

12th EADI General Conference
**Global Governance for
Sustainable Development**

The Need for Policy Coherence and New
Partnerships



**Poverty Reduction Strategies and Results-oriented
Budgeting: A Case Study of Bolivia**

Author:	Niek de Jong
Institution:	SEOR, Erasmus University Rotterdam
Address:	P.O. Box 1738, 3000 DR Rotterdam, The Netherlands
E-mail:	ndejong@few.eur.nl
Telephone:	+31-10-4082479

Abstract

The core principles of the Poverty Reduction Strategies (PRS) approach are that the strategies should be country-owned, comprehensive and results-oriented, have a medium and long-term perspective and that they should be oriented at strengthening partnerships between government, domestic stakeholders and external donors.

This paper focuses on the principle of the results-orientation of the strategies and, more in particular, on the issue of the orientation on results in the decision making about how budget resources are allocated. It looks at the case of Bolivia to see what has been achieved since the start of the PRS process in Bolivia in 1999 in moving towards more results-oriented budgeting and what the role of foreign aid has been in this.

Poverty Reduction Strategies and Results-oriented Budgeting: A Case Study of Bolivia¹

1. Introduction

As one of the first countries in the world, Bolivia elaborated a Poverty Reduction Strategy Paper (PRSP) as a condition for receiving external debt relief in the framework of the Enhanced HIPC Initiative. The document of the *Estrategia Boliviana de Reducción de Pobreza* or EBRP was approved by the Boards of the IMF and the World Bank in May 2001.

The core principles of the Poverty Reduction Strategy (PRS) approach are that the strategies should be country-owned, comprehensive and results-oriented, have a medium and long-term perspective and that they should be oriented at strengthening partnerships between government, domestic stakeholders and external donors.

This paper focuses on the principle of the results-orientation of the PRS approach and, more in particular, on the issue of the orientation on results in the decision making about how budget resources are allocated. It looks at the case of Bolivia to see what has been achieved since the start of its PRS process in moving towards more results-oriented budgeting (ROB) and what the role of foreign aid – including aid from European donors – has been in this.

¹ This paper draws on three annual country reports on Bolivia prepared in the framework of the Project 'Monitoring and Evaluation of Poverty Reduction Strategies in Latin America' commissioned by Sida (see De Jong et al. 2006, 2007, 2008, www.iss.nl/prsp).

As explained in the second edition of the Sourcebook on Management for Development Results, a results-oriented culture in public policy “focuses on the achievement, monitoring, and reporting of outcomes” (OECD-DAC 2007:18). Establishing such a culture is not easy, since traditionally the emphasis in many countries has mainly been on inputs and, at best, outputs of public policy. In the case of Bolivia this has not been different.

The EBRP aimed at implementing a results-oriented management and evaluation approach in central government, prefectures and municipalities and establishing multi-annual budgeting. This was probably too ambitious.

The paper addresses the following questions: (1) how are budgets formulated and executed in Bolivia? (2) has the PRS process led to more results-oriented budgeting? (3) is there a feasible framework for ROB? and (4) what has been or can be the role of donors in moving towards more ROB, and especially that of European donors?

The rest of the paper is organized as follows. Section 2 briefly discusses what is meant by ROB. The next section gives a brief overview of donor views and visions regarding ROB. Subsequently, Section 4 describes the main issues of the PRS process in Bolivia. The formulation and execution of budgets is the topic of Section 5. Then, in Section 6 an analysis is made of whether the budget process changed in the context of the PRS approach. Section 7 analyzes the (possible) role of donors in this. Finally, some conclusions are drawn in Section 8.

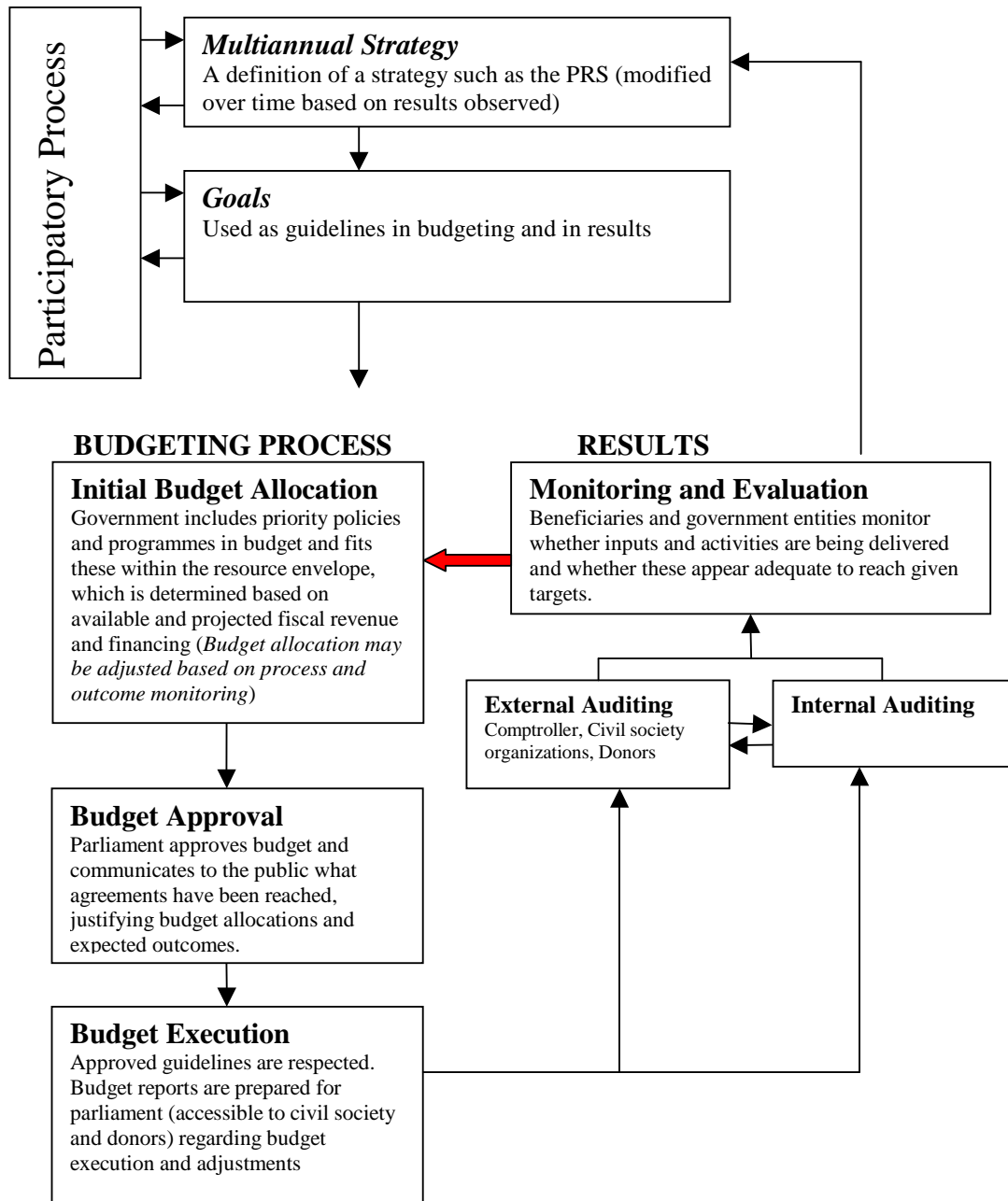
2. What is ROB?

Results-oriented budgeting forms part of a management approach that tries to increase the effectiveness and impact of public sector policies. It intends to relate the budget to concrete policy actions, after having clearly defined how and to what extent it is expected that these actions contribute to the achievement of certain goals. The central idea is to make the budget more transparent in terms of what one wants to achieve and to make the government more accountable for what one pretends to achieve. At the same time, ROB is an instrument for the monitoring and evaluation (M&E) of the effectiveness of poverty reduction programmes and of public policies in general.

According to Roberts (2003), ROB is “simply the planning of public expenditure for the purpose of achieving explicit and defined results.” He explains that those results are in general closely linked to (or identical with) the objectives of public policies. They can be longer term ‘final outcomes’ (sometimes also called ‘impact’), medium- to long term ‘intermediate outcomes’ (sometimes simply referred to as ‘outcomes’), or short and medium term ‘outputs’ of the delivery of public services that pretend to contribute to the achievement of the policy objectives, or that represent important progress in orienting the

services towards the achievement of the objectives. The use of financial and non-financial resources, or ‘inputs,’ in activities/processes is expected to lead to these results.²

Figure 1
Results-oriented budgeting in the context of the PRS process



² Though, in practice, attribution of intermediate or final outcomes to certain inputs may be difficult or impossible.

ROB assigns resources to the ministries and executing agencies of public policies on the basis of an evaluation of performance in the past and the strategies for the future, requiring a commitment on the part of these ministries and agencies to achieve the results within a pre-established time horizon. It is a proposal of donors that responds to the need to make governments more accountable for the use of public resources, as well as to improve the efficiency and effectiveness of public policies by means of linking the objectives to public expenditure and the performance of indicators.³

Figure 1 is a schematic presentation of what ROB could be in the context of the PRS process. The 'budgeting' consists of the formulation, approval and execution of the budget. On the 'results' side there are the internal and external control and auditing, as well as the M&E of programmes. Civil society could play a role, both in control and in M&E. There would be feedback of the results of M&E at the start of the budget process, but also participative processes could take place to prepare a multi-annual strategy. Note that this scheme is only an illustration of what form budgeting oriented at results could take in the context of the PRS process.

To link policy actions, required inputs, unit costs and budgets to specific development goals could easily be seen as a linear and technocratic process. However, in practice it is possible that one is not certain about the degree in which particular inputs (or policies) effectively translate into the expected results. Moreover, in practice, setting priorities in the budget is a highly politicized process. That process could imply much trial and error, moving back from the measurement of the performance of indicators to the start of the budget cycle.

3. Donor views and visions regarding ROB

HIPC and the PRS approach

The HIPC initiative was launched in 1996 by the World Bank and the IMF with the aim of reducing the external public debt of highly indebted low-income countries and increasing public spending in favour of the poor. It required countries to successfully complete an IMF adjustment programme in order to receive debt relief. In September 1999, the World Bank and IMF announced a new poverty focus in their work in low-income countries. The HIPC initiative was enhanced and poor countries that wanted to qualify for debt relief according to the enhanced initiative had to elaborate PRSPs, which became a new basis for development cooperation. Later on, the goals of the PRSPs were aligned with the Millennium Development Goals (MDGs). This increased even more the need for making the links between budgets and results more explicit.

As explained earlier, one of the core principles of the PRS approach is the results-orientation of the strategies. PRSPs were expected to focus on the effects of policies, rather than on the policies themselves. Because of the longer-term perspective of PRSPs,

³ Efficiency is defined in terms of the relationship between inputs (or unit costs) and outputs. Effectiveness is the degree in which the outputs translate into (final or intermediate) outcomes. Similarly, cost-effectiveness tries to relate certain achievements of outcomes to the cost of required inputs.

the countries receiving HIPC debt relief were also expected to move to multi-annual budgeting and elaborate so-called Medium-Term Expenditure Frameworks (MTEFs).

In theory, the PRS approach is in line with donor efforts to enhance the efficiency and effectiveness of foreign aid, by modifying the ways in which aid is delivered.

High Level Forums on aid effectiveness

ROB has been one of the topics discussed and agreed upon in High Level Forums (HLFs) on aid effectiveness held in Rome (2003) and Paris (2005). The second HLF resulted in the endorsement of the Paris Declaration on Aid Effectiveness by over 100 signatories from donors and partner countries. According to that Declaration, one of the remaining challenges to be addressed concerns the “Weaknesses in partner countries’ institutional capacities to develop and implement results-driven national development strategies.” It states that partner countries commit themselves to translate their “national development strategies into prioritised results-oriented operational programmes as expressed in medium-term expenditure frameworks and annual budgets,” whereas donors are committed to “Respect partner country leadership and help strengthen their capacity to exercise it.”

According to the Declaration, partner countries commit to “Endeavour to establish results-oriented reporting and assessment frameworks that monitor progress against key dimensions of the national and sector development strategies; and that these frameworks should track a manageable number of indicators for which data are cost-effectively available” and donors “Work with partner countries to rely, as far as possible, on partner countries’ results-oriented reporting and monitoring frameworks” (Paris Declaration, paragraphs 44-45).

As a part of the preparations for the third HLF to be held in Accra, Ghana, on 2-4 September, specific consultations are underway or planned around various relevant topics on aid effectiveness, including the topic of Managing for Development Results (MfDR).⁴

MfDR

To date, three International Roundtables on MfDR have been held.⁵ One of the sessions of the third Roundtable (RT3) was on institutional arrangements for linking policy, planning, and budgeting.⁶ A background paper prepared for that session observes that, in spite of improvements in Public Financial Management (PFM) systems, the links between policy formulation, budgeting, expenditure management and results remain weak and identifies four key issues related to this (RT3 2007):

1. Budget institutions are critical for implementing policies.
2. Linking policy objectives and resources is essential and MTEFs can play a role in this, though it is recognized that in practice establishing MTEFs is difficult and can be time-consuming.

⁴ See http://www.oecd.org/document/47/0,3343,en_2649_3236398_39448751_1_1_1_1,00.html

⁵ The first was held in Washington in 2002, the second in Marrakech in 2004 and the third in Hanoi in 2007.

⁶ See <http://www.mfdr.org/rt3/Glance/Day2/index.html#LinkingPolicy>.

3. Budget credibility will among others depend on the quality of the PFM systems and – provided the overall budget is realistic – its key requirement is “to ensure that the budget is comprehensive and executed in a timely manner, with releases arriving at the spending ministry or agency at the right time” (RT3 2007:7).
4. Concerning the measurement of results and the feedback into the policy making process, it is important to try to ensure that the planning and budgeting system will generate incentives for all actors involved and get support from them, to approach performance management and budgeting in various ways, develop suitable results indicators and to assess them at the right time of the financial year, so that the assessment is well suited for informing the priority setting and budget preparation for the next cycle.

Joint EU Development Policy Statement

The EU adopted the Development Policy Statement ‘The European Consensus on Development’ in November 2005. It presents the EU vision of development and the European Community development policy. Various parts of the document highlight the importance of results orientation to make aid more effective and that the EU is committed to base its aid on the PRS or equivalent national development strategy and own budget process of each partner country. In line with the Paris Declaration, it is stated that the preferred aid modality is budget support. That modality is expected to encourage, among others, results-based approaches. There is also a commitment to strengthen the financial management capacity of beneficiary countries.

4. The PRS process in Bolivia

The PRS process in Bolivia has been extensively documented elsewhere (see e.g. Komives et al. 2004, 2005; Dijkstra 2005). For the purpose of this paper it will suffice to highlight the main issues.

Broadly speaking, it is possible to distinguish three periods related to the PRS process in Bolivia:

- 1999-2001: Elaboration and approval of the PRSP.
- 2002-2005: Initial rejection of the PRSP followed by a failed attempt to revise it; Political and economic crises.
- 2006 and beyond: PRS approach fully abandoned; Elaboration of National Development Plan.

Below it will be briefly described what happened in these three periods.

1999-2001

The PRS process in Bolivia started in 1999. UDAPE (the Unit for Analysis of Economic and Social Policies) prepared an Interim PRSP, which was approved by the Boards of the IMF and World Bank in January 2000. During 2000, a large-scale consultation – called National Dialogue – was held at the municipal level, focussing on a discussion of social

policies.⁷ The Interim PRSP was to serve as basis for that dialogue, but this did not happen, mainly because the paper itself was not circulated in the country. Parallel to the official National Dialogue, other consultation processes were undertaken, which were also financed by donors.

UDAPE was again assigned the task to elaborate the (full) PRSP, in a context of heavy donor influence and pressure from sector ministries. As a consequence, the strategy did not take the results of the Dialogue into account. The final draft of the document was discussed with representatives of civil society, but those discussions did not lead to modifications in the strategy. The IMF and World Bank Boards in Washington approved the EBRP in May 2001.

The EBRP has among others been criticized for the absence of a clear link between the targets and the budget of the strategy. As Vos and Cabezas (2005) indicated, the EBRP “made an attempt at costing the lines of action proposed for poverty reduction, but did not set clear priorities among them. Nor did it give a clear justification of the extent to which the envisaged budget and public actions would be expected to help the country reach the specific poverty reduction targets.”

2002-2005

The Sánchez de Lozada government that took office in 2002 rejected the EBRP and presented a Government Plan which focussed on economic growth. The donors supported the ideas of the Plan, but did not accept the rejection of the PRSP. Instead, they required the latter to be revised. The government – and UDAPE in particular – began to work on this and presented a revised PRSP, which was aligned with the MDGs. However, it was not endorsed by donors, because no consultation had taken place with civil society. While according to the National Dialogue Law, a new dialogue should have been held in 2003, this process was postponed due to the difficult political situation. The crisis in October 2003 forced the President to resign. He was succeeded by his Vice-president Carlos Mesa.

A National Dialogue was held in 2004, but President Mesa had other priorities. The two major themes in which his government got involved were the gas policy (hydrocarbon laws) and the Constituent Assembly. This involvement, together with both Mesa’s desire to govern without the support of political groups in Congress and the lack of managerial capacity shown by his collaborators in the Executive, complicated his governance, leading in the end to his resignation in June 2005. An interim government was to prepare the general elections in December 2005.

2006 and beyond

The general elections brought to power President Evo Morales. His proposal to radically change the political, economic and social structures of the country was supported by

⁷ Following the country-wide dialogue on social issues and policies held in the municipalities, also economic and political dialogues were planned, especially at departmental and national levels, but these never held.

indigenous groups and social movements, thus shifting political power towards representatives of the poor.

The new government presented its National Development Plan (PND) in June 2006. The PND proposes to centralize planning power in a “true planning system”, with the goal of channelling the economic benefits from the exploitation of natural resources to the employment-generating productive sector. The “new model” proposed in the PND includes more participation of the State in the economy, recovering “strategic sectors” and changing the distribution of economic benefits. The Plan calls for not only providing public goods and services, but also including the poor in State interventions to increase incomes.

Reference to the PRSP and the PRS process is virtually absent in the PND. The latter is also not very explicit on ROB. In its Country Strategy Paper 2007-2013, the EC (2007:8) expressed this as follows: “... the document remains short on clear statements of operational mechanisms, institutional framework, performance indicators or medium-term budgets.”

In sum, the PRS process has had a short life in Bolivia. It was neither able to survive the political and social instability that had been the rule since 2001, nor to reach the objectives set out for it by the international community. The process was gradually abandoned by different actors, and most recently by the donor community.

5. The budget process in Bolivia

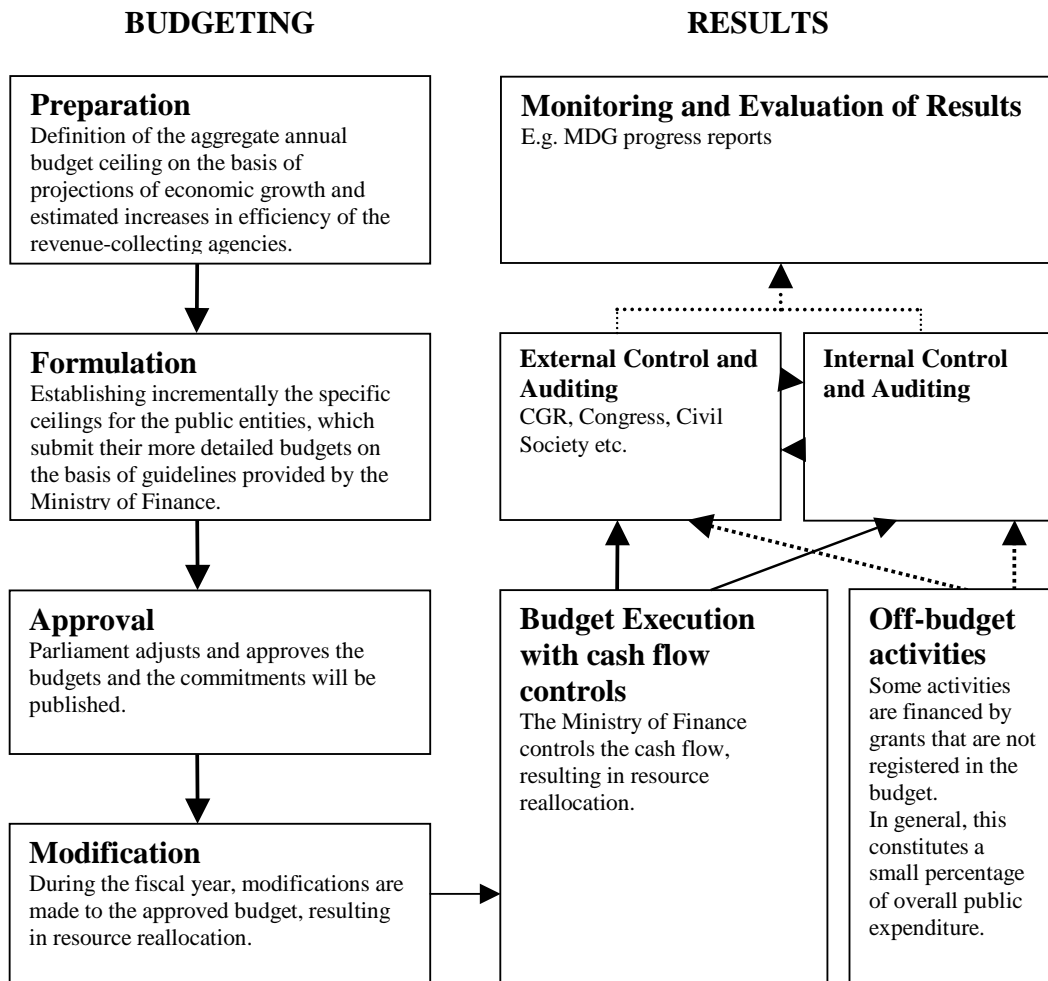
Traditionally, the budget process in Bolivia starts with the *preparation* phase in which the aggregate annual budget ceiling is defined on the basis of projections of the main macroeconomic variables and estimated efficiency gains of the revenue-collecting agencies, followed by the phase of *formulation* of the budget by the Ministry of Finance and central and decentralized government entities, and subsequently the *approval* by Congress. *Modifications* to the approved budget are made during implementation in the *execution* phase, in which the expenditures are controlled by cash-flow management of the Ministry of Finance. Finally, there is a *control and auditing* of the budget execution and, in some cases there can be *monitoring and evaluation* of the results of the policies.

A schematic overview of the budget process is given in Figure 2. Note that that the modification of the budget during the fiscal year and the cash control by the Ministry of Finance are not separate phases, as both take place during the execution of the budget in the fiscal year. In more detail, the phases of the budget process can be described as follows.

Budget preparation: Each year the budget cycle starts between July and August with an instruction from the Ministry of Finance. The latter prepares an initial budget and sets the overall budget ceiling, based on forecasts for economic growth and tax revenues and predicted efficiency gains in the revenue-collecting agencies. The projections usually

provide over-estimations first in order to create some negotiation space, as it allows accommodating some of the regional demands for additional resources during the budget formulation, approval and execution phases.

Figure 2: The Budget Process in Bolivia



Source: Based on the authors' elaboration in De Jong et al. (2005).

Budget formulation: Each year in September, the Finance Minister provides each public sector entity with budget ceilings per sector and a set of guidelines which define spending items and categories that need to be used in preparing the sector budget and instructions about how to justify the various entries. The sector budget ceilings are typically defined in an incremental way based on the budget of the previous year. In September/October, the entities of the central government and decentralized agencies (not including

municipalities) have to present their detailed budgets together with a POA – an annual plan of operations.⁸

Budget Approval: Congress makes adjustments to the budget formulated by the Executive, approves the adjusted budget and publishes the commitments. The adjustments in general imply increases of specific budget items, quite often relating to public investments in the regions, which are almost always political commitments.

Budget modifications during execution: During budget execution, modifications are made to the approved budget. Once a year (in the second half of the fiscal year), Congress approves the required *modifications*, to formalize the adjustments that require prior authorization. There are also budget reallocations within the entities which can be made and authorized throughout the year, because they do not need approval by Congress, but only by the Ministry of Finance. The modifications normally result in increases of the budget. World Bank and IDB (2004) reported that, on average, in 1990-2002 these revisions yielded budget increases of about 6% of the total approved budget.

Cash-flow control during execution: Some modifications made by Congress are neutralized by the *cash-flow management* carried out by the Treasury. This implies reduction in relation to the approved overall annual budget and budget reallocations which are not based on policy priorities, but on political pressure from interest groups.⁹ In 1990-2002, the executed budget was some 8% lower than the modified budget (World Bank and IDB 2004).¹⁰

Control and Auditing: At the national level, the monitoring of the budget execution is mainly done on the basis of information of the Integrated System of Administrative Management and Modernization (SIGMA). Both SIGMA and the Unique Treasury Account (CUT) serve as mechanisms of *internal control*, in the sense that they do not permit expenditure that does not have (sufficient) budget allocation, although in practice a not completely effective coverage of the internal control by SIGMA has been reported.¹¹

The *internal auditing* is conceptualized as a control of public expenditure regarding the procedures that are followed. In practice, it is not very effective due to several factors, such as the turnover of existing personnel, lack of training and technical capacity to adequately comply with these functions, lack of understanding of the role that internal

⁸ Municipal POAs and budgets are elaborated in a participatory way, taking into account guidelines received from the Ministry of Finance. The municipal budgets are not included in an annex to the national budget, as their approval takes place after approval of the national budget.

⁹ As Judge and Klugman (2004:19) note, “interest groups lobby the government throughout the year for shifts in allocations and do not respect the budget as a binding instrument of government policy.”

¹⁰ This type of budget adjustment does not apply to the use of HIPC funds, the allocation of which is mandatory according to the National Dialogue Law and rigorously controlled by the Minister of Finance.

¹¹ Judge and Klugman (2004) explain that SIGMA has a lack of scope to vire across budget lines, which, according to some sources, led agencies to spend against budget lines for which funds were known to be available rather than from the correct budget line.

auditing ought to play to improve the public institutions, as well as a lack of incentives to improve the internal control of public entities.

External auditing is the responsibility of the General Comptroller of the Nation (CGR). In spite of the efforts of this institution to improve the execution of its tasks and progress observed to improve its procedures, its capacity to audit 327 municipalities and over 100 national, sectoral and decentralized institutions is still limited. This is also the reason that the ex post evaluation of the actions of public institutions – a task within the mandate of the CGR – has not been developed. The absence of this type of evaluation makes it very difficult to target public expenditure at better uses.

At the local level, the Municipal Governments have the obligation to send information on budget execution to the Municipal Council, the *Dirección General de Contaduría* of the Ministry of Finance and to the CGR (before 31 March of each year). In practice, they do not always comply with this obligation for various reasons, among which the lack of institutional capacity in some municipalities to generate adequate financial information, the lack of understanding of the role that these legal requirements play, and even political factors. The incompliance with these requirements has led to the freezing of the accounts of many municipalities (over eighty in 2005) by Congress, until those situations are normalized, at the possible cost of limiting the normal development of the activities of these public institutions and their territories.

Monitoring and Evaluation of Results: In general, the control and monitoring of the public policies in Bolivia does not go beyond monitoring physical and financial indicators, though often it is limited to the tracking of the latter. An exception is the monitoring of the MDGs, for which a broad institutional framework was developed. Various monitoring systems developed by different institutions would allow carrying out this task, but they are not well integrated and tend to duplicate efforts.

A system SISER (*Sistema de Seguimiento y Evaluación de la Gestión Pública por Resultados*) was established by the Presidency in 2001 in the context of the then-valid EBRP. However, it was more a system for the monitoring of results of commitments in the Government plan, rather than a genuine M&E system for budget execution. It covered only priority areas and did not include impact indicators. It received inputs from other systems, like SIGMA, but did not play the role of a system integrated in the budget process and designed for policy evaluation and provision of feedback.

In Bolivia, there is not a culture of evaluation of public policies and often no awareness of the importance of those practices in the design of better policies and public expenditure. Consequently, the budget process is also very little results-oriented, despite some steps forward taken in past years. A related issue is that it is expected that the budget is based on expenditures by programmes, though in practice its structure and composition do not permit the complete identification of programmes, nor their link with specific goals. For this reason, it has been very difficult to identify specific poverty reduction programmes in the national budget, and one has had to use other criteria to ‘identify’ pro-poor public expenditure, such as those established in EBRP to define pro-

poor spending. In this connection, Judge and Klugman (2004:5) pointed out that the EBRP classification did “not provide sufficient detail to allow expenditures to be connected to potential outcomes.” Another issue is that many national policies are executed at decentralized level, which makes M&E also difficult.

Recently, the weaknesses of the budget process as it traditionally took place in Bolivia have been summarized as follows (República de Bolivia 2007a): it does not reflect the priorities and needs of the State and the society; it is an exercise of aggregating demands; it does not pay much attention to the capacity of the State to address these demands; it is elaborated as a function of the historical behaviour of the public institutions; modifications to the budget are made as a result of pressure by interest groups; some modifications can lead to a reduction of the usefulness of the budget as an instrument for the evaluation of the results of public policy; it does not cover all the public sector entities; there is a weak internal control of the budget execution within the institutions; and, finally, there exists a multiplicity of systems for the monitoring of information with weak or no links to each other.

6. Has budgeting improved since the start of the PRS process?

Changes prior to 2006

One area of progress in budgeting concerns the introduction in 2005 of the functional classification of expenditures.¹² As of 2006, the presentation of the budgets by the public institutions was to take this form of organizing the information. Further progress was made in the large municipalities, with the introduction of SIGMA with this type of classification. Continued efforts were made to adapt SIGMA for use in median and small municipalities. Finally, Congress decided to create a Technical Budget Office, in coordination with the Executive, which would try to be the technical support unit in those issues.

In addition, the VMPC (Vice-Ministry of Budget and Accounting) of the Ministry of Finance executed performance-based contracts with the tax collecting agencies SIN (for national taxes) and ANB (import duties)¹³ VMPC also signed contracts with the education and health ministries in order to arrive at more results-oriented budgets. Indicators were developed to monitor budget execution. However, these changes were not directly linked to the PRS process for the obvious reason that Bolivia had no functioning PRSP. In this context, we can agree with the observation of Montes (2003:18) that “broadly speaking, results-orientation has been better promoted by sector reforms than by the PRSP.” Related to this point, Judge and Klugman (2004:31) concluded that whereas the EBRP led to some improvement in the communication

¹² Though, in addition to the functional classification there is also need for a genuine programmatic classification of the budget. According to República de Bolivia (2007a), some sort of programmatic classifications have been used in the past, but these relate more to the organizational or regional structure within the public institutions than to genuine programmes of public policy.

¹³ SIN stands for *Sistema de Impuestos Nacionales* and ANB for *Aduana Nacional Boliviana*.

between the Ministry of Finance and the sector ministries, in practice the elaboration (and revision) of the EBRP was disconnected from budget formulation.

Improved budget execution?

It is worthwhile to look at the degree in which budgets are actually executed, as a possible sign of whether the budget process has improved or not. This is done for the Public Investment Budget in the period 1995-2006 (Table 1). At the national level, the actual investment expenditure often falls short of the budgeted expenditure. Nevertheless, the degree of execution was on average higher in 2001-2006 than in 1995-2000. At the departmental and municipal level, the actual investment expenditure also increased relative to the budgeted expenditure. At the municipal level, the degree of execution was above 100% in 2001-2006, except in 2003. Overall, there was some fluctuation in the degree of budget execution across the years and only in the most recent years there was hardly any deviation between budgeted and actual expenditure. There was also variation across sectors. Most remarkable are the improvements in recent years of the degree of execution in the productive and social sectors.

Table 1: Degree of Execution of the Public Investment Budget - 1995-2006
(Percentages of budgeted amounts)

	1995	1996	1997	1998	1999	2000	Average 1995-2000	2001	2002	2003	2004	2005	2006	Average 2001-2006
Level of Government														
National	76%	122%	73%	70%	88%	99%	88%	100%	81%	76%	122%	92%	80%	92%
Departmental	n.a	88%	78%	79%	83%	91%	84%	98%	85%	77%	96%	96%	127%	96%
Municipal	n.a	113%	105%	75%	80%	93%	93%	103%	113%	74%	125%	144%	120%	113%
Sector														
Productive	66%	112%	74%	73%	68%	79%	79%	81%	82%	67%	94%	102%	87%	85%
Infrastructure	101%	99%	87%	75%	95%	100%	93%	110%	93%	91%	140%	100%	103%	106%
Social	52%	106%	76%	82%	81%	96%	82%	100%	87%	65%	106%	107%	111%	96%
Multisectoral	85%	79%	91%	68%	76%	79%	80%	88%	91%	65%	67%	92%	70%	79%
TOTAL	76%	101%	81%	77%	84%	94%	86%	100%	89%	76%	116%	101%	101%	97%

Source: VIPFE, in De Jong et al. (2008)

Recent changes in budget formulation

The characterization of the budget process at the end of Section 5 reflects in particular the situation prior to the change of government in January 2006. República de Bolivia (2007a) summarizes the current budget process as follows, which reflects the central role of the PND and the decision of the Government of Morales to shift VIPFE (the Vice-Ministry of Public Investment and External Financing) from the Ministry of Finance to the newly-created Ministry of Planning:¹⁴

- Evaluation of the budget execution in the previous fiscal year.
- Definition of the macroeconomic variables.¹⁵
- Definition of the fiscal revenues.

¹⁴ Note that the decision to remove VIPFE from the Ministry of Finance may actually have weakened the budget process in the sense that this division complicates the establishment of a strong link between the planning and financing of public investment and the budgeting of expenditure for maintenance and other related recurrent expenditure.

¹⁵ According to República de Bolivia (2007a), the Public Budget Law stipulates that counting with a medium-term macroeconomic framework is compulsory.

- High degree of consensus with the public institutions in the elaboration of their budgets.
- In general, the public entities formulate their institutional budgets taking into consideration the PND, Budget Guidelines and budget ceilings.¹⁶
- The Ministry of Finance aggregates and consolidates the National Budget.
- The budget proposal is submitted to Congress.

It can be noticed that the current government continues to use the functional classification of the budget. It appears that it also aims at using a more genuine programmatic classification and at arriving at a better results-orientation. Article 1, point 4 of the Guidelines for the Formulation of the 2008 Budget (VMPC 2007) states that “the formulation and approval of the 2008 POA and budget in the framework of the strategic objectives of the National Development Plan (PND) and the methodology of results-based management will be oriented at stimulating production, raising incomes and employment, eradicating poverty and social exclusion, taking into account the responsible use of natural resources.”¹⁷ Point 8 of the same Article states furthermore that the allocation of resources to programmes and projects has to incorporate social, economic and political performance indicators, which will be evaluated by means of the National System of Development Planning.¹⁸ Article 3 (point 6) stipulates that the coding scheme of the programmatic structure of investments in the budget should be the same as in the PND. All programmes and projects, irrespective their source of financing, have to be registered accordingly, which implies an alignment of all investment programmes, POAs and budgets to the PND, as well as an alignment of the international cooperation to the strategic objectives of the PND. In this context, SIGMA and the system for public investments (SISIN) will have to be articulated to the programmatic structure of the PND. In addition, Article 4 of the Guidelines states among others that the Ministry of Planning and the Ministry of Finance “can sign performance contracts with different public entities of the sectors, departments, regions and municipalities, for the implementation of prioritized programmes and projects of the PND.” The two ministries, together with the institutions involved “will define short and medium term performance indicators based on the PND for the monitoring and evaluation of the execution of policies, strategies, programmes and projects.” Finally, according to point 2 of Article 8, the two above-mentioned ministries will be able to adjust the revenue and expenditure budgets of the entities that do not comply with specific arrangements contained in the Guidelines according to the performance of results indicators. Hence, on paper, it appears that the budgeting is more results-oriented. However, it is not clear to what extent these instructions are followed in practice.

According to República de Bolivia (2007a), fiscal resources have been assigned to programmes that have an impact and which are linked to the PND, such as *Renta*

¹⁶ It should be noted that as of 2006, the Guidelines are provided by the Ministry of Development Planning and the Ministry of Finance (see also below).

¹⁷ Own translation of original text in Spanish.

¹⁸ This point was also stipulated in Bi-Ministerial Resolution Nr. 091 of 1 October 2007 signed by the Ministers of Development Planning and of Finance.

Dignidad and the *Bono Juancito Pinto*. It should be emphasized, however, that these programmes cover only a relatively small part of the budget.

Does results-oriented management have a feasible framework in Bolivia?

To establish a results-oriented culture, there has to be a *political will* to do so, as well as *well-functioning bureaucracy*. A 2003 study on results-based public management in Bolivia pointed out that “The building blocks for a results-based management are not present due to the pervasive nature of patronage and clientelism in public administration” and that “Results-orientation has been frustrated because of the absence of a well-functioning bureaucracy” (Montes 2003:2-3). The study refers to the Institutional and Governance Review conducted by the World Bank in 2000. According to Montes, “the Review showed that results-based reforms depend less on technical issues, capacities or ‘commitment’ than on a political will to reduce political parties’ dependency on patronage resources and corruption” (ibid. 3). This does not imply that the other factors are not important.

It is for example important that efforts are made to *reduce the resistance* to the creation of an environment of *more rigorous internal control* in the public sector entities. This includes limiting the resistance on the part of public servants to the introduction of information systems like SIGMA in their institutions.

Other factors to make ROB feasible include the creation of *more capacity* in the application of *basic accounting*, well-oriented internal *auditing*, and adequate knowledge of the *monitoring and evaluation* of programmes and projects. There appears to be lack of a genuine M&E system of results, which would cover all activities of the public institutions and that is integrated into the budget processes and systems. This is something which the previously existing system SISER did not comprise.

Finally, it will be necessary to have *sufficient financial resources* for the implementation of the above-mentioned improvements and the establishment of an *adequate legal framework*. Though, again, there has to be political will to establish a results-oriented culture, otherwise it may occur that laws are approved which in practice will not be (fully) respected.

It is possible that the major obstacles to ROB are not found at the national level, but rather at the local level, where there are more institutional weaknesses. The initiatives that reinforce capacities should incorporate the principles that allow for bringing about improvements in the budget formulation, execution and control, as well as the M&E of the results of their institutional actions.

Given that an important part of the national budget is decentralized to the municipalities, the monitoring of the execution of that part of the budget will not be easy. Neither will this be the case for the M&E of the results. Specific support initiatives will be needed at different institutional levels, to reach the required standards and to facilitate the introduction and implementation of the above-mentioned principles in public management.

In De Jong et al. (2006), it was suggested that, “in the short run, it will not be feasible to arrive at application of a quite elaborated results-oriented management system. In the medium run, its feasibility could be greater, at least at the national level. This possibility would have to pass the proof of the change of government and confirm whether the ideas introduced in 2005 by the government to make progress in this direction will continue to be priority for the government as of 2006.”

At present, we cannot see clearly whether the above-mentioned possibility did pass the proof of change of government. Nevertheless, as shown above, it appears that the Government of Morales is committed to make the budgeting more results-oriented.

7. The role of foreign aid in moving towards results-orientation in Bolivia

On the part of government, some years ago there was a certain degree of ownership of the recommendations and identification of the institutions responsible for the implementation of a results-oriented budgeting, included in various reports prepared by the IMF, the World Bank and the IDB. Similarly, there existed a high degree of ownership of the indicators of budget processes reflected in the Multi-donor Budget Support Programme (PMAP, according to the Spanish acronym), which was initiated in 2004.

The donors participating in PMAP, including the European Commission, intended to contribute to the improvement of PFM in Bolivia and, in particular, the budget process and systems. A Technical Assistance Fund (FAT) financed by a group of European donors (Germany, Sweden, and Denmark) reserved funds for technical support in the development of an MTEF and other improvements in the budget process that were to lead to a more results-oriented budgeting system. The IDB provided support to SISER.

Some progress was achieved in making the budget process more transparent and results-oriented, following enhanced ownership on the part of government and compliance of a large number of commitments, including the improvement of the quality of information on public expenditure and its poverty-reduction orientation. However, in 2005, most of the donors that were signatories of PMAP considered this progress insufficient and were not complying with their commitment to disburse budget support.

Whereas general budget support – through PMAP, the PRSC-type credits SSPSAC I and SSPC II, and an IDB loan for the Program to Support Fiscal Sustainability – along with the technical assistance associated with this support, helped reinforce PFM systems, there have been cases of non-disbursement even when there was a high degree of compliance with conditionality. In other cases, the terms and conditions for disbursements were adjusted. The practice of modifying the terms, lowering conditions, or basing disbursement decisions on factors other than compliance with pre-established goals, undermines a results-oriented focus.

The hope was that a stronger donor commitment to support for poverty reduction would translate into a results-oriented approach to the conditionality attached to their agreements with Bolivia. This is also what the EU Development Policy Statement now advocates. In practice, however, no major shifts have been observed in this regard. While it is true that more results-oriented conditions have been imposed since the start of the PRS process – the MDGs are an example – process-oriented conditions, such as the approval of certain laws, continue to abound.

Basically, donors could contribute in three areas: *(i)* financial and technical support for the introduction of better information and accounting systems, *(ii)* technical assistance for improving the budget processes, and *(iii)* technical and financial support for expansion and improvement of data collection to measure the impact of policies. This support should be oriented at entities both at the central and decentralized levels. In each area, the support and ideas of the donors should be adapted to the plans and initiatives of the government. In this context it should be noted that in 2006 GTZ provided assistance to the Ministry of Planning for the design of an M&E system linked to the PND. Though, apparently this system was never put in practice.

Whereas technical assistance is important, it has to be emphasized that it cannot be a substitute for political will to create a more results-oriented culture.

Role of future EC development assistance

The European Commission has provided development assistance to Bolivia since 1976. The first years of this century this included support to Bolivia's in the framework of the EBRP. The EC elaborated in 2007 a Country Strategy Paper (CSP) 2007-2013 for its cooperation with Bolivia in the context of the EU Development Policy Statement. In comparison with the previous CSP, there is a concentration on a limited number of priority areas of intervention. At the time of elaborating the new CSP, the EC expected that close coordination (via PMAP or similar mechanisms) would continue for any budgetary support interventions and that this would "include the definition of conditionalities and performance indicators based on international best practices" (EC 2007:26). It considered the possibility of supporting the implementation of the PND by providing some form of general budget support, but felt that not all the necessary conditions were met for such support and foresaw that further work would "be required on the part of the Government of Bolivia to define a medium-term budgetary framework as well as a system of indicators and provision for monitoring and evaluation" (ibid. 34). Hence, it appears that the EC clearly aims at adopting a results-oriented approach in its aid relationship with Bolivia. According to the latest CSP, the "EC remains committed in principle to channelling its assistance through budget support mechanisms where possible," but for the time being provides its assistance, where possible, in the form sector or programme support in line with national priorities. Performance indicators will be established for monitoring and evaluation of the programmes (ibid. 35).

8. Concluding remarks

It can be concluded that in Bolivia budgets are still formulated annually and mainly in an incremental fashion. There has been some progress in improving the budget process. The PRS approach put again the importance of ROB on the agenda, but the progress realized was in most cases not directly a result of that approach. The improvements that were realized until 2005 concerned in particular technical aspects for moving towards an MTEF and tracking mechanisms for budget execution (SIGMA). SISER was established in the context of the EBRP, but was not a genuine and well-integrated M&E system and was abandoned later on. To date, M&E is still deficient and does as yet not serve as a basis for changes in development policies.

Institutional weaknesses, lack of coordination between institutions (at different levels of government) and political pressures to alter agreed budgets at critical stages of the execution make ROB still a far cry from reality. On paper the budget now appears more results-oriented, but time will learn whether the proposed changes will be put in practice.

Donors have provided technical and financial support for moving towards more ROB in Bolivia, but sometimes base their disbursement decisions on factors other than compliance with pre-established goals, which undermines a results-oriented focus. They can play a more positive role if they would base disbursement on compliance and align also in practice their aid to Bolivia's own national development strategy. The EU Development Policy Statement appears to be a move in the right direction if the envisaged policy is actually put in practice. However, technical and financial support from donors – albeit important – cannot be a substitute for political will for moving towards more ROB.

References

- De Jong, Niek, Juan Carlos Aguilar, Geske Dijkstra and Cecilia Larrea (2006). *¿Dialogar o Gobernar?* Informe País – Bolivia 2005. The Hague: Institute of Social Studies.
- De Jong, Niek, Juan Carlos Aguilar and Geske Dijkstra (2007). *Gobernar con los Movimientos Sociales?* Informe País – Bolivia 2006. The Hague: Institute of Social Studies.
- De Jong, Niek, Juan Carlos Aguilar and Kristin Komives (2008). *¿Ayuda Externa Efectiva para Reducir la Pobreza?* Informe País - Bolivia, 2007. The Hague: Institute of Social Studies.
- Dijkstra, Geske (2005). The PRSP Approach and the Illusion of Improved aid Effectiveness: Lessons from Bolivia, Honduras and Nicaragua. *Development Policy Review* 23(4):443-464.
- EC (2007). *Country Strategy Paper 2007-2013*. Brussels: European Commission.
- EU (2005). *Joint EU Development Policy Statement*. Brussels: Council of the European Union. 22 November 2005.
- Judge, Lindsay and Jeni Klugman (2004). *The Poverty Reduction Strategy Papers and Budget Linkages: The Case of Bolivia*.
- Komives, Kristin, Juan Carlos Aguilar, Cecilia Larrea and Geske Dijkstra (2004). *La Estrategia Boliviana de Reducción de Pobreza: ¿La Nueva Brillante Idea?* Informe País – Bolivia 2003. The Hague: Institute of Social Studies.
- Komives, Kristin, Juan Carlos Aguilar, Cristóbal Kay and Geske Dijkstra (2005). *Más de Lo Mismo?* Informe País – Bolivia 2004. The Hague: Institute of Social Studies.
- Ministerio de Hacienda (2007). *Resolución Biministerial No. 091*. Copia Legalizada.
- Montes, Carlos (2003). *Results-based Public Management in Bolivia*. ODI Working Paper No.202, London ODI.
- OECD-DAC (2007). *Emerging Good Practice in Managing for Development Results*. Sourcebook: Second Edition.
- Paris Declaration (2005). *Paris Declaration on Aid Effectiveness - Ownership, Harmonisation, Alignment, Results and Mutual Accountability*. High-Level Forum, Paris, February 28-March 2, 2005.
- Roberts, John (2003). *Managing Public Expenditure for Development Results and Poverty Reduction*. ODI Working Paper No. 203, London: ODI.
- Roberts, John (2004). Managing Development for Results: A Role for Results-oriented Public Expenditure Management. *Development Policy Review*, 2004, 22 (6): 623-651.
- RT3 (2007). *Planning and Budgeting: Linking Policy, Planning and budgeting*. A Background Paper. Third International Roundtable on Managing for Development Results. Hanoi, Vietnam: 5-8 February 2007.
- República de Bolivia (2007a). *Evaluación Histórica del Presupuesto Público y sus Perspectivas Futuras*. PowerPoint presentation. December 2007.
- República de Bolivia (2007b). *Técnicas Presupuestarias, Evaluación Histórica de sus Aplicaciones y Perspectivas Futuras*. PowerPoint presentation. December 2007.
- Vos, Rob, Maritza Cabezas and Kristin Komives (2005). *Budgeting for Poverty Reduction*. Regional Report 2005. The Hague: Institute of Social Studies.
- VMPC (2007). *Formulación del Presupuesto General de la Nación. Directrices para la Gestión 2008*. Vice-Ministerio de Presupuesto y Contaduría, Ministerio de Hacienda.
- World Bank and IDB (2004). *Public Expenditure Management for Fiscal Sustainability and Equitable and Efficient Public Services*. Report No. 28519-Bo. Washington D.C.: World Bank and Inter-American Development Bank. April 7, 2004.