

Twice orphaned: Sweden's exit from the private sector in Bolivia

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Introduction

Promoted by the Paris Declaration (March 2005), and with the aim of improving donor complementarity, the division of labour has gained prominence following the European Union Code of Conduct (May 2007) and the Accra Agenda for Action (AAA, September 2008). The international division of labour takes on special significance as it seeks to revise the geographic assignment of resources with two objectives; firstly, to avoid 'spoiling' certain countries, the so-called 'donor darlings', and thereby give due attention to 'aid orphans'; and secondly, to rationalise the scattered presence of donors, who are often active in numerous receptor countries.

In this vein, some donors have already begun a process of geographic concentration by redefining their priority countries. Whilst this necessarily entails pulling out of countries which were previously a priority, the international division of labour has yet to be backed up with good practices or a more profound dialogue at the international level. The role and perspective of the countries affected by donor exit remains to be explored more clearly. Since it is centred above all on logistical questions, the international discourse tends to leave to one side the implications of donor exit in terms of the premises of the association between North and South. In particular, it is still not known how donor exit interacts with the principles of the Paris Declaration and the AAA. From a perspective of political sensitivity, it seems obvious that the manner of withdrawal is very important - it can strengthen or undermine national leadership and ownership capacities. And it can be more or less favourable to fulfilling the requirements of mutual responsibility, and maintaining bilateral relations in areas beyond aid, for example in trade and culture.

A pioneer in aid effectiveness, Sweden decided in 2007 to drastically

Project Report

Implications of the division of
labour for the Paris Agenda

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reduce its number of partner countries. Up to the end of 2010, more than thirty countries which were previously a priority – amongst them Bolivia – have been affected by the Swedish exit. Experiences in each country vary significantly and seem to indicate that the impact of geographic concentration depends fundamentally on country by country exit practices and the role different actors assume, including national government, civil society and other donors.

Against this background, FRIDE is carrying out research into good exit practices and the extent to which these cohere with the principles of association between North and South. By systematising Swedish experiences in geographic concentration, the study aims to offer guidance to donors and receptors so that the international division of labour is applied in line with the premise of national ownership and mutual responsibility, thus avoiding possible contradictions between geographic concentration and the paradigm of North and South association. This study on the Swedish exit from the private sector in Bolivia, carried out in June and July 2010, offers a complementary vision by focusing on withdrawal at the sectoral level. It is the final of a series of four FRIDE case studies, the previous of which were carried out in Honduras, Malawi and Vietnam.

1. The country context

1.1 The rise of the rentier model and the incipient boost to the private sector

Bolivia is one of the South American countries where a high rate of the population still lives in poverty. According to estimates for 2009 by the Social and Economic Policy Analysis Unit (Unidad de Análisis de Políticas Económicas y Sociales, UDAPE), 58.3 per cent of the population is living in poverty measured by their line of income – that is, almost six million inhabitants.

Despite the good export price of raw materials and the favourable situation abroad, the problem of poverty has not been resolved. In recent years the economy has created ‘impoverishing growth’.¹ According to the National Institute of Statistics (Instituto Nacional de Estadística, INE), in 2008 the Bolivian economy grew just over 6 per cent; yet various surveys show that the unemployment rate for the same year reached 10.2 per cent. Furthermore, according to UNDP, the number of people in poverty has risen over the last three years at an annual rate of 166,000 people.

One explanation for this is that exports are highly concentrated on a limited number of products, especially raw materials, which are subject to fluctuating international prices. The predominance of capital intensive industries like mining and hydrocarbons means fewer jobs are created. In 2008, exports reached 6.899 billion dollars, of which agriculture accounted for 4 per cent; hydrocarbon extraction for 50 per cent; mineral extraction for 22 per cent; and manufacturing for 24 per cent.

From the point of view of employment, in 2008 the employed population reached 4.6 million people. The hydrocarbon industry absorbed 0.3 per cent, mining 3 per cent, manufacturing 10 per cent and agriculture 30 per cent. The traditional and leading export industries thus only account for 3.3 per cent of the employed population. Any development strategy should combine the enormous potential of the agricultural industry with manufacturing, in order to increase employment alternatives.

1.2 The process of cultural and democratic revolution and the advances of social and economic policy

Official social policy statistics show that between 2006 and 2009, extreme poverty at the national level declined by 5.8 percentage points (falling from 37.7 to 31.9) and by almost 10 per cent in rural areas (from

¹ Report on Human Development in Bolivia: ‘The Other Frontier – Alternative Uses of Natural Resources in Bolivia’, IDH, UNDP, 2008.

62.3 to 52.7). This is due in part to the vouchers delivered by the government to 1,579,696 homes. In addition, it is important to note that approximately one billion dollars has been sent to Bolivia in remittances. Social investments increased by more than 500 per cent between 1996 and 2008, and it is estimated that more than half of this was carried out by town councils and prefectures, that is, at subnational levels.

During 2002-2006, the country's overall fiscal position evolved from a deficit of approximately 9 per cent of GDP to a surplus of around 3.8 per cent. Most of this improvement stemmed from additional revenues from hydrocarbons, though national income taxes were also raised. In 2009, there was a budget surplus of 0 per cent due to the substantial growth in public expenditure, and especially in goods and services, which grew the most.²

In foreign trade, Bolivia has registered a surplus since 2004 and the Net International Reserves (NIR) have registered high levels historically, growing from 1.714 billion dollars in 2005 to 8.012 billion in 2009.

1.3 Brief diagnosis of the private sector

Bolivia is a land-locked, a country with a large land mass, a limited domestic market and an informal labour market that accounts for over 60 per cent of the working population. Employment is concentrated in agricultural activities (30 per cent), trade (14 per cent), manufacturing industries (10 per cent), construction (8 per cent) and transport (8 per cent). In terms of the structure of the private sector, micro and small businesses absorb 83 per cent of the employed population, medium sized businesses account for 10 per cent, and big business just 7 per cent. Conversely, it is estimated that big businesses generate 65 per cent of GDP, medium sized businesses 10 per cent, and small and micro businesses 25 per cent.

In keeping with the logic of the private sector, the state will not be strengthened by involving it in every kind of business activity and economic venture – even in those which the private sector could carry out advantageously. Instead, the state needs to be used to oversee the strategic sectors of the economy, and should be granted a regulatory role to correct defects in the market (the inequitable distribution of revenues) and control the quality of public and private services. It should also play an eminent role in institutional promotion, establishing a framework of transparency, efficiency, fairness and solidarity, within which all economic activities can be carried out.

1.4 International development cooperation in Bolivia

Besides bilateral coordination by the Bolivian government – represented by authorities such as the Deputy Ministry of Public Investment and Foreign Finance (Viceministerio de Inversión Pública y Financiamiento Externo, VIPFE) or the Ministry of Foreign Affairs and international aid agencies and embassies –, certain mechanisms have been established over the last fifteen years, such as coordination committees, to guarantee the effectiveness of international aid and the complementarity of activities.

Bolivia has piloted initiatives related to development aid effectiveness since the end of the 1990s, such as the Comprehensive Development Framework (CDF) of the World Bank, for example; or Shaping the 21st Century: The Contribution of Development Cooperation, by the OECD/DAC; the United Nations Development Assistance Framework (UNDAF); and debt relief through the Heavily Indebted Poor Countries (HIPC) Initiative.

These processes were strengthened internationally with the Monterrey Consensus, and the Declarations of Rome and Paris, in which Bolivia played an active part³ in the discussion processes and latterly in the Action Plan.

A clear example of this orientation towards aid effectiveness was the work carried out with the 2001 Advisory Group, in which coordination mechanisms were created in line with priorities established by the government,

² Report on Human Development in Bolivia: 'The Other Frontier – Alternative Uses of Natural Resources in Bolivia', IDH, UNDP, 2008.

³ Bolivia was member of the Task Force on Donor Practices for the Rome Declaration; the Task Team on Harmonisation and Alignment and the Working Party on Aid Effectiveness for the Paris Declaration; and the Accra Agenda for Action.

the Bolivian Poverty Reduction Strategy (Estrategia Boliviana de Reducción de la Pobreza, EBRP) and the HIPC debt relief programme.

According to the evaluation carried out by the World Bank and the IMF, the EBRP presented a 'credible' strategy and constituted an adequate basis for concessional aid to the country. At the same time, it complied with the necessary pre-requisites to gain access to the HIPC II initiative.

The portfolio of external financing as of December 2008 stood at 6.71 billion dollars, of which commercial finance accounted for 2.168 billion (32.3 per cent). Concessional finance amounted to 32.5 per cent (2.183 billion dollars) and donations came to 2.359 billion dollars (35.2 per cent).

Of the 6.71 billion total, 58.5 per cent is currently being implemented (3.927 billion dollars). 57 per cent of that figure has been spent, and the remaining 43 per cent is still outstanding.

The 6.71 billion dollars of external financing amounts to 40.5 per cent of GDP for 2008. This means that ODA per capita is 671 dollars, which makes the country one of the main beneficiaries of ODA in the region. In terms of actual expenditure (2.235 billion dollars), the figures are 13.5 per cent of GDP and 223 dollars per capita.

In recent years, commercial finance has regained importance, representing 32 per cent of external financing. The biggest lender is the Andean Development Corporation (Corporación Andina de Fomento, CAF), with a current portfolio of 1.384 billion dollars – 64 per cent of the total commercial financing available. The second in terms of size is Brazil, with 19 per cent; and in third place, Venezuela, with 14 per cent. Taken together, these three account for 97 per cent of the commercial financing portfolio, which in terms of cost is significant for the state given that interest rates are concessional.

In terms of concessional finance, the Inter-American Development Bank (IDB) represents 46.3 per cent of the portfolio, followed by the World Bank with 18 per cent, and in third place, the Japan Bank for International Cooperation (JBIC) with 15 per cent. With respect to donations, the European Union (EU) heads the list with 28.3 per cent, followed by the Japan International Cooperation Agency (JICA) with 17.3 per cent. However, if other bilateral European donors are added to the EU figure, the EU total comes to 56 per cent of all donations.

In 2006, under the government of Evo Morales, the coordination mechanism was modified, with the intention of aligning the work of traditional aid workers with the pillars of the National Development Plan (Plan Nacional de Desarrollo, PND):

- Productive Bolivia Committee
- Dignified Bolivia Committee
- Sovereign Bolivia Committee
- Macroeconomic Committee
- Harmonisation Committee

This scenario led to the creation of the Group of Partners for the Development of Bolivia (Grupo de Socios para el Desarrollo de Bolivia, GruS) in January 2007, a coordination mechanism of aid workers in Bolivia. The group's primary objective is to support the Bolivian government's leadership in the coordination and harmonisation of international cooperation within the framework of the Paris Declaration, so as to improve efficiency and alignment with the National Development Plan and the Millennium Development Goals

(MDG).

GruS meets regularly (at least once a month) at the cooperation manager level to discuss matters related to the country's development, as well as political issues with a bearing on cooperation. In addition, within GruS there are sector- and thematic-specific sub-groups, who are often in contact with governmental counterparts and key actors⁴ for the development of the country.

In terms of evaluating international aid in Bolivia, according to the OECD's report on Bolivia,⁵ from the point of view of development strategies at the operational level, the National Development Plan has remained at level C⁶ due to the fact that it still does not administer the totality of public expenditure.

In terms of alignment, one of the indicators refers to the coordination of technical assistance with national programmes. It is estimated that by the year 2007, just over 80 per cent of technical assistance was coordinated with national programmes, a percentage which seems to have increased in recent years since GruS came into existence.

Parallel implementation structures have been substantially reduced, falling from 66 in 2005 to 19 in 2007. However, the expenditure situation has not improved; today only 30 per cent of money spent has been registered by the government, compared to 63 per cent in 2005.

With respect to harmonisation in Bolivia, there has been an important increase in the use of programmatic approaches and of coordination of analytical work and missions. 40 per cent of official aid in 2007 was based on these approaches, which marked an increase of eight percentage points from 32 per cent in 2005. For its part, coordination for donor missions increased from 17 per cent to 34 per cent, which was likewise the case for the proportion of joint analysis.

In short, important advances can be seen in the improvement of international aid effectiveness in Bolivia, in terms of better coordination, alignment and harmonisation under the framework of the Paris and Accra forums.

Bolivia has positioned itself as a country committed to international efforts to improve the effectiveness of development cooperation. To this end, a National Harmonisation and Alignment Plan was drawn up at the beginning of 2005 and was presented at the High Level Paris Forum. This action plan has been updated by the government in recent years and can be considered a mechanism for improving development cooperation effectiveness.

Despite all of these advances, the government has tended towards bilateral work due to factors such as a lack of government awareness of the work of official development cooperation; the discrediting of previous work for ideological reasons (branding it as 'neo-liberal'); and the appearance of new actors on the international aid scene (Venezuela, Cuba, Iran, amongst others), who do not necessarily support Bolivia in the framework of the Paris Declaration and who do not integrate formal donor coordination structures. For this reason, many observers are of the opinion that the above-mentioned coordination mechanisms are no longer relevant.

2. The role of Sweden in Bolivia's development

The 2003-2007 strategy⁷ set out by Sweden proposed the following objective for cooperation: 'Bolivia is carrying out a successful independent policy for poverty reduction in the country. The starting point for the formulation of these objectives is the concept that poverty has multiple dimensions.'⁸

⁴ At the sectoral or thematic level, GruS is in contact with actors such as the Plurinational Legislative Assembly, the Federation of Municipal Associations, Municipal and Departmental governments, civil society and the private sector.

⁵ OECD: '2008 Survey on Monitoring the Paris Declaration: Making Aid More Effective by 2010', 2008

⁶ The performance of partner countries is valued according to a five-level alphabetic scale, from E (absence of a development strategy) to A (the country has a comprehensive development strategy).

⁷ Swedish Ministry of Foreign Affairs: Bolivia Strategy, 1st January 2003 to 31st December 2007, 2003.

⁸ The concept of poverty embracing many different aspects is defined in the OECD/DAC Guidelines on Poverty Reduction, 2001.

The starting point of Swedish development cooperation in Bolivia is the existence of a strong link between all of the cooperation programmes and the fight against poverty. Listed below are the cooperation areas for the period of the designed strategy:

- 1) Democratic governability and human rights (45-55 million SEK)
- 2) Social areas (30-40 million SEK)
- 3) Infrastructure, business and urban development (25-30 million SEK)
- 4) Research cooperation (20-30 million SEK)
- 5) Economic reforms: General support for the implementation of the poverty reduction strategy (60-70 million SEK)

Total annual financing for the different projects fluctuated between 180 and 225 million SEK⁹ for the period 2003-2007 of the country strategy. In the period 1997-2002, Sweden devoted an average annual amount of 149 million SEK.

During this last period, close to a billion SEK were spent, with significant annual variations. An external audit¹⁰ reports positive results mainly in areas of education, conflict prevention, cooperation and research, water and drainage. But objectives were not met in other areas such as support for the private sector, which depended to a large extent on circumstantial factors such as political instability, the change of government, conflicts and policy changes.

2.1 New Country Strategy 2009-2013

Sweden decided to concentrate its aid in the context of its commitment to aid effectiveness and the debates on donor harmonisation. In August 2007, the Swedish government announced the geographic concentration of aid in a total of 33 countries, entailing the exit from around 30 countries up to 2010.¹¹ In Latin America, concentration meant long term development cooperation would continue in the case of Bolivia, as well as the post-conflict aid in Colombia and Guatemala.

Swedish development cooperation in Bolivia was concentrated in three areas:¹² democratic governability and human rights; education; and, finally, natural resources and the environment with a focus on climate change. Opportunities for favouring directed growth and employment opportunities for the poor will be taken into consideration. The aim and orientation of Swedish development cooperation coincide with the National Development Plan and the EU Code of Conduct on the division of labour and complementarity.

Additionally, Swedish aid supports research, the objective of which is to increase collaboration between the scientific community and the public sector, the productive sector and civil society. Aid for research is centred on the natural sciences, technology, medicine and environmental economy, as well as promoting innovation and the practical use of research results.

In relation to the international division of labour and the EU Code of Conduct, the Nordic Plus countries¹³

⁹ The exchange rate as of July 2010 was 1 SEK = 0,91 Bs.

¹⁰ Swedish Ministry of Foreign Affairs: Swedish international development aid strategy for Bolivia 2009-2013, 2009.

¹¹ Nils-Sjard Schulz: 'International Division of Labour: A Test Case for the Partnership Paradigm. Analytical framework and methodology for country studies', FRIDE Working Paper 79, February 2009

¹² Swedish Foreign Ministry: Swedish strategy of international development aid with Bolivia 2009-2013, 2009.

¹³ Nordic Plus is made up of the following countries: Sweden, Denmark, Finland, the United Kingdom, Ireland, the Netherlands and Norway.

began discussions on how to increase the effectiveness of their activities a number of years ago, beginning by concentrating their efforts on fewer sectors. In line with this, Sweden took the decision to formalise these practices in 2007 and began to exit a number of countries which had benefitted from Swedish aid up until then. The other countries forming the Nordic Plus group took similar action, substantially reducing the number of their partner countries and also their sectoral scope in the priority countries where they maintained a presence. In many of these cases the decision taken to revise the selection criteria of receptor countries was unilateral,¹⁴ based on comparative advantages and niches identified by each donor independently.

The recommendations of the Code of Conduct, and the first guiding principle, state that the comparative advantages of each donor will be identified by the 'government of the partner country and the other donors'. Swedish aid in recent years has been working in Bolivia on environmental matters, education and decentralisation. It has gained comparative advantages which are highlighted by the Deputy Ministry of Public Investment and External Financing (VIPFE) in the year 2008:

In the area of private sector development and manufacturing and artisanal industrial transformation, including foreign trade, Sweden has wide-ranging experience. This was the only support the sector received.

Sweden's donation modalities have been divided into institutional support (for example, the National Institute for Statistics, the Ministry of Justice, the Institutional Strategic Plan of the Deputy Ministry of Women, amongst others); basket funding (for example, Education, the Ombudsman, the Programme of Institutional Reform, the Comprehensive Anti-Corruption Programme, the National Plan of Cuencas, amongst others); non-governmental organisations (for example, Diakonia and the Swedish Cooperative Centre); investment projects (for example, UNDP – political party programme, the National Fund for Productive and Social Investment – municipal capacities, the 'Your Water' (Agua Tuya) programme and drainage, amongst others).

2.2 Swedish aid projects in the private sector

Cooperation programmes with the Bolivian private sector were established in area 3 of the 2003-2007 country strategy, which makes reference to 'Infrastructure, the business sector and urban development'. The goal of this cooperation is based on the vision of strengthening growth strategies which favour Bolivia's poor population. The premise was that an increase in production and the growth of industry would increase employment and indirectly reduce poverty.

The programmes were the following:¹⁵

- 1) Programme for Bolivian Business Development II (Programa para el Desarrollo Empresarial Boliviano II, PDEB II); in its second phase, this programme aims to address the development of new projects which contribute to 'the economic development of Bolivia, improving competitiveness and modernising the business environment.'¹⁶

Even if it does not feature in the National Development Plan, the draft Commercial Code drawn up by PDEB II was included in the one hundred laws the government promised to draw up as the architecture to support the state's Political Constitution. It is a project which could serve as a basis when incorporated into the agenda for discussion between the public and private sectors as a first phase, and afterwards the Pluri-national Legislative Assembly.

¹⁴ Nils-Sjard Schulz: 'International Division of Labour: A Test Case for the Partnership Paradigm. Analytical framework and methodology for country studies', FRIDE Working Paper 79, February 2009.

¹⁵ Erick Larrazábal Antezana and Miguel Zalles Denegri: 'SIDA Contributions to the Development of the Private Sector in Bolivia, 2003-2007. Results and Impact' (in Spanish), SIDA, La Paz, Bolivia, February 2008

¹⁶ PDEB I was carried out from June 1998 to May 2001, and was geared to the development of projects which contribute to the improvement of the overall business environment.

- 2) Implementation of the Single Accounts Plan (Plan Único de Cuentas, PUC) in Bolivia, the main objective of which is 'to support the Bolivian private sector in the adoption of standardised accountancy practices to promote the development of the stock market, reduce the informal market and promote the security and transparency of companies'.
- 3) Extension of the Centre of Industrial Services (Centro de Servicios Industriales, CSI) in Bolivia. This is also a programme in its second stage, geared to consolidating the CSI ¹⁷ with technical and training services aimed at the wood manufacturing industry. The overall goal of the programme is to 'increase the competitiveness of manufacturing and processing industries by offering CSI technical and training services to the forestry industries'.
- 4) Support to the Productivity and Competitiveness Unit (Unidad de Productividad y Competitividad, UPC)¹⁸

The goal of the project was: 'To support the implementation of the economic strategy "Productive Bolivia", through support activities in the generation of microeconomic information, monitoring and evaluation, as well as ties with national innovation networks and accompanying the processes of de-bureaucratisation in public administration, based on the approaches of productive complexes and innovation.'

2.2.1 Main factors affecting what was planned and what was attained ¹⁹

The factors which contributed positively to the implementation of the projects were the following:

1. Generating will in the public and private actors involved, and generating a regional development initiative through the ownership of products.
2. The logistical activities of the projects followed an upward learning curve in terms of the preparation of events and participatory workshops, as well as in the running of the programme.
3. The availability of resources to finance project activities, and the transparent administration of these.
4. The maintenance of reference groups as stable support officers.
5. The positive capacities of technical personnel responsible for the administration of the programme.

The factors negatively affecting results were:

1. The political dynamics of the country, which determined the reach of the programme's products, particularly those referring to the approval of political and regulatory proposals.
2. The institutional instability of public organisations involved in executing programmes, seen in frequent changes of civil servants and other government executives, the modification of state agency functions, and the creation and disappearance of ministerial organisations.

¹⁷The CSI is a private institution which offers technical services and training to the Bolivian forestry industry, created in 2000 with the support of Swedish cooperation to the private sector. Stage I covered technical services and training aimed at the sawmill sector.

¹⁸ Bolivian Ministry of Development Planning, Productivity and Competitiveness Unit, SIDA: Project, 'Towards a Productive Bolivia: Support to the Development Strategy Based On Productive Complexes and Innovation Approaches' (in Spanish), La Paz, Bolivia, April 2009.

¹⁹ Erick Larrazábal Antezana and Miguel Zalles Denegri: 'SIDA Contributions to the Development of the Private Sector in Bolivia, 2003-2007. Results and Impact' (in Spanish), SIDA, La Paz, Bolivia, February 2008.

3. Changes to the agenda and priorities of social economic policy.
4. The constant rotation of personnel in different projects (the case of the Single Accounts Plan).

3. An exit process or a concentration process?

As mentioned in the analytical and methodological framework document on the division of labour,²⁰ there is a big vacuum regarding the geographic concentration of donors. There is no guide for withdrawing aid and leaving a country; no specific set of procedures or user-manual which would surely need to be adjusted to each sector and country's reality. There is a need for practices and lessons learned in order to guide the implementation of the division of labour between different donors.

The exit phases of Swedish cooperation aid from the private sector in Bolivia are explained below, in line with the proposed analytical framework. The following are analysed in this regard: i) communication of the decision; ii) management of the exit; and iii) post-exit relations.

3.1 Ownership and leadership: impact on national capacities

The analytical framework makes the point that ownership and leadership of the country affected by the exit tend to be very difficult, especially if the decision is taken unilaterally and without a donor-led prior consultation process.

The practice of communicating the donor's exit helps strengthen ownership and leadership; early and transparent communication by the donor to the national government tends to create opportunities for the latter to take the exit into consideration in its planning procedures.

In the case of support for the private sector by Swedish cooperation, the government authorities were informed of the change of priorities by Sweden and the new country strategy for the period 2009-2013. Beyond the country's political situation, it was clear that the private sector in general is not a priority for the government and is largely left to its own devices.

In the specific case of each project, Swedish cooperation fulfilled its obligations by informing each party that the processes would be discontinued, that no further hiring would take place, and that all products and final reports ought to be presented when the projects were concluded. The interviews carried out showed that whilst there had been communication, some of those involved had believed an extension or second phase was likely owing to the results achieved, but ultimately this never took place.

Communication with the rest of the donor community was unnecessary since Sweden provided this cooperation on its own and there was no coordination. However, this had a problematic effect on the beneficiaries, since the vacuum left was all the greater due to the dependence created, with the added difficulty of the need to find a replacement or delegated cooperation. In short, Swedish cooperation communicated its exit without having a planned strategy beyond that of carrying out the termination protocols of its projects.

Managing the exit was not complex given that the steps followed were those required to bring a project to an end. Likewise, the absence of questions from the government made the situation easier. No steps were taken either by beneficiaries in the private sector, or trade unions, either supporting the projects or demanding their continuity. It could be inferred that there was neither ownership nor leadership from the private sector in these matters. In several of the interviews, private sector representatives seemed confident about the continuity of

²⁰ Nils-Sjard Schulz: 'International Division of Labour: A Test Case for the Partnership Paradigm. Analytical framework and methodology for country studies', FRIDE Working Paper 79, February 2009

support from Swedish cooperation, and no alternative had been prepared for the contingency of a possible exit. The projects had not been internalised in local structures or financing.

Post-exit relations suggest the involvement of the donor community with the aim of introducing some alternative cooperation modalities, such as delegated cooperation. But this never materialised due to the lack of interest which the closing down of these projects led to in general, whether due to an absence of ownership or a lack of relevance.

To contribute to discussion of the latter comment, it seems useful to analyse the projects' relevance:

- The Programme for Bolivian Business Development II (PDEB II) contained some projects of national scope, such as the reformulation of the Trade Code, and the construction of a proposed vision of the country. The tourism project, since it was a pilot project, was geared more towards the department of Santa Cruz.
- The Single Accounts Plan (PUC) aimed to become a project of national dimensions whose impact was to alter the prevailing accounting regulations throughout the whole country.
- The objective of the Centre of Industrial Services (CSI) was to provide increased and specialised training to the forestry sector of the country from the Bolivian Forestry Chamber.
- The Productivity and Competitiveness Unit (UPC) aimed to establish itself as the public organisation through which the Government would support the development of business.
- It is clear that the projects were relevant yet the majority of them required the support of the state as a counterpart. The state did not provide the necessary support due to the political-economic situation.

3.2 Mutual Responsibility: Impact on the association for development

According to the analytical framework and methodology, any exit decision taken in a unilateral fashion by the donor means the exit process starts out from an incoherent base in relation to mutual responsibility. In these cases, it is suggested, communicating the exit should be left to top level political representatives in order to create an atmosphere of mutual respect, facilitating future bilateral relations.

In the case of Bolivia, a unilateral decision was made to leave. However, the very nature of the sector itself, the lack of ownership of programmes and actions, and the solitary work of Swedish cooperation prevented the exit from going against mutual responsibility. As previously mentioned, the private sector areas benefitting from Swedish support were significant, and the exit had an equally significant impact. For its part, Sweden did not apply or establish criteria for the selection of sectors. However, the mandate of the new 2009-2013 strategy suggested the areas in which cooperation would be concentrated.

In any case, if there were criteria, they were those of the international division of labour. This proposes country complementarity, with EU donors deciding to concentrate on a maximum of three sectors, each one of which cannot receive aid from more than five European donors.

3.3 Sustainability

The majority of PDEB II projects and the PUC implementation project were dependant on the approval of

public policies and a regulatory legal framework which necessarily had to follow executive and legislative procedures. It is very probable that the logic behind this arose in a political context in which businessmen enjoyed the kind of access to the law-making process which no longer exists. Some examples of laws which have witnessed the active participation of the private sector are the tax code, the export laws and the productive promotion laws.

From the point of view of the beneficiaries, there are some projects which might offer sustainability and could form part of current Swedish cooperation. These are the five tourist route projects in Tarija, Oruro, Potosí, Beni, and Cochabamba, for which the experience of the successful pilot of the Jesuit Missions serves as a reference. The project on indicators of municipal and departmental competitiveness also seems important to maintain given that it is streamlined with the government's National Development Plan to go into a third phase with the opening of specialised branches in Chiquitania, Cobija, Riberalta, Cochabamba and La Paz.

The CSI programme and the projects on tourism and on regional competitiveness indicators differ from the remaining projects in that they are the only ones with specific results which depend on those that implement them, and whose sustainability over time is not dependent on union relations with the government.

The de-bureaucratisation project could also be considered by Swedish cooperation, given that it contributes to controlling corruption and lowering transaction costs which affect the performance of both the public and private sectors.

The following aims to highlight some of the prerequisites for achieving project sustainability, in line with the field work carried out and the documentation examined:

- i) The relevance of the projects. This is related to how important the sector is; additionally, it is worth verifying whether the project forms part of the National Development plan, or is the result of it, and whether it is of interest to the government.
- ii) Project ownership by beneficiaries. This refers to the substantive evaluation by the beneficiaries.
- iii) The counterpart of the beneficiaries and the projects. This is understood as the total resources which the beneficiaries devote to implementing the project.
- iv) The technical and financial feasibility of the implementation of the project.
- v) The maturity of the benefitting sector and the development of institutional capacities to draw up and implement new and future projects.

These prerequisites allow for the sustainability of projects to be increased, thereby improving the exit of cooperation from a country.

3.4 Sector exit from the perspective of the actors

In terms of exit phases, once Sweden had communicated the conclusion of the project, there were approximately nine months to manage the exit. From then on, the exit and post-exit stages were accelerated. The project run by the Chamber of Industry, Commerce, Services and Tourism in Santa Cruz (Cámara de Industria, Comercio, Servicios y Turismo de Santa Cruz, CAINCO) was brought to a conclusion the quickest, in 2006, due to the advances achieved and the state of its reports. According to the evaluation, an agreed shared vision of the country was never achieved, nor was an agenda agreed upon with the government which was expressed by laws and regulations or a cross-party state policy on the development of competitiveness. Likewise, the draft New Trade Bill aroused scant interest in the government.

Some of the main products of this project had the government as a counterpart, whose change of political

orientation in relation to the private sector reduced the chances of consensus or progress in the debate on laws of interest to the industry.

The Forestry Engineering degree project by the Private University of Santa Cruz de la Sierra went on to be administered in the framework of Swedish cooperation's support for the education sector.

Currently, the Bolivian Centre for Competitiveness (Centro Boliviano de Competitividad), which the CAINCO runs, is working on four projects:

1. Support for Tourism Project financed by the Multilateral Investment Fund of the Inter-American Development Bank;
2. Project AI-Invest, with financing from the EU, whose objective is to support the internationalisation of small and medium-sized companies from Latin America, in collaboration with their European partners;
3. Support for SMEs Project, with financing from the local government of Madrid, Spain.
4. Study of Bio-combustibles Project, with financing from the Inter-American Development Bank.

Financing for these projects was obtained thanks to the skills developed in the CAINCO team with Swedish cooperation's assessment and help to PDEB II. In consequence, training was one of the main impacts, which contributed to improvements in project presentation when seeking finance from international cooperation, and also improved coordination with donors. Proof of this can be seen in the fact that new financing has now been achieved in other areas.

One of the main problems which affected the development and implementation of PDEB II and the projects which it comprised was the change in the political situation. According to one of those interviewed, the change in government profoundly affected the development of the projects. There was even substantial pressure from the government for alignment with its objectives and policies. The government wanted all resources to be controlled by the VIPFE. (Julio Silva is the current chief executive of the Bolivian Centre of Competitiveness. He worked for the Bolivian Business Development Programme II.)

In terms of the Single Accounts Plan (PUC), the National Chamber of Commerce ²¹ already had experience in running projects with international cooperation. Antecedents included a project on conciliation financed by USAID and another on normalisation for the Bolivian Institute for Normalisation and Quality (Instituto Boliviano de Normalización y Calidad, IBNORCA) promoted by the Inter-American Development Bank.

In terms of the normalisation of accounts, previous experience in Bolivia was verified in the sector of financial organisations and of hydrocarbon companies, which had been managing the normalisation of their financial and accounting conditions.

Within the framework of the commitments undertaken, a Swedish company was hired, equipment was procured and the transfer of knowledge and skills to the rest of the team (PUC consultants) began.

The main problem, according to the National Chamber of Commerce, was that the regulatory legislation was never approved for the implementation of the PUC. Due to the change in the political atmosphere and the development strategy, and the legislative green-light was never finally given. This meant that the project, the initial duration of which was to be five years, was shortened by half.

It is important to note that the relationship with the Swedish company which had been contracted was complex, 'whilst the knowledge and expertise of the main consultant was apparent, the lack of knowledge of the Bolivian reality affected the success of the project and the capacity to gauge a realistic strategy for

²¹ The interview was carried out with José Luis Valencia, General Manager of the National Chamber of Commerce.

its implementation'.²² In short, the consultancy firm did not totally fulfil the defined terms of reference. In this case, notification from the cooperation section of the Swedish embassy was made in advance and an extension of 6 months was even forthcoming.

Despite the fact that the project was not completed, the progress made was important given that the regulatory measure was prepared, the plan was concluded and the general framework of the project was finished. If resources are obtained, it could be reinitiated very quickly. The following institutions could be included: CAINCO; the National Chamber of Commerce; the National Tax Service (Servicio de Impuestos Nacionales); the Department of Pensions, Values and Insurance (Superintendencia de Pensiones Valores y Seguros – today the Autoridad de Fiscalización de Valores y Seguros); and the Department of Companies (Superintendencia de Empresas – today the Autoridad de Fiscalización y Control de las Empresas).

In this case too, one of those responsible for the project alluded to the political context as the main factor in the complications involved in its implementation. The private sector did not show an explicit willingness to accommodate the government's needs.

In the case of the timber project,²³ the Swedes experience was vital and allowed very important technological innovations undertaken, which have now been reproduced at the national level. According to the evaluations of a number of organisations and consultancy firms, the forestry development centre was one of the most successful projects in terms of the impact it had on the sector. However, the lack of ownership of the initiative on the part of the forestry workers ultimately had a negative effect on sustainability.

One of the questions which emerges from this is whether the private sector is mature enough to tackle different projects. Does it have the capacity to offer them sustainability? The experience of the PUC would suggest that this is not a viable option.

The support project to the Productivity and Competitiveness Unit (UPC)²⁴ has been aimed at institutional strengthening, through which it was intended to position the question of productivity within the framework of the National Development Plan, in a situation where economic issues were not the government's priority.

Through work with the Department Committees on Competitiveness, the aim has been to build an institutional framework providing support to project management. Another important issue has been the development of a system of productive information at the municipal level, which works from the implementation of institutional agreements with other public and private authorities.

The Productivity and Competitiveness Unit tackled two working areas – the design of the production complexes and the elimination of the bureaucracy which enables businesses to set up. The objective was to define a methodological guide for the simplification of the procedures.

When the project with Sweden came to a close, discussions regarding the creation of a Canadian delegated cooperation were at an advanced stage. Thus, there was already another donor lined up to succeed Sweden, clearly fulfilling the above mentioned guiding principles of the international division of labour. Regrettably, the idea fell through due to the lack of the necessary drive from the Ministry for Planning and Development. This served to highlight the lack of political will and, above all, the absence of leadership and ownership, in this case from the public sector.

Confirmation came from Sweden²⁵ that the low priority given to continuing work with the private sector coincided with a similar attitude from the national government. Clearly, there is no obvious way of ensuring the sustainable exit of development cooperation from a sector which is not a priority for the government. However, the maturity and ownership of the sector and the relevance of the projects, amongst other requirements, are enabling aspects. In this regard, the Swedish counterpart suggested that despite the relevance of the projects for the private sector, there was no analysis of the long term consequences. It is equally evident that Sweden had no exit strategy in place, which was facilitated by the coincidental conclusion of several projects

²² Taken from the interview with Miguel Zalles, consultant hired by SIDA to evaluate projects with the private sector.

²³ Interview with Miguel Zalles.

²⁴ Interview with Jorge Bohórquez, former Executive Director of the Productivity and Competitiveness Unit (2005- 2010).

²⁵ From an interview with Ann Stödberg, SIDA Country Director; Sara Martínez Bergström, First Secretary – Manager of Cooperation Programmes; and Arturo Beltrán, Economist, Cooperation Programmes Section.

at this time.

4. Lessons Learned

1. The central hypothesis of the analytical framework is that donor exit practices have an important impact on the degree of ownership and mutual responsibility. In the case of Bolivia, there was very little effect, due to the fact that the sector was never one of the government's priorities; nor did the projects benefit from the leadership of actors from the private sector.
2. Cooperation programmes and activities must be flexible to be able to deal with policy changes within government, as well as changes of government. In Bolivia, these matters have had an important repercussion on the attainment of the results of some programmes, especially those requiring the approval of policy proposals or regulatory frameworks. In particular, this meant it was impossible for planned laws ever to be agreed upon with the government. This situation occurs frequently in other countries too, so flexibility becomes an essential characteristic if the projects and programmes which cooperation supports are to survive.
3. In addition to an analytical and methodological framework on the division of labour, a basic document needs to be defined which will serve to guide the activities of development cooperation and those of partner countries, detailing the steps to follow in exit scenarios and in processes of geographic concentration.
4. It seems evident that some countries benefit from extensive development cooperation, while others are largely neglected; the principles of the international division of labour include recommendations and suggestions to try to direct cooperation efforts and actions towards the neglected countries. However, there is little consideration given to the neglected sectors within a partner country. In the case of Bolivia, cooperation has focused traditionally on the fight against poverty on the basis of typical sectors like education, health, and housing. The private sector has still not become a priority. In consequence, the interest of cooperation in general has been low, despite current economic development theories which suggest that the fight against poverty should incorporate the private sector.
5. Related to the previous point, in the mapping out of neglected and 'spoiled' sectors in partner countries, it remains unclear which of the former are structural sectors in the fight against poverty. This needs to be established in order to begin to design policies and incentives to promote cooperation incentives in these sectors.
6. In the Bolivian case, the private sector is 'spoiled' neither by government nor by cooperation due to the current political situation. This facilitates the exit process because there is no advocacy.
7. Whilst it is true that the Productivity and Competitiveness Unit does not belong to the private sector and is a decentralised public institution of the Ministry of Planning and Development, it was one of the most questioned institutions on account of its use of concepts related to the neoliberal economic model. Therefore, it did not attract much support to prevent the reduction in resources.
8. In the case of PDEB II, an additional problem arose. The CAINCO of Santa Cruz was one of the business chambers which most questioned the government over its economic policies. Likewise, the social organisations of Santa Cruz led the opposition. The government responded by requesting that international cooperation pull out of the region, and thereby from the work with the institutions which sided with the causes of the political opposition.
9. Sustainability is related to the fact that the sectors supported by Swedish cooperation were relevant for the private sector. The absence of leadership limits the ownership of the projects.
10. Capacities remain in place following the work completed in drawing up development projects in the private sector, the search for finance implementation, monitoring and evaluation.

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Annex

List of Interviews

1. Miguel Zalles Denegri, Consultant hired by Swedish cooperation to evaluate the results and impact of SIDA contributions to the development of the private sector in Bolivia (January 2003-December 2007)
2. José Luis Valencia, General Manager of the National Chamber of Commerce.
3. Jorge Bohórquez, ex-Executive Director of the Productivity and Competitiveness Unit of the Ministry of Development and Planning
4. Julio Silva, Principal Executive of the Bolivian Competitiveness Centre CAINCO
5. Ann Stödberg, SIDA Country Director.
6. Sara Martínez Bergström, First Secretary – Manager of Cooperation Programmes.
7. Arturo Beltrán, Economist, Cooperation Programmes Section.
8. Oscar Angulo, Spanish Cooperation.

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exit from the private sector in
Bolivia**

**Marcelo Barrón Arce
José Luis Carvajal**