engaged in the high-growth sectors. Above all, the companies related to natural resources rent (realization of natural resources rent through the export of primary products) and infrastructure services are important. On the other hand, small enterprises (with nine or fewer employees) employ relatively uneducated persons and have very low labor productivity; more than 80% of the total number of employees produces only 25% of the gross value added. Between the large and small enterprises are the medium-sized ones (with 10-49 employees). Their qualified labor and labor productivity are somewhere between the levels of those for large enterprises and small ones. Medium-sized enterprises account for less than 10% of the gross value added and of the number of employees. The second Sanchez Administration's economic development plan was focused on the increase of employment opportunities through the development of the medium-sized enterprise sector. It is widely believed that expansion of economic activities on the basis of "production chains" will serve as the central mechanism for achieving this goal.

In envisaging economic development based on "production chains," the Sanchez Administration adopted the SBPC (Bolivia's System of Productivity and Competitiveness) that the preceding Quiroga Administration introduced together with the 14 products included in it. In addition, the government placed importance on an increase in maquila-type exports of textiles and apparels, wood products, leather products, and gold accessories to the US, taking advantage of ATPDEA's preferential treatment. Moreover, the government also had interest in the promotion of tourism. The plan for each product is nothing more than an imaginary picture optimistically extrapolated from the actual results of the past. The government was planning to establish a system that connects the government and the private sector to promote economic activities in the future. However, it is necessary to closely examine what results these plans will be expected to produce.

#### Box 4 “Production chains” and clusters

Since 2000 under the Quiroga Administration, Bolivian government has placed importance on “production chains” as the main approach to economic development. “Production chains” can be interpreted in two ways.

First, it can be interpreted as a straight “chain,” which connects two or more input-output links (for example, production of grapes and manufacturing of wine). In formulating the economic development plan, the government intends to form such “production chains” that will enhance competitiveness in the field of processed goods and raise the total value added. In the past, the idea of “production chain” was expressed as “resource-processing industrialization” or “forward linkage industrialization.” There is one version of “production chains” which is focused on an international commodity chain. This often provides effective analysis and policy guidelines when the promotion of exports and the role of multinational enterprises are the central concerns.

The other way to interpret a “production chain” depends on the cluster model that Prof. Michael Porter (Harvard Business School) developed as the determinant for “a country’s competitive advantage.” According to the model, a netlike chain that vertically and horizontally connects the associated companies and industries that form a cluster creates synergy within the cluster, which increases competitiveness of the cluster as a whole. The new and fashionable perspective on Bolivia’s economic development is mostly based on the first interpretation of “production chain.” Confusingly, the Bolivian government uses both “production chain” and “cluster” in its documents.

The second Sanchez Administration outlined a scenario for the promotion of economic activities based on “production chains” as shown in Table 2.2. Using this table, the scope and effect of the economic development plan based on “production chains” will be examined.

This table does not provide an explicit definition of a “production chain.” Mr. Gray Molina, Director of UDAPE, stated, “Of 70,000 producers of quinoa, only 2,000 relate to the production chain.”<sup>7</sup> It can be inferred that all the 70,000 producers of quinoa are included in the 400,000 direct and indirect employees in Table 2.2. According to Mr. Molina, the number of soybean producers is 20,000. Given that the revised EBRP aims for an increase in exports, the definition of a “production chain” may include the condition that the product at question is exported.

**Table 2.2 Economic development plan based on “production chains”**

Contribution of economic activities based on “production chains”	Base Year 2002	Target		
		2004	2007	2015
Ratio to GDP <sup>1</sup> (%)	15	18	22	27
Exports (millions of US\$)	656	765	955	1,252
Manufacturing operating ratio (%)	54	62	74	85
Direct and indirect employment (thousands of persons)	400	425	525	650

Note: 1. Excluding the oil and gas sector

Source: UDAPE (2003b) pp. 10, 14

Purpose: Expansion of business opportunities for small and medium-sized enterprises

Field: Production chains in manufacturing and agricultural processing

Examples: Textiles and apparels, leather products, wood products, soybeans, quinoa, llama, alpaca, tourism

<sup>7</sup> At a meeting with JICA’s Country Study Committee on Japan’s ODA to Bolivia on June 17, 2003



The 400,000 employees of the sectors related to the “production chain” account for 11% of the total number of employees (about 3.6 million). Because these employees produce 15% of the GDP (excluding the oil and gas sector), the “production chain”-related sectors have comparatively high productivity. The labor productivity of these sectors is estimated to be about US\$2,900 per worker. If the total number of employees is 4.6 million and the total number of employees in these sectors is 650,000 in 2015, the latter will account for 14% of the former. If these 14% produce 27% of the GDP, the labor productivity of these sectors is assumed to be more than twice that of the other sectors (excluding the oil and gas sector). Based on this analysis, and reexamining the present condition of the Bolivian economy reflected in Table 2.1, it is possible to assess the scope and effect of the second Sanchez Administration’s plan, which advocates “inclusive growth.” This plan will have positive effects only on large and upper medium-sized enterprises. This corresponds to the present condition as quoted above and reproduced here: “Of 70,000 producers of quinoa, only 2,000 relate to the ‘production chain’.” The number of employees in Table 2.2 likely includes many enterprises which are not and cannot get involved in the development plan based on the “production chain,” and the impact of increasing employment opportunities may be substantially overestimated. These limitations notwithstanding, “production chain”-based increase in value added is arguably the most important mechanism for long-term economic development. Therefore, the government should encourage and support attempts being or to be made in various localities.

In July 2003, the SBPC announced the targets for exports and job creation for the year 2017 with regard to each of the 14 “production chains,” setting 2002 as the base year (see Table 2.3). The present condition and targets of the total exports and job creation for the 14 “production chains” differ from UDAPE’s estimation shown in Table 2.2 on the following points:

- SBPC estimated that the total job creation of the 14 “production chains” was about 660,000 persons in 2002. This number greatly exceeded UDAPE’s estimate of about 430,000 persons (on the other hand, both estimated that exports were \$660-670 million in 2002).
- SBPC estimated that exports in the target year 2017 would be about \$4.3 billion, greatly exceeding UDAPE’s estimate of about \$1.3 billion.
- SBPC estimated that job creation in 2017 would be about 1.5 million persons, greatly exceeding UDAPE’s estimate of about 650,000 persons.

It is impossible to find out what differences in the estimation method or assumptions caused these gaps. When SBPC estimated the target exports and job creation for each of the “production chains,” SBPC expected great changes in tourism, wood, wood products, Brazil nuts, etc. Therefore, it is necessary to examine the estimation methods employed. In addition, there are differences in the baseline and projection among government agencies, which may reflect insufficient coordination between these administrative organizations.

**Table 2.3 Exports and job creation in the “production chain”**

“Production chain”	Exports	Job creation	Imports	Job creation
	(Millions of US\$)	(Persons)	(Millions of US\$)	(Persons)
Year	2002	2002	2017	2017
Oil crops	321.52	117,500	600.00	160,000
Quinoa	5.00	15,500	40.00	60,000
Wood & wood products	41.00	42,000	1,000.00	243,900
Leather & leather products	23.00	2,800	80.00	15,000
Bananas	3.70	12,800	30.00	60,000
Tourism	160.00	60,000	2,000.00	360,000
Cotton & cotton products	42.30	43,500	300.00	61,000
Llama and alpaca	46.00	60,000	80.00	104,300
Chicken	0.17	30,000	1.50	30,800
Wheat	0.05	94,000	0.06	114,400
Brazil nuts	30.00	20,000	116.80	116,800
Grape, wine, singani	0.09	11,000	10.00	14,000
Palmito (oil palm)	0.36	4,500	20.00	12,000
Beef cattle	1.00	142,000	50.00	160,000
<b>Total</b>	<b>674.19</b>	<b>655,600</b>	<b>4,328.36</b>	<b>1,512,200</b>

Source: SBPC (2003)

### 2.3 Prospects for “Poverty Reduction” and Tasks for Increased “Livelihood Security”

The Bolivian economy is characterized by the lack of connection between the above-mentioned investment and growth mechanisms on the one hand and the creation of employment and income opportunities on the other. The investment and growth mechanisms (1), (2), and (3) described in section 2.2.1 belong to the formal sector and mostly have very little direct impact on creating employment opportunities. It seems that the proportion of the poor and that of the extremely poor in major cities declined over a period of economic boom during the 1990s. In the late 1990s, however, poverty was still evidently widespread in the country as a whole, and especially in rural areas.

Employment and income opportunities directly influence livelihood and welfare of the people. Of the total of a little less than 3.6 million workers (as of 1997), self-account peasants and family members amounted to 1.4 million, and workers in the urban informal sector numbered a little less than 900,000. Workers in the informal sector, comprising these two categories, accounted for nearly two-thirds of the total number of workers. Employees numbered about one million, including a little more than 600,000 qualified workers, 300,000 non-agricultural unskilled workers, and 70,000 agricultural unskilled workers. The rest consisted of some 300,000 employers (entrepreneurs and self-account businesses in the formal sector). Clearly, the average income is higher in the following order: employers, qualified workers, unskilled workers (agricultural and non-agricultural), workers in the urban informal sector, and self-account peasants. The employment situation has deteriorated in the urban formal sector since the middle of the 1990s. As a result, the labor force participation rate and the proportion of workers in the urban informal sector have been increasing.

In addressing the increase in employment and income opportunities the most important targets are

those engaged in the broadly-defined informal sector. The central question will be the degree to which the above-described plan to improve productivity has positive effects on livelihood conditions in the traditional agricultural sector and the urban informal service sector. More specifically, it is necessary to examine how many employment and income opportunities the production chain for each product (including tourism) yields. In this examination it will be necessary to assess not only the activities directly related to the production chains but also their spillover effects, such as employment and income opportunities in informal activities derived from the expansion of production in the formal sector and informal production opportunities derived from the expansion of consumer demand. Based on these assessments, implications for labor mobility and relevant policy requirements should be identified.

It is true that employment opportunities within the formal sector and employment and income opportunities derived from it constitute the most probable avenue to “improvement in livelihood”; the percentage of those who can take advantage of such opportunities is bound to be small, however. In the foreseeable future, it cannot be anticipated that employment and income opportunities created by envisaged “production chains” will significantly contribute to poverty reduction in rural sectors in the highland and the valley region or urban informal sectors. Moreover, it is not feasible to focus directly on economic development of these sectors as avenues for poverty reduction. In these sectors, wide-spread poverty will persist for a long time to come. Thus, posing “poverty reduction” as a goal, Bolivia would have to move through a long tunnel without being able to see the light at the end of it for many years.

A more appropriate objective of development (in a broader sense) will be to increase “livelihood security” with a focus on a reduction in uncertainty in future prospects (and resultant uneasiness of mind). When people face uncertain prospects, their utmost concern may well be “maintenance of livelihood.” For a large majority of people in Bolivia, the most urgent and realizable objective will

**Box 5 “Maintenance of livelihood” and “improvement in livelihood”**

“Livelihood” refers to the whole range of economic activities of a household as well as various resources employed therein and the standard of living (or the way of living) attained as a result. The contrast between “maintenance of livelihood” and “improvement in livelihood” is based on the assumption that the objective of the household is either “maintenance” or “improvement” of the standard of living (or the way of living). The basic hypothesis is as follows: poor households do not have access to enough resources to enable them to adopt “improvement in livelihood” as an objective; for them the only realistic objective is “maintenance of livelihood” because they are exposed to various risks and uncertainties threatening their livelihood. This hypothesis is predicated on the presumption that poor families are unable to manage or cope with risks inherent in attempts to realize “improvement in livelihood,” such risks may make even “maintenance of livelihood” impossible as a result. In other words, to adopt “improvement in livelihood” as an objective, it is necessary for the household to secure “maintenance of livelihood” first and also to be able to cope with the risks accompanying attempts at “improvement in livelihood.” This hypothesis may be deemed to be valid in many cases and is widely (but often tacitly) applied to the understanding of behavioral patterns of poor households and to the planning of approaches to policies.

be to use existing choices more effectively to improve their prospects for the “maintenance of livelihood.” Creating enabling and supportive conditions for a more secure livelihood will be the most important factor in realizing an improvement in the welfare of a large majority of people, and consequently, in social and political stability.

## **2.4 Prospects for “Social Development” and the Enhancement of “Social Security”**

Bolivia contains within it various ethnicities and diverse regions and may be destined to be an “infusible mosaic society.” There have been many attempts to integrate the society in the process of the modernization of the country and the formation of a nation state since the Bolivian Revolution in 1952. Bolivia legislated into law a universal suffrage and free education in Spanish in an attempt to integrate the indigenous groups into the national society and assimilate them into the white and mestizo culture. With the historical trend of urbanization, Bolivian society has changed considerably; the proportion of those who can read Spanish has reached nearly 90%, and the proportion of the urban population now exceeds 60% of the total population (according to the 2001 Census). The proportion of the urban population would be even higher if those who have dual rural/urban residence were counted among the urban population. Assimilation of indigenous groups and integration with the urban white and mestizo culture have made significant progress over the past half century. Although the high incidence of poor people has remained a serious problem, indices of human and social development, such as education and health, have improved over the long term. However, there are still large gaps in the standard of living, the incidence of poverty, and the exercise of various civil rights between the whites and mestizos and the indigenous people, who account for the majority of the total population. The expression “Two Bolivias” continues to be an undeniable truth.

The government-led development model established after the revolution of 1952 became unsustainable in the mid-1980s. The government was unable to provide stable employment opportunities to the indigenous people who flocked to the cities, and the efforts to integrate them into the nation state reached their limits. Because of the failure of the development model, the urban economy and urban life rapidly became informal: more than 70% of people engaged in economic activities, including those in rural areas, make their living in the informal sector. The informal sector serves as a cushion against poverty for the rural and urban poor and is indispensable for their livelihoods.

The failure of the development model to unify the nation, together with the trend of globalization, resulted in the resistance of indigenous people to being integrated into the nation state and to being assimilated into the white and mestizo culture. Under this situation, the first Sanchez Administration amended the Constitution in 1994 and made a historical shift aiming for a “multiracial and multicultural” nation state. The government also proceeded with decentralization under the Popular Participation Law, establishing municipalities all over the country, transferring funds to them based on population size, delegating the right to formulate, implement, and supervise local development projects, recognizing indigenous people’s organizations as legal entities, and giving residents’ organizations independence throughout the process of local development. Participatory management

is also applied to the administration of education and health. These reforms promoted the rise of various social and civil movements in response to specific local situations.

Responsibilities for improvement of social infrastructure, such as education and health and medical care, were transferred to the municipalities. However, the prefectural departments continue to control the personnel involved in social development, such as teachers, doctors, and nurses, and the cooperation between the municipalities and the prefecture remains inadequate. At present, there is a considerable delay in developing the social infrastructure and in capacity building under the supervision of the prefecture. Moreover, government offices have been unable to ensure coherent administrative functioning, including the adequate mobilization of human resources, to promote social development. This can be attributed to the fact that coalition governments have put in place political arrangements whereby the ruling parties win the favor of their respective constituents in order to stay in power.

While its ability to provide social services has weakened and it has discontinued providing some services as part of reform measures, the government actively promoted the participation of NGOs in the framework of participatory development. International religious and European NGOs have gradually begun to take over government roles, and this constitutes an important characteristic of social development at the local level. Social development should be promoted through local networks of municipalities based on the legal and institutional foundations. In addition, it is necessary to improve the governance system for social development at the level of local government, and especially of prefecture. The government should develop participatory systems for social development and facilitate cooperation with civil society and NGOs.

Enhancement of healthcare and education services contributes to the betterment of life conditions for the population; it increases their capacity to use the existing resources more effectively, solidifies the basis for the “maintenance of livelihood,” and improves their future prospects. Healthcare services are not only directly related to the quality of daily life but also help maintain the base of household revenues and save the expenses and time that may be incurred when having to receive medical treatment. Therefore, healthcare services are the basis for welfare and livelihood security. Education not only directly contributes to improvements in living standards but also improves individuals’ qualification for employment. In addition, education enables people to widen the scope of alternatives for “maintenance of livelihood,” whether or not appropriate employment opportunities exist (or are created) within the region. In addition, the provision of “social safety nets” (employment creation and livelihood protection) designed to provide direct support to income and consumption, is helpful in increasing “livelihood security.” The main task of social development (in a broader sense) is to construct a “social security” system in each local area in order to strengthen the base for “maintenance of livelihood” and to make livelihood prospects more secure and positive.

### **Box 6 “Livelihood security” and “social security”**

Since it is difficult for many Bolivians to maintain their livelihood as individuals or family members, we suggest in this report that Bolivia's “development” should focus on ensuring and strengthening “livelihood security” and, to realize this, establish a “social security” system on a local basis. “Livelihood security” is related to the following several interconnected aspects: “foundation for livelihood” related to income; “standard of living” related to consumption; “quality of life” related to living environment; access to “primary healthcare services” for health maintenance; access to “basic education services” for capacity development; and access to a “social safety net” for protection against unexpected misfortune. A “social security” system on the local basis is a group of institutions that enables each municipality to ensure and strengthen “livelihood security” for its residents in cooperation with the central and prefectural governments, NGOs, and citizens' associations, including (formal) public systems designed and managed by the government and (informal) social systems that regulate relations among private parties. “Social safety nets” include the following: food aid for survival; financial aid (donations or loans) for the prevention of a fall in the “standard of living” and the “quality of life”; financial aid for the maintenance or recovery of the “foundation for living”; and measures for the maintenance or recovery of access to “primary health and education services.”

## **2.5 Development on the Local Basis and Enhancement of Local Systems<sup>8</sup>**

Discussions in the previous sections in this chapter have clarified that it is necessary to strengthen the system for formulating and implementing policies to attain objectives in economic development and social security. Based on this recognition, this study committee will support the Bolivian government's policies for decentralization and popular participation and recommend that the government intensify these policies further.

Since the mid-1990s, Bolivia has promoted the delegation of authority and budgets to the municipalities, as well as public participation in decision-making at the municipal level. While the distrust among people of the central government's politics and administration has been on the rise, these policies have represented last-resort measures to restore trust in the national government. However, they do not guarantee the proper functioning of politics and the administration at the local level. Actually, the planned “National Dialogue” will focus on the following two issues: enhancement of professionalism in local administration and elimination of political interventions. The conclusion of an institutional pact (*Pacto Institucional*) with the central government will be a requirement for access to funds.

In the National Dialogue held during the latter part of the Quiroga Administration in summer 2000, the distribution of HIPCII funds was an issue that drew a great deal of attention. As a result, the funds were used for many investment projects for improvements in living conditions. This decentralized system of decision-making has been accompanied either by reform of political and administrative processes at the municipal level or the retention of power by traditionally influential local politicians.

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<sup>8</sup> In this section, “local” refers to a municipality or an association of municipalities (*mancomunidad*).

The second Sanchez Administration aimed to realize the prospect of economic development based on “production chains” through “production pacts” (*Pacto Productivo*) formed through “National Dialogues.” For this purpose, the government was planning to construct a cooperation system between the public and private sectors at the local level and provide funds for encouraging production. In social fields, such as education, health, water and basic sanitation, and livelihood protection, the government aimed to improve the efficiency of municipal administration through a “social pact” (*Pacto Social*) developed through a National Dialogue.

The decentralization and popular participation that Bolivia has been promoting are expected to have positive effects on the economy, society, politics and administration. They may develop into a local system for economic development and social security that integrates tasks and approaches on various aspects. However, the central government must direct and manage key constituents of such a system, such as education as the base for knowledge and capacity and a healthcare service directly related to welfare and livelihood security, and also establish a system for promoting and supporting efforts by local bodies, including administrative agencies and private organizations.

Establishment of systems for decentralization and popular participation and enhancement of the local system should be tackled for a period longer than a single term of the government. Economic development and social security on the local basis may be conceived as multidimensional expansion comprising various aspects, such as living environment, welfare, livelihood security, social relations, knowledge and capacity, employment opportunities, business opportunities, governance systems, culture, and tradition. In the social fields, such as living environment, healthcare services, and education, improvements can be more readily achieved with tangible effects on people’s welfare. Moreover, the establishment of social security, including direct financial support, may strengthen foundations for “maintenance of livelihood” and enable households to upgrade their objectives from “maintenance of livelihood” to “improvement in livelihood.” For many households, however, a “vicious circle of poverty” has been passed on from one generation to another. Therefore, upgrading of the objective may remain unattainable for many households.

In identifying the reasons why development on the local basis is important for social security, it is necessary to point out the characteristics of the employment pattern in Bolivia and inadequacies in the official social security system. Two-thirds of the workers in Bolivia and many poor people belong to the informal sector (in a broad sense). In addition, among the employees of the formal sector, who account for one-fourth of all the workers in Bolivia, there are many who are employed in an informal manner (see Box 3). Therefore, more than 80% of the workers are estimated to be ineligible for the benefits of the official social security program, provided via their places of work. Thus, their welfare and livelihood security need to be improved in their residential areas, where various relations, such as with family members, relatives, persons from the same village, neighbors, and persons in the same trade, will play their respective roles as elements of a social security system.

## 2.6 Conclusion

This chapter has shown that “maintenance of livelihood” is the most important objective for a large majority of people in Bolivia. They cannot relate to the objectives or prospects for “development” and “poverty reduction” as national goals because there is a disconnection between the investment and growth mechanism at the macroeconomic level and the employment and income opportunities for a large majority of the people. With the recession continuing since 1999, increasingly large numbers of people have come to consider those objectives as unrealistic and irrelevant. The greatest concern of many people is to prevent their standard of living from getting worse (“maintenance of livelihood”) and, if it should in fact worsen, to cope with the negative effects generated. Bolivia’s development plan must adequately deal with this situation.

The Sanchez government’s economic development plan based on “production chains” has the potential to expand employment and income opportunities over a long time, possibly resulting in improvements in the conditions for “maintenance of livelihood” and better prospects for “improvement in livelihood” for many households. Within the scope of 15 years, however, the number of beneficiaries, whether in terms of localities or groups of people, will be limited, and most people in the informal sector will not be able to benefit from the plan. Therefore, at present, and in the foreseeable future, the most important objective of development (in a broader sense) is to establish a “social security” system that enhances “livelihood security” (reduction in the uncertainty in prospects of life and the sense of uneasiness associated with such uncertainty) for people whose livelihoods are built on unstable foundations.

To meet these objectives in economic development and social security, it is necessary to strengthen the system for formulating and implementing policies and programs at the local level. This requires the establishment of a local system for promoting and supporting such aims by the central government, the prefectures, the municipalities, private organizations, and groups of residents. Since it will take a long time to establish such a system, it is necessary to support and monitor efforts towards its establishment so that they will be sustained without disruption across changes of government.

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## Chapter 3

### Future Directions for Japan's Cooperation to Bolivia

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Tatsuo SUZUKI

The preceding chapters described the study committee's understanding of Bolivia's critical situation and development challenges. Based on this understanding, this chapter will examine how Japan should cooperate with Bolivia, taking into consideration the bilateral relationship between Japan and Bolivia, the trends of regional integration and cooperation in South America, and Japan's position and role in the new directions of international development assistance.

Our recommendation is that Japan should clarify the main purposes for providing cooperation to Bolivia, review and reevaluate its approaches and practices from the standpoint of those purposes, and clearly establish operational priorities. We propose that "human security" be newly adopted as an overriding purpose for Japan's cooperation to Bolivia. In particular, the main short-term purpose should be to increase "livelihood security." The long-term purpose should also include supporting "enhancement in productivity." As for the modalities and systems of cooperation, "development on a local basis" is emphasized, whereby various actors in a specific locality are related to each other for the attainment of shared goals. To ensure this development, it is necessary that great importance of the formation and strengthening of the "local system" as the foundation of the structure be recognized.

#### 3.1 Basic Understanding on Current Situations in Bolivia

- i) Since it is difficult for a great majority of the Bolivian people to attain "maintenance of livelihood," the most important short-term objective will be enhancement of "livelihood security." On the other hand, the long-term goal will include the creation of employment and income opportunities that will enable many more Bolivians to achieve steady "improvement in livelihood." This latter goal will be predicated on the enhancement of productive capacity, based on increased productivity and competitiveness.
- ii) As one of the poorest countries in Central and South America, Bolivia is receiving assistance from many donors and is a pilot country for international development objectives, such as the MDGs (Millennium Development Goals). In addition, there is active aid coordination among donors in providing assistance to Bolivia. Japan has provided cooperation to Bolivia over an extended period, since Bolivia is not only seriously poor, but also has 14,000 Japanese-Bolivians (*Nikkei*, or Japanese immigrants and their descendants) and has been maintaining a friendly relationship with Japan.
- iii) Bolivia's democracy was established in 1982. Bolivia has been developing its economy according to the policies of economic stabilization and a market economy since 1985. To

extend the fruits of democratization and the market economy to the poor, the country has enacted laws concerning popular participation, decentralization, educational reform, and agrarian reform since 1994. Bolivia was designated as a country covered by the HIPC (Heavily Indebted Poorest Countries) Initiative in 1997 and as a country covered by the extended HIPC Initiative in 2001. The Bolivian government is promoting its Poverty Reduction Strategy Paper (PRSP) that includes the concept of “inclusive growth.”

- iv) The economy grew at an annual average rate of more than 4% in the 1990s, and social development indices, such as the infant mortality rate and the school enrollment rate, have improved. However, since the level of income has remained low and disparities between the races and social strata are still serious, the people's dissatisfaction has deepened. Although democracy is firmly established on the surface, no party receives the support of a majority of the people, and the coalition government is unstable. In addition, although the government's promotion of decentralization is highly regarded, the capacity of local governments in terms of their administrative abilities is still inadequate.
- v) Regional integration is active in South America, and the plan for the Free Trade Area of the Americas (FTAA) is progressing towards its establishment in 2005. Bolivia, a member of the Andean Community and an associate member of MERCOSUR (*Mercado Comun del Sur*), has the opportunity to use the benefits of regional integration and the FTAA, such as the growth of exports and the introduction of foreign capital. At the same time, Bolivia has to prepare for competition that will intensify through free trade. Therefore, when promoting cooperation with Bolivia, it is necessary to consider not only Japan's relations with Bolivia but also Bolivia's involvement in regional integration.

## **3.2 Basic Directions for Japan's Cooperation to Bolivia**

Based on the understanding described above, and taking into consideration the trends in the Bolivian government's development strategy and aid coordination, Japan should meet the above-mentioned main purpose and focus its assistance on fields in which there is a comparative advantage in order to provide assistance effectively and efficiently. It is important to provide cooperation in such fields by harmoniously combining various aid modalities.

### **3.2.1 Japan's contribution to poverty reduction and the exercise of its responsibilities as a member of the international community**

In 1996, the OECD's Development Assistance Committee (DAC) adopted a new development strategy, “Shaping the 21<sup>st</sup> Century,” whose objectives include halving the number of poor people in the world by 2015. Japan played a leading role in the preparation of this vision. In May 2003, the Commission on Human Security, which was established through Japan's proposal at the UN Millennium Summit held in 2000, presented the report, “Human Security Now.” This indicated the new direction of development to international society. Japan's basic policy on ODA emphasizes efforts to address the problem of poverty. In addition, the revised ODA Charter, which was enacted

in August 2003, stipulates “human security” as one of the five principles of Japan’s ODA. Based on this policy, Japan is endeavoring to reduce poverty in Bolivia, one of the poorest countries in Central and South America. This clearly indicates Japan’s attitude and efforts towards poverty reduction to Central and South America as well as international society.

The Bolivian government is promoting PRSP (Poverty Reduction Strategy Paper, *Estrategia Boliviana de Reducción de la Pobreza*: EBRP) to attain international development objectives (MDGs declared in the UN Millennium Summit in September 2000), such as poverty reduction and improvements in the infant mortality rate and the maternal mortality rate. Many donor countries support EBRP and are providing substantial assistance. Among the MDGs, the reduction in the proportion of the poor in the total population is regarded as especially difficult to achieve. Bolivia considers that the realization of other objectives will require further assistance from donor countries (see Table 3.1). Under this situation, assistance to Bolivia in poverty reduction is Japan’s international responsibility and provides an opportunity for Japan to make an international contribution. To gain the trust of Bolivia and the international society, it is necessary for Japan to give Bolivia assistance that is in accordance with Japan’s economic strength.

### **3.2.2 Demonstration of the effectiveness of Japan’s assistance in Bolivia’s development process**

Effectiveness and significance of Japan’s cooperation can be proven by achieving success in assisting Bolivia’s development and aid coordination aimed at poverty reduction. This will enable Japan to present guidelines and modalities for cooperation in poverty reduction and donor coordination for other countries in Central and South America.

In Bolivia, many bilateral donors emphasize efforts in the social sector and carry out projects mainly in the highland plains and valleys. Therefore, their direct contribution to economic growth is not so significant. As described below (section 3.3), Japan’s basic approach to cooperation in poverty reduction consists of “enhancement of productivity and competitiveness” as well as “maintenance of livelihood and increased livelihood security.” Above all, agricultural development projects based on the results of past cooperation in some regions of humid tropics that have high potential for development, together with consideration for the environment, will have great impacts on economic development in those regions. In addition, if Japan’s cooperation succeeds in improving the livelihoods of peasants in the highlands and valleys through diversified modalities, it will meet the Bolivian government’s request for support for improving productivity, with the result that effectiveness and significance of Japan’s cooperation will be further strengthened. Moreover, Japan should start cooperation on the “local basis,” addressing both livelihood and productive activities with provision of assistance to municipalities and associations of municipalities which have considerable development needs and potentials as well as high levels of implementation capability, in order to contribute to the “bottom-up development” approach promoted by the Bolivian government’s major initiatives for decentralization and popular participation.

**Table 3.1 MDGs and Bolivia's prospects for their attainment**

Goals and targets	Performance assessment by the Bolivian Government
<b>Goal 1: Eradicate extreme poverty and hunger</b>	
Target 1 Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.	It is slightly probable that the goal will be met if the present pattern of growth continues; more support is required. (The proportion of the extremely poor population, which stood at 37.3% in 2001, is projected to fall to 27.3% by 2015, short of the goal of 17.3%.)
Target 2 Halve, between 1990 and 2015, the proportion of people who suffer from hunger.	
<b>Goal 2: Achieve universal primary education</b>	
Target 3 Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.	It is probable that the goal will be met; however, more support is needed. (In 2001, the net enrollment rate stood at 96.6%, while the completion rate was 72.2%. The latter is projected to reach 81% in 2015.)
<b>Goal 3: Promote gender equality and empower women</b>	
Target 4 Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education by no later than 2015.	It is probable that the goal will be met.
<b>Goal 4: Reduce child mortality</b>	
Target 5 Reduce by two thirds, between 1990 and 2015, the under-five mortality rate.	It is probable that the goal will be met. The state of support conditions for the achievement of this goal is improving, but more support is still needed. (The child mortality rate improved from 120 to 55.6 per thousand live births between 1989 and 2001.)
<b>Goal 5: Improve maternal health</b>	
Target 6 Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.	It is probable that the goal will be met. The state of support conditions for the achievement of this goal is improving, but more support is still needed. (The maternal mortality rate was lowered between 1994 and 2000 from 390 to 310 per 100,000 live births. The percentage of deliveries assisted by qualified personnel for 2001 reached 54 %.)
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>	
Target 7 Have halted by 2015 and begun to reverse the spread of HIV/AIDS.	It is slightly probable that the goal will be met. The state of support conditions for the achievement of this goal is improving, but more support is still needed. (Up to 2001, the Ministry of Health had reported 800 cases of HIV/AIDS; WHO estimates the number at 4,600. The prevalence of TB was 136 per 100,000 inhabitants in 2000. There were 15,765 cases of malaria in 2001. Chagas was prevalent in 50% of the Bolivian territory in 1999.)
Target 8 Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.	
<b>Goal 7: Ensure environmental sustainability</b>	
Target 9 Integrate the principles of sustainable development into country policies and programs and reverse the losses of environmental resources.	It is slightly probable that the goal will be met. The state of support conditions for the achievement of this goal is weak but improving.
Target 10 Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation.	
Target 11 Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers.	
<b>Goal 8: Build a global partnership for development</b>	
Targets 12-18	No assessment has been made.

Source: INE, UDAPE, UN, "Progress on the Millennium Development Goals," Bolivia, 2002 (The President's Office made a report in the form of a joint announcement by the President and the Director-General of UNDP in May 2003.)

### **3.2.3 The presence of *Nikkei* people, and enhancement of the impact of assistance through cooperation with *Nikkei* communities**

Bolivia has a society of 14,000 people of Japanese descent (*Nikkei*), and there exists friendly sentiment towards Japan. Japanese immigrants and Japanese-Bolivians have extensive experience in local or agricultural development, which can be harnessed for Japan's development assistance, together with the results of JICA's projects that provided assistance to this society. By promoting cooperation with *Nikkei* communities, Japan can increase the positive attitude of Bolivians towards the Japanese, which has been developed through the *Nikkei* communities, and through these communities also strengthen Japan's relations with Bolivia.

In addition, owing to the existence of Japanese associations in Bolivia, NGOs and Japanese local governments that intend to carry out international cooperation activities in Bolivia can easily find local partners. This may well promote public participation in cooperation projects, and if such cooperative projects increase, Bolivia can expect that opportunities for the exportation of goods to Japan and direct investments from Japan will arise.

### **3.2.4 Improvement of Japan's presence and relations in South America, where regional integration is progressing**

Since Bolivia is a member of the Andean Community and an associate member of MERCOSUR, Japan's cooperation with Bolivia may contribute to the reduction in disparities between the member countries and to the harmonious development of regional integration. Japan can go even further. A viable option is to strength economic and social ties with these regional integration organizations through economic and social exchanges and human interaction, including ODA programs. This will pave the way for Japan to support or become involved in the ongoing process of closer regional cooperation and even a possible development initiative covering South America as a whole. Such an effort may in turn enable Japan to secure various resources and improve its position in the international community.

## **3.3 The Basic Direction and Priorities for Japan's Cooperation to Bolivia**

It has been stated in Chapter 2 that the most important short-term task for Bolivia is "social development" in the sense of increased "livelihood security," while the most important long-term challenge is "economic development" with focus on the expansion of employment opportunities through the "enhancement of productive capacity." These issues should also determine the direction of Japan's cooperation to Bolivia: short-term assistance for "social development (livelihood security)" and long-term assistance for "economic development (enhancement of productive capacity)."

Japan's assistance should be focused on efforts to reduce the level of "poverty" in its multiple aspects. As described in 2.1 of the preceding chapter, we regard "poverty" not only as a shortfall in income or consumption, but also as weak foundations for livelihood; a vulnerable position in the

economy, society, administration, and politics; and a resultant sense of unease and loss of hope. We regard “poverty reduction” as improvement in any of the above dimensions. “Social development (livelihood security)” aims to secure minimum conditions for livelihood and, where possible, strengthen foundations of living to achieve “poverty reduction” in a broad sense. The objective of “economic development (enhancement of productive capacity)” is to generate employment and business opportunities in the economy, thereby contributing to strengthened foundations of living and increased levels of income and consumption.

Considering that many donors have been providing a great deal of assistance to “social development,” it might be advisable that Japan place priority on the promotion of “economic development.” Also considering that Japan has experience in assisting in the implementation of medium- and long-term economic development plans in Asian countries, Argentina, and Chile, Japanese cooperation will be able to contribute to medium- and long-term “economic development” based on such experiences and accumulated expertise.

Japan can use its comparative advantage mainly in the following fields: (1) In the area of “social development,” in i) health care, ii) primary education, and iii) social development of poor rural communities; and (2) For assistance for “economic development,” by i) enhancement in agricultural productivity mainly in the humid tropics region and ii) strengthening of “ production chains. ”

For each of these fields, target regions will be determined as follows:

- Concerning the fields where Japan has already accumulated the experience of providing assistance, Santa Cruz, La Paz and Cochabamba, the hubs of Japan's cooperation activities should be focused to realize the cooperation effects earlier based on past results, to present and extend the effects to other regions, and to maximize the number of beneficiaries.
- Concerning social development in rural communities, a field without experience, it is beneficial to select model regions from the highlands and valleys, such as the Prefectures of La Paz and Chuquisaca.
- Concerning the cooperation on a local basis, which includes both “social development” and “economic development,” the target region for cooperation is the Prefecture of Santa Cruz.

### **3.3.1 Cooperation to ensure “livelihood security”**

Japan should place importance on improvements in health care services to reduce the risks that threaten life or health, which constitute the foundations of living. Moreover, Japan should emphasize cooperation in education, which will make possible capacity development that is indispensable for income growth as well as for acquiring basic knowledge and skills about living. In addition, it will be significant to make a trial of Japan's own approach to social development in poor rural communities.

## (1) Health care

Japan's cooperation mainly for improvement in the tertiary health services achieved certain results such as "social security" for urban residents. However, since the provision of health services through primary-level medical facilities has been insufficient, there has been a concentration of patients in tertiary medical facilities. This situation was stimulated by the Universal Maternal and Child Health Insurance (*Seguro Universal Materno Infantil*: SUMI) scheme, which started in 2003 and is especially serious in urban areas.

To improve this situation, it is important to promote cooperation based on the framework of the "Program for Strengthening Regional Health Networks (PROFORSA)," which was proposed by the JICA Bolivia Office and includes the following suggestions: Medical institutions at every level should restore their original functions so that patients can receive proper health services at the appropriate institutions; local people should positively participate in health administration to be regarded as the "main actors in health activities" both in name and in reality; and the prefectural and the municipal health bureaus should strengthen the functions of health administration. It will be possible to obtain better results from PROFORSA, if Japan coordinates its assistance with other donors – for example, cooperation between Japan and the US in a project formulation study under the Japan-US Common Agenda in April 2003. As of August 2003, PROFORSA is divided into the five phases indicated in the table below.

**Table3.2 Five phases of PROFORSA**

1	First phase	Carry out region-based projects for the establishment of urban models of a regional health care network suitable for the climate, environment, and culture.* Carry out national projects that support the regional projects.**
2	Second phase	Carry out projects for extending the urban model to other urban areas.
3	Third phase	Carry out regional projects for constructing rural community models for a regional health and medical care network suitable for the climate, environment and culture, with reference to the experience in the urban models.
4	Fourth phase	Carry out projects to extend the rural community model to other rural community areas.
5	Fifth phase	Analyze and systematize the experience gained during the first to fourth phases, and produce manuals to promote projects throughout the country.

\* The following projects were in progress in August 2003, will start in FY2003, or may start in FY2004:

- (1) Strengthening of the regional health network in Santa Cruz (in progress; 2001-2006)
- (2) Strengthening of the regional health network focusing on maternal child health in La Paz City (scheduled to start in 2003; 2003-2005)
- (3) Strengthening of the regional health network in Cochabamba City and the neighboring cities (under consideration for starting in 2004; 2004-2007)
- (4) Strengthening of the regional health network in Trinidad City (under consideration for starting in 2004; 2004-2007)

\*\* The following projects were in progress in August 2003 or will start in FY 2003:

- (1) Overseas survey specialists' support for the program mainly in the health sector which started in July 2002
- (2) Local training for leaders on regional health care 2001-2005
- (3) The project of training human resources who can contribute to regional health networks at Cochabamba Public Health Institute (under consideration for starting in 2003)

The projects that were in progress in August 2003 or were scheduled to start earlier are in the first phase. The important tasks in the future will be: (1) to examine the meaning and status of each project under the program, and to promote agreements between persons engaged in the projects and exchanges between projects based on the agreements; (2) to establish a system within Japan for supporting the completion of each phase; and (3) to positively cooperate with experts from other countries and human resources from the public and private sector in Bolivia and in Japan.

## **(2) Primary education**

The Bolivian Education Reform launched in 1994 has achieved certain success in terms of primary education, whose net enrollment ratio reached 97% in 2001. Many donor agencies have been providing financial and technical assistance toward the Reform. With these assistances, the Bolivian government has strengthened its actions and started some new programs such as School Lunch and Scholarships. However, more multiple approaches which include not only education but also various relevant areas are necessary to realize better completion rate and academic achievements. To obtain further success in the Reform, the Ministry of Education has been seeking more international assistance in areas such as: share of recurrent cost, improvement of the educational infrastructure, strengthening of local educational administration, and teacher education.

Considering the request of the Ministry of Education, we consider that out technical cooperation should be focused on the area of teacher education, especially on the establishment of In-Service Teacher Training (INSET). This area is deeply related to “Improvement in the quality of primary education” which is one of the main objectives of “Bolivia Education Plan 2004-2015.”

Teacher Education is an area where Japan has a comparative advantage in its cooperation due to its experiences developed in and out of Japan, and Japan has various technical assistance schemes that make an effective cooperation at the local level such as JOCV (Japan Overseas Cooperation Volunteers). By implementing such cooperation programs, it is also highly expected that the positive effects of them would be applied to other countries in Central and South America, and accumulating these experiences would also show to other donors the effectiveness of the Japanese style of international cooperation.

## **(3) Social development in poor rural communities**

Poverty in rural communities is the most difficult problem for the Bolivian government to solve. There are many tasks, such as the protection of the environment and the improvement in incomes, in addition to the above-mentioned health and education needs. Concerning the improvement in incomes in particular, in spite of various efforts made by donors, adequate results could not be achieved. Therefore, the best approach for that problem has not been clarified yet. Accordingly, a possible approach is to carry out research by trial-and-error in order to find out whether or not there is any effective solution.

### **3.3.2 Cooperation for increasing “productive capacity”**

The main challenge of Bolivia's long-term development is the need to increase employment and income opportunities. To meet this challenge, it will be necessary to strengthen productive capacity on the basis of “enhancement in productivity and competitiveness.” This long-term task represents the other pillar of Japan's cooperation to Bolivia.



Japan should provide assistance to the productive sector to contribute to increasing employment and income opportunities by combining the following two approaches: (1) agricultural development in the humid tropical areas; and (2) strengthening of “production chains.”

### **(1) Agricultural development in the humid tropics**

Since agricultural development in the humid tropics requires comprehensive and continuous efforts, it is necessary to draw up a development master plan. In the plan, it is important to examine a system which realizes “enhancement in productivity and competitiveness” in agricultural products for both international and domestic markets, indicating the prospects for and problems with the objective.

Of the agricultural products for export, oil-bearing crops, such as soybeans, and beef cattle are especially important. The production and processing of soybeans are promising, since the area of land suitable for the cultivation of soybeans is vast and because world demand for soybeans is expected to increase. On the other hand, the productivity of soybeans in Bolivia should be improved soon, since the current increase in exports of soybeans is supported by the Andean Community's preferential treatment system, which will be terminated in 2005. When improving productivity, it is necessary to give consideration to the impacts on the environment according to the “JICA Environmental and Social Guidelines.”

Japan can carry out experimental research and extension projects in cooperation with soybean producers' associations, especially those of Japanese descent, setting up bases at the Center for Investigation of Tropical Agriculture (*Centro de Investigación Agrícola Tropical*: CIAT) and the Technological Center on Agriculture and Livestock in Bolivia (*Centro Tecnológico Agropecuario en Bolivia*: CETABOL). Since enhancements in international competitiveness require further research and development including cultivation of the proper varieties, improvement of the cultivation techniques, and consideration of the environment, CETABOL and the Integral Agricultural Cooperative in Okinawa (*Cooperativa Agropecuaria Integral de Colonias Okinawa*: CAICO) and the Integral Agricultural Cooperative in San Juan (*Cooperativa Agropecuaria Integral San Juan de Yapacani*: CAISY) to which CETABOL is scheduled to be transferred will play an important role. In addition, Japan can use its experience in cooperating in the cultivation of soybeans in Brazil and Paraguay. When carrying out experimental research and extension projects, Japan should use and strengthen Bolivia's Agricultural Technology System (*Sistema Boliviano de Tecnología Agropecuaria*: SIBTA). Concerning beef cattle, Japan should utilize the National Bovine Livestock Improvement Center in Bolivia (*Centro Nacional de Mejoramiento de Ganado Bovino*) in addition to CETABOL. Since a system of quarantine inspection on animals and plants is essential to the promotion of the exportation of farm products, it is necessary to consider further support to strengthen the National Service for Livestock Health and Food Safety (*Servicio Nacional de Sanidad Agropecuaria*: SENASAG), which is carried out according to the Japan-Chile Partnership Program (JCPP).

Since, of the products for the domestic market, Japan has experience in cooperating on the cultivation of rice, fruits, and vegetables, Japan should cooperate in the enhancement of productivity and competitiveness concerning these products.

## **(2) Strengthening of the “production chains”**

Japan should cooperate in strengthening the “production chains” not according to a master plan but by trial and error. The 14 products listed by the government can be roughly classified into farm products and processed goods, other products, and tourism. Japan should give various challenges in many fields and consider each of them as a prospective target for Japan's cooperation.

Of the products covered by the “production chains,” the production and export of products in the humid tropics, such as soybeans, wood, and beef cattle, have higher potential. Therefore, Japan can incorporate the cooperation for strengthening of the production chains of these products into the above-mentioned agricultural development in the humid tropical areas. On the other hand, concerning cotton products, agricultural processed goods, and leather products, Japan should examine the assistance for each of them, with consideration for the movements and demands of various interested parties.

Concerning the strengthening of the “production chains” to develop the ability to collect information and acquire negotiation skills, it is essential for producers to establish an organization. In agriculture, it is useful to provide assistance in organizing farmer's cooperatives together with CAICO and CAISY, rare agricultural cooperatives that exist and function in Bolivia. Moreover, because vocational training, which has an immediate effect, is necessary for the enhancement of productivity and the increase of employment, Japan should consider technical training for production and processing while investigating the potential of the cluster for each product.

Since Bolivia has plenty of variations in its geography and culture, there is high potential for the development of tourism and the promotion of eco-tourism by utilizing the name of the Andes, which attracts tourists. Bolivia's tourism development is worth considering as an area for Japan's cooperation.

## **3.4 Modalities and Institutional Arrangements for Japan's Cooperation**

Based on the identification of two basic pillars of Japan's cooperation to Bolivia (section 3.2), this section discusses—from the short- and long-term perspectives—the modalities and institutional arrangements for the design and implementation of cooperation programs and projects in the priority sectors and regions mentioned in section 3.3.

### **3.4.1 Short-term modalities and institutional arrangements**

Section 3.2 has discussed the need for Japan to contribute to poverty reduction through aid coordination and thus demonstrate the effectiveness of its assistance. To attain these purposes, it is necessary to address the following issues:

### **(1) Current status of aid coordination**

So far, aid coordination in Bolivia has not reached such a level as to align all donors into commonly agreed-upon modalities and procedures (as in the well-established sector-wide approach). Since the procedure for the allocation of roles among donors has still not been determined, each donor continues to conclude agreements with the Bolivian government on a cooperation policy, priority sectors, and aid budget, separately. Under the conditions of partial, piecemeal exercise, Japan has actively participated in aid coordination in Bolivia, by, for example, assuming the chair of one of the regular donor meetings. As yet, however, it is impossible to predict what donor coordination will look like in the future. Under this situation, Japan should present its basic policy for cooperation and priority sectors/regions in the form of a cooperation program and a budget plan, both on a multiyear basis, in order to secure its role in the sectors and regions where Japan has comparative advantage.

### **(2) Integrating aid schemes into a coherent program**

Japan should further integrate various types of aid schemes into a coherent program. More specifically, Japan should pursue not only a combination of technical cooperation and grant aid, but also combinations with other schemes, such as projects based on public participation including volunteer activities and those for supporting immigrants and *Nikkei* people. This integration—flexible combination of aid schemes—should target priority sectors in order to achieve maximum results. If Japan plans and carries out such a comprehensive program, Japan will be able to have a greater influence on the Bolivian government's policies under a multiyear budget system and aid coordination.

### **(3) Infrastructure development**

Although Japan has so far regarded the development of infrastructure as a “priority sector” in country-specific program implementation plans, we do not regard it as an independent “sector” in this study since it is not a “sector” that focuses an area for achieving a specific purpose, but the means that can be used in various sectors.

Some cooperation programs for priority sectors include the building and maintenance of infrastructure. When establishing projects for the development of infrastructure, it is necessary to specify the position and significance of the infrastructure development in the entire program. In other words, such projects should be viewed as a means to support the development of Bolivia, *not as an end in itself*.

### **(4) Optimal utilization of grant aid**

Since the purpose of grant aid is to satisfy basic human needs (BHN), it should be used not only in the sector of “livelihood security” but also in the sector of “enhancement of productive capacity,” where Japan should use grant aid and technical cooperation jointly as part of its comprehensive efforts, for example, for infrastructure development directly connected with livelihood and production activities in rural communities.

When grant aid is provided to local government projects, such as the development of infrastructure in rural areas, it is unclear whether grant aid can be carried out without any problems, since the central government may reduce the amount of the grant from a block grant transferred to local municipalities. Japan should explain to the Bolivian government the merit of grant aid without reducing the grants to local governments, stressing that the combination with technical cooperation can produce greater effects.

#### **(5) Presentation of an alternative to budget support**

It is expected that the Bolivian government will request budget support. Japan does not accept this type of request due to the inadequate system of transferring budgets from the central government to municipalities. Japan should clarify practical problems and make suggestions concerning the administrative and financial reforms and the improvement of transparency before launching budget support and common funds.

However, since other countries are promoting this type of assistance, if Japan continues to reserve budget support, Japan may lose its “qualifications for participation” in macro-level discussions on development. Therefore, Japan should pursue forms of contribution other than budget support.

A viable option is to emphasize the importance of scheduled debt relief. Another option is to positively seek ways of providing funds by specifying the purpose and the standard of expenditures, while making suggestions to integrate the fund for each project or priority. For example, Japan may consider providing funds to the Foundation for Agricultural and Stock Raising Technologies in the Humid Tropics (*Fundación para el Desarrollo Tecnológico Agropecuario del Trópico Húmedo: FDTA-TH*) using non-project grant aid or the Grant Aid for Increased Food Production (Second Kennedy Round: 2KR).

#### **(6) Launch of cooperation on a “local basis”**

As a new system for the “participation in and contribution to the process of development” included in the basic direction for Japan's cooperation to Bolivia (section 3.2), Japan should promote cooperation on a “local basis” with municipal governments or associations of them that have a great need and a sufficient capacity for development. The purpose of this is to participate in and contribute to “bottom-up development” through the building of a “local system” while decentralization and the Popular Participation Law is being promoted.

The “local system” refers to a system where relationships based on trust and cooperation among various development actors (the central government, prefectures, municipalities, donors, and NGOs) and with local residents' organizations are established through the coordination of policies between sectors, exchanges of information and experience, the formation of residents' organizations and continuous participation in the formulation, decision-making, implementation, and evaluation of development policies, with the basis established on municipal governments and associations of them (*mancomunidad*). This prevents political conflicts between the central government agencies, frequent

changes in policies or personnel, and competition between donors or between NGOs, while comprehensively and efficiently promoting “bottom-up development” through the correction of asymmetric information, the reduction of transaction costs, the emergence of synergistic effects, and the construction of social capital, etc. Japan has already accumulated this kind of experience through the cooperation to *Nikkei* communities. In addition, there is an example of local basis development in the Porongo Municipality of Santa Cruz where cooperation activities are going on with donors and NGOs.

As an example of Japan's cooperation on a local basis, Japan should begin research on development on a local basis in *Nikkei* communities and the Porongo Municipality with the cooperation of Bolivia's counterparts, such as local governments, academic circles, and NGOs. Japan should also hold workshops and provide technical cooperation for the establishment of the local system, based on the experience of the livelihood improvement movement in Japan. Target areas should be municipalities that are located in Santa Cruz Prefecture and have the potential for development, such as Porongo Municipality.

In the future, when conducting a development study on agriculture or making a regional integrated development plan, it will be necessary to set objectives and evaluation indices in terms of the building of a local system and development on a local basis as well as “livelihood security.” Concerning Japan's cooperation projects currently in progress, Japan should endeavor to make them as useful as possible for the construction of the local system.

#### **(7) Cooperation with Japanese-Bolivians and their associations**

Support for *Nikkei* communities in Bolivia is being provided with a focus on the welfare of aged emigrants and the training of the younger generation. However, it is proceeding from the stage of support for Japanese-Bolivians themselves to the stage of a new form of development in cooperation with Japanese-Bolivians in recent days, according to the report of the 74th meeting of the Overseas Emigration Council held in December 2000. Therefore, as described above, concerning Bolivia's agricultural development and development on a local basis, Japan should identify applicable development modalities and technologies from experience in *Nikkei* communities and adopt these for future projects in cooperation with Japanese associations in these communities. In addition, to make a greater contribution with the cooperation of Japanese-Bolivians and their associations, Japan should promote *Nikkei* people engaged in international aid projects and improve the institutional arrangements under which Japanese associations can carry out international aid projects.

#### **(8) “South-South Cooperation” (involving people of Japanese descent and their associations in other countries)**

In Central and South America, middle-income countries, such as Argentina, Brazil, Chile, and Mexico, are independently providing cooperation to other countries within the region (South-South cooperation). They are also actively promoting South-South cooperation using JICA's South-South Cooperation support scheme (third country training and third country experts).

Japan has concluded partnership programs with Argentina, Brazil, and Chile to carry out various activities for social and economic development in other developing countries (Partnership Program for Joint Cooperation between Japan and Argentina (PPJA); Japan-Brazil Partnership Program (JBPP); and the Japan-Chile Partnership Program (JCPP)). Taking into consideration these active movements concerning South-South cooperation, Japan should positively use the resources of other Central and South American countries (human resources, including their expertise, and facilities) for cooperation.

The following are examples of such applications:

- i) Use of the outstanding results of the Japanese cooperation with other countries within the region (Project on Agricultural Development in the Cerrados in Brazil, Productivity and Quality Improvement Project in Brazil, Research Project on Soybean Production in Paraguay, Family Planning and Maternal and Child Health Project in Brazil, etc.)
- ii) Cooperation with people of Japanese descent and their associations (Agroforestry by farmers of Japanese descent in Brazilian Amazon Region, etc.)

## **(9) Cooperation on problems common to South America**

### **1) For MERCOSUR**

For MERCOSUR, Japan is preparing to cooperate in packaging technology for export and the promotion of tourism. This initiative, in which Bolivia will participate in the future, should aim to strengthen cooperation among the member countries. Concerning the distribution of agricultural products, Japan should consider providing assistance for the construction of roads and river routes that are consistent with the development plans of countries within the region and have priority.

### **2) For the Andean Community**

Possible areas for cooperation with the Andean Community are disaster prevention and tourism development; Bolivia is in great need of cooperation in these sectors. Because regional cooperation produces better effects in both sectors, Japan should consider formulating projects to meet these needs.

### **3) Formulation of regional cooperation projects**

Japan should consider formulating regional cooperation projects through South-South Cooperation to be carried out under the above-mentioned partnership programs (with Chile, Argentina, and Brazil) and through other countries within the region.

## **(10) Cooperation with consideration for weak governance**

### **1) Improvement in the administrative capacity of the central and local governments and strengthening of cooperation with non-governmental organizations**

The central and local governments have problems, such as the inappropriate replacement of persons in charge, inadequate administrative capacity, and lack of finance. It is therefore necessary to include the improvement in administrative capacity into each cooperation program and project and include cooperation with local residents, NGOs, and producers' associations in programs and projects in order to strengthen the system of supporting and monitoring administration and incorporate the related outsiders into the framework of administration through various cooperation schemes.

### **2) Attention to the conclusion of pacts**

The Bolivian government is planning to promote development strategies by concluding pacts with related organizations on production, the society, and the institutional framework through national dialogues, which are scheduled to start in August 2003. Although it is unclear whether such agreements will come into force smoothly or function well, an improvement in governance can be expected in the sectors and regions covered by them. Before developing cooperation projects, it is necessary to check the existence and contents of related agreements and use them for the selection of target regions.

## **3.4.2 Improving the modalities and institutional arrangements for implementation of cooperation projects over the long term**

### **(1) Issues facing Japan's cooperation to Bolivia**

To ensure that Japan's cooperation to Bolivia is more effective, it is necessary to constantly improve and strengthen the planning and implementation arrangements from every aspect. Issues facing Japan's cooperation can be roughly classified as follows:

- i) Improving the institutional arrangements for demonstrating the advantages of Japan's cooperation (in Bolivia and in Japan)
- ii) Improving the implementation arrangements to cope with the malfunctioning of the partner organizations in Bolivia
- iii) Improving the decision-making system which ensures more initiative to local offices to increase the effectiveness and efficiency of Japan's cooperation
- iv) Improving the research and evaluation mechanisms led by local offices to increase the effectiveness and efficiency of Japan's cooperation
- v) Improving the arrangements for using human and material resources in Bolivia to increase the effectiveness and efficiency of Japan's cooperation

- vi) Improving the arrangements for strengthening the role and influence of Japan within the aid coordination framework (in Bolivia and in Japan)

These issues call for Japan to significantly change its modalities and institutional arrangements for implementing projects in not only Bolivia but developing countries as a whole. They cannot be ignored when Japan seriously seeks to increase the effectiveness and efficiency of Japan's cooperation.

These issues pose a critical question – if Japan cannot address them, it may become unable to have presence and influence in donor coordination. Below, some of the issues are discussed further, with a focus on delegating more authority to the local offices.

## **(2) Delegating more authority to local offices**

Delegating more authority to the local offices is the key to addressing the issues discussed above.

In fact, Japan has already taken a step in this direction in Bolivia. In FY 2003, the Japanese Embassy established an ODA Task Force in the city of La Paz with the participation of the local representatives of Japan's aid agencies, such as JICA, JBIC, and JETRO. The idea was to formulate more effective ODA policies and programs at the local level. Japan has established similar task forces in other developing countries as well. This devolution initiative marked the launch of the local aid framework in which Japan's concerned agencies work together cohesively. JICA, for its part, is now reviewing its institutional arrangements for aid implementation at its headquarters and overseas offices, before it assumes the status of an independent administrative institution in October 2003. The aid agency is expected to delegate more authority to its local offices.

The strengthening of the autonomy and institutional arrangements at the local office is essential, especially in aid coordination. It is indispensable to secure the decision-making power, budget, and staff that will enable the Japanese Embassy and JICA Bolivia office to decide on aid projects flexibly. Japan should fully promote the transfer of authority and the streamlining of official procedures to ensure that the overseas allocation of financial and human resources is effective. Sector advisors and other personnel who support the ODA Task Force in La Paz are necessary in order to keep up with the rapid movement of aid coordination, provide assistance to the sectors where Japan has a comparative advantage, and carry out cooperation projects effectively. In this regard, it is essential to promote the local employment of such personnel who have the required ability to implement the projects, whether they are Japanese or not.

## **(3) Speeding up the process of formulating and implementing aid projects and laying out a mid-term assistance plan**

At present, it takes about ten months to determine a project after a request is submitted. This procedure requires such a long period because it involves consultations with the ministries concerned. The project is put on hold if the ministries fail to agree on the details. Since this lengthy system undermines the effectiveness of assistance, Japan should abolish the current system whereby



projects are managed mainly by the headquarters in Tokyo, and promote the transfer of authority to the country where the project is being carried out.

In fact, JICA has already taken a step in this direction. In 2000, JICA established a number of regional departments, which are in charge of drafting Country-specific Program Implementation Plans. Through such drafting procedures, these departments are now growing their capacity to formulate programs/projects and make the necessary arrangements for their respective regions. Under the plans thus drafted, JICA's headquarters needs to delegate more authority to its overseas offices concerning program formulation and budget execution for less time-consuming implementation of projects. The headquarters should commission the resident representatives of overseas offices to conduct the planning, implementation, and evaluation of projects within a predetermined budget. It is expected that this process will be expedited by the formulation and implementation of the medium-term plan of the new JICA, which will be launched in October 2003.

As an interim measure, it is necessary to adopt a policy which enables to profess the decision to implement a project as soon as the basic direction for the project is determined. In addition, since an increasing number of countries (including Bolivia) compile a multiyear budget for a project, the presentation of a mid-term assistance plan is necessary for incorporating Japan's assistance programs into the recipient country's policies and project plans and for having an influence on the policies overall.

#### **(4) Diversification of aid schemes**

Cooperation with non-government organizations and community associations is very important for the establishment of the leading role of the local system in La Paz. At present, however, this form of cooperation is possible only for technical cooperation projects that require international agreement. Concerning a country whose governance is unreliable, if the counterparts are public organizations only, assistance may not achieve its effectiveness. Therefore, it is necessary to involve non-governmental organizations and community associations in the project. There are some cases where a non-governmental organization can lead a project more effectively than a public organization. From this viewpoint as well, it is necessary to adopt a proper aid scheme and promote further delegation.

To demonstrate the advantages of Japan's cooperation and to strengthen the role and influence of Japan in aid coordination, Japan should extend available aid schemes and flexible application of them so that local offices could take an initiative in proposing new approaches in a timely manner. In addition, it is essential for Japan to establish a domestic system of quickly and flexibly supporting investigations and analyses and the provision of funds in order to facilitate such local initiative. Above all, participation in the process of formulating strategies and policies at the macro and sectoral levels is required in order to enhance the evaluation of Japan's cooperation by contributing to the aid coordination in Bolivia. However, to be regarded as a reliable partner and obtain the qualifications for participation in the process of formulating strategies, Japan will sooner or later have to be able to provide financial assistance at the macro and sectoral levels (budget support and

contributions to common funds). Until adequate systems are established in Bolivia, Japan may well utilize the aid schemes currently available, as described in 3.4.1(5). Yet it is clear that more flexibility and broader options regarding aid schemes will deepen Japan's engagement in and contribution to the development of Bolivia. As a form of budget support, it is desirable to consider providing non-project loans in addition to non-project grant aid, Grant Aid for Increased Food Production (2KR), and debt relief.