

**2005 LENPA Forum Capacity Development
Case Study**

**Bolivia: New approach in the WSS sector fosters Capacity Development at national
and subnational levels**

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1. The Bolivian Water Supply and Sanitation Sector

Although the Bolivian government, supported by international donors, has increased its efforts to improve the performance of the Bolivian water supply and sanitation sector in recent years, outcomes have remained poor. Coverage levels of water and sanitation services (WSS), both in urban and rural areas, are low. 27 % of the Bolivian population lack access to drinking water. Sewerage services are limited to about 45 % of the population and less than 10 % of the wastewater is treated. However, reality is even worse, as these figures do not reflect the often poor quality and quantity of the services. Table 1 provides data on coverage.

Table 1. Service Coverage by Population Strata (2001 Census)

AREAS ¹	POPULATION TOTAL	POPULATION %	COVERED POPULATION		COVERAGE BY AREA (%)	
			WATER	SEWAGE	WATER	SEWAGE
LA PAZ/EL ALTO	1,508,865	18	1,427,280	972,920	95%	65%
SANTA CRUZ	1,118,103	14	1,023,875	336,849	92%	30%
COCHABAMBA	785,693	9	578,405	358,252	73%	46%
METROPOLITAN	3,412,661	41	3,029,560	1,668,021	89%	49%
LARGE CITIES	967,631	12	830,449	536,045	86%	55%
MID-SIZE CITIES	409,202	5	356,422	110,789	87%	27%
SMALL CITIES	379,400	4	321,918	76,359	85%	20%
TOTAL URBAN	5,168,894	62	4,538,349	2,391,214	88%	46%
TOTAL RURAL	3,108,443	38	1,460,000	985,687	47%	32% (*)

The poor quality of water supply and sewerage services results in adverse impacts on both, human health and the environment, and affects especially the poor.

The poor performance of the sector is due to several shortcomings: (i) Operational and administrative efficiency in the sector is low. Water utilities are overstaffed (but lack skilled personnel), unaccounted-for water amounts to 40 % on average, and collection rates do not exceed 75 % of the billed water. (ii) The supply side is highly fragmented, as most water utilities provide services only to urban areas within a municipality. These small-scale utilities lack the financial and human resources to provide adequate services. (iii) Cost recovery via

¹ Major cities are defined as those with more than 100,000 citizens; intermediate cities are those with population in the range of 10,000 - 100,000; small cities are those in the range of 2,000 - 10,000 inhabitants and rural areas are those with less than 2,000.

tariffs is low due to the limited payment capacity and willingness of clients, the lack of education of the population, and political interference with tariff structures. At the national level, the tariff deficit is estimated at 27 % of total costs. (iv) The water utilities face legal and institutional restrictions with respect to access to financing. (v) Although the regulatory framework for the water supply and sanitation sector has been improved in recent years, it is still marked by deficits and weaknesses.

The Bolivian Water Supply and Sanitation Program 2003-2007 is an attempt to thoroughly reform the sector and to emphasize capacity development as a cross-cutting issue in the process. However it is important to review traditional government policy as well as donor approaches from the 1980s to the mid-90s in order to identify the substantial changes which the new framework is to bring about.

2. Analysis of earlier Approaches to Sector Development

Until the mid 1990s, the Bolivian government paid little attention to capacity development in the water supply and sanitation sector. It was a common perception that substantial improvements in WSS were basically a matter of major infrastructure investment. But for several reasons, even important infrastructure investment, including dams, major aqueducts and bulk water facilities did not bring about the desired results.

On the one hand, Bolivia lacked a coherent sector policy and regulation. For example, investment decisions within the sector were normally taken ad-hoc based on political considerations. On the other hand, donor coordination was limited to coordinating intervention areas and financing schemes (for example rural vs. urban areas, big vs. small water utilities).

Moreover, most of the water utilities (partly municipal water utilities, partly cooperatives) did not achieve satisfactory management performance. Issues such as operative efficiency and maintenance, tariffs, financial sustainability and customer orientation played a role in sector development but were dispersed and most of all not regarded as closely interlinked with financing needs for infrastructure investment.

In the course of time, the government and donors perceived that the original focus did indeed produce certain results but sustainability of investment infrastructure was at risk. Due to this analysis, management issues became more important and major sector reforms were initiated. In 1997, the state-run water utility of La Paz and El Alto (the country's capital) was given in concession to an international private enterprise. In 2000, the utility of Cochabamba, the country's third largest city, followed. Along with that, a water sector regulatory authority was established. At that time, most of the donor-financed investment projects considered capacity development merely in the form of technical assistance (TA) components which had to be implemented during and/or before investment started, but mainly on a short-term basis. Policy measures depending on local authorities normally were part of the project concepts but enforcement in many cases was weak, since project-related leverage of central government and donors decreased while the investment progressed. Summing up, the new setting brought about some progress even though a couple of sector bottlenecks could not be resolved.

Civil unrest in 2001 (Cochabamba Water War) and in 2004/5 forced the national government to abandon the two private-concessionaires in the sector. It revealed that a widespread introduction of private sector participation schemes in the Bolivian water sector - even though desirable from an economic point of view - was politically not feasible for the time being. At the same time it was evident that the existing institutions (understood as organizations and

laws and rules) had to be overhauled in order to improve political and economic incentives and to achieve better results.

The emergence of new approaches to capacity development - understood as a more comprehensive approach to supporting the sector than capacity building and investment financing - stems from the perception that country ownership² is crucial to successful development, and that fragmented and scattered donor approaches can undermine both national ownership and institutional capacity.

3. Core Issues of the Government's Current Policies

Since 2002, the Bolivian government, in its fight against poverty, has prioritized strategies and policies aimed at the fulfillment of the MDGs in the area of water and sanitation. Key strategies were established in the "Bolivian Water Supply and Sanitation Plan" (**BWSSP**). The implementation of this plan is supervised by the Vice-Ministry of Basic Services within the Ministry of Services and Public Works, including coordination of donors' contributions (EU-Commission, Canada, Germany, JICA, IDB, Sweden and Switzerland).

One key factor to achieve the overall objective would be the application of mechanisms to guarantee a flexible and optimal use of financial resources and investments, while at the same time promoting efficiency and sustainability among providers. This implies new policies and strategies for investment financing that should promote the institutional transformation and development of the operators, the implementation of new and improved management models and secure effective social participation.

Therefore, the government focuses its reform agenda for the sector mainly on three core issues:

- a. New Financial Policy (NFP): The new financial policy's broad objective is to guarantee higher coverage and sustainability of water and sanitation investments through the application of transparent financing mechanisms adapted to the payment capacity of the population and following criteria of economic and managerial efficiency of the Water Utilities (EPSAs).
- b. Foundation for the Support of Sustainable Basic Sanitation (FUNDASAB): In addition to technical and management advisory services provided to EPSAs, one of the major responsibilities of the Foundation is to interact with the Steering Committee of NFP by sharing eligibility criteria and indicators monitoring for the initial disbursement and the follow-up of investments. Another key issue for FUNDASAB is the promotion of social participation in water management issues.
- c. Sector Investment Funding Approach (SIFAp): Following the guidelines of the NFP, the government seeks to channel funding from donors through the implementation structure which has yet to be established. This should help to increase coverage in a sustainable way by reducing transaction costs for the government.

Other issues of the government's policy are (i) to promote private sector participation in managing and financing WSS services, (ii) to strengthen the normative and regulatory frameworks, (iii) to develop a WSS information system, (iv) to promote effective community participation, and (v) to promote the use of low-cost technologies in WSS. These two last issues are interlinked very closely with FUNDASAB's aims and activities.

However, new challenges arise. Since the so called "Cochabamba Water War" of 2001, when *Agua de Tunari* (a subsidiary of the US multinational Bechtel and a private concessionary of water services in the urban area of Cochabamba) had to withdraw because

² Country ownership to CD should be implemented among government, WUs & NGOs as well as within the local population by means of social empowerment and participation.

of social unrest, issues related to private sector participation (PSP) and cost recovery in water services are highly politicized. The most recent example of this is the cancellation of a 30-years contract with *Aguas del Illimani* (a subsidiary of the French multinational Suez Lyonnaise des Eaux) as the provider of water services to the municipalities of La Paz and El Alto due to social protests in El Alto. Social unrest was caused by the growing discontent of low-income population of El Alto with WSS service delivery by *Aguas de Illimani* and heavily supported by labor unions and social leaders as well as by local and international anti-globalization NGOs. Given the polarization regarding PSP, the government is reluctant to promote this policy in WSS services in the near future, even though PSP in La Paz and El Alto scored better results in terms of water and sewage coverage than other WU in the nation, and much better performance than that of the municipal WU who were the predecessor.

The possibility for action on the part of the Bolivian government is quite limited as Bolivia's WSS on the one hand seems to get converted into an anti-globalization battlefield by international NGOs and, on the other hand, has to face the inefficiencies and corruption of more traditional models of service provision (public enterprises, cooperatives). Therefore, strengthening the government's capacities is crucial in promoting more sustainable models of service provision, which have to assure active user participation and reduce political influence on service providers.

4. Capacity development as a cross-cutting issue of successful work in the sector

Based on the BWSSP and the challenges surrounding it, the government has intensified its efforts to harmonize donor interventions in the sector promoting a comprehensive framework for technical assistance and financial services to the WU (EPSAs) as part of a comprehensive capacity development approach. The Vice-Ministry of Basic Services (VMBS) took the lead in implementing this plan and guided donors to follow this framework. This leadership and national ownership by the government were key issues in convincing donors to align with the strategy. Nowadays, German Development Cooperation (KfW and GTZ) together with other international advisers and donors (World Bank, Interamerican Development Bank, European Union and Canadian CIDA) work with the Bolivian government in supporting capacity development in the WSS sector.

Based on a definition of capacity development as a process by which people, organizations and societies create and strengthen their capacity over time, capacity shall be understood as the ability of people, organizations and societies to perform tasks and produce outputs. Experience shows that capacity development is a non-linear process in which change management is decisive for success or failure. Hence, much attention is given to incentives for, commitment to, and leadership to change processes. Furthermore, looking at the sectorial experience, it becomes clear that capacity development has to be understood in a broad sense and explicitly take into account issues such as transparent allocation of concessionary funds (concessionary credits and grants) and its effective monitoring as well as appropriate incentive structures to political decision makers and utility management.

In the context of the BWSSP, policy reform concerning the different levels of intervention as well as donor support to implementation are therefore based principally on three elements: national ownership and national responsibility for outcomes (MDGs), donor support for capacity development at all levels and financial resources to implement the new policies.

The reform agenda shared by Government and donors contains five elements/ instruments which are closely interlinked:

The **New Financial Policy (NFP)** for the Water and Sanitation Sector (WSS) in Bolivia stays at the heart of the sector reform providing a transparent and comprehensive policy of

allocation of financial resources to water utilities. It includes on the one hand incentives to foster institutional reengineering processes at the water utility level and on the other hand hard budget constraints for WUs' bad performing. The application of the NFP requires adequate information about management indicators, service levels and service provisions towards customers. The **Sector Information Sistem (SIAS)** will provide the adequate information basis for the implementation of sector policies.

Getting the incentive structures right via NFP is important but not sufficient, though. Therefore, **FUNDASAB** complements the NFP providing capacity building, business advice and technical assistance to the entire sector in Bolivia in a comprehensive manner, based on the SIAS information and closely linked with NFP-criteria. FUNDASAB is to assume and organize all technical assistance of donors within the sector. All financial resources for investment needs in the sector (donor or Bolivian funds) will be organized in a **Sector Investment Funding Approach (SIFAp)**. Therefore, the SIFAp is the instrument to assure donors' and government's adherence to the principles and criteria of NFP satisfying the urgent investment needs in the sector. The implementation of all these elements requires political will and strength against short-sighted but powerful vested interests. As a certain safeguard against these interests and in order to provide a continuous dialogue platform between donors and government, these reform issues are part of the policy matrix of a major Policy-Based Lending (PBL) operation called Social Sector Programmatic Structural Adjustment Credit (**SSPSAC**).

After more than two years of policy reform, capacity development has reached the following stage of implementation ("work in progress"):

a. New Financial Policy (NFP)

In order to provide adequate financing for investment in WSS to municipalities and WU (EPSAs), the NFP envisages the setup of three strategic financing lines with a series of eligibility criteria (e.g. socio-economic, managerial) and distinct financing conditions (grants, concessionary credits, non-concessionary credits). The core element of the NFP is the so-called Institutional Sector Modernization Program, which provides financial incentives, i.e. concessionary credits, grants, and/or debt restructuring, to EPSAs that are willing to pass through a comprehensive institutional reengineering process. In order to get incentives right, the NFP as comprehensive sectorial framework is to rule all major funding for water utilities' investment needs in Bolivia. Consequently, bad-performing water utilities with no willingness to institutional reengineering will face a particularly hard budget constraint.

Eligibility criteria, financing conditions, and disbursement procedures will be established by a Steering Committee, composed by representatives from different governmental bodies (e.g. VMBS). In order to keep administrative costs low, funds will be channeled through the Social Investment Funds (FPS and FNDR) recently integrated with a Board of Development Funds (DUF). Other relevant actors include FUNDASAB and SISAB (the regulatory authority), which will provide for Technical Assistance and monitoring, respectively.

Given the inter-institutional character of NFP, leadership of VMBS was and is an essential issue. Although first steps in designing the NFP were prepared by external experts (financed by German Development Cooperation), fine-tuning and implementation of the concept can be achieved only by the VMBS, which presupposes strengthening its coordinating and implementing capacity. The direct link between NFP and the Social Sector Programmatic Credit (SSPSAC, see 4 e), co-financed by the World Bank and German Financial Cooperation (KfW Entwicklungsbank), contributed directly to the essential strengthening of VMBS's capacities within the Bolivian government and with relation to the donor community. A clear result of this new capacity development with regard to sectorial guidance was the approval of the Supreme Decrees for NFP and FUNDASAB in May 2004.

Concerning the further implementation of NFP there are the following challenges:

- Confirm leadership of VMBS during the elaboration of technical norms for the implementation of the NFP. As the implementation of the NFP depends on coordination and cooperation with other public entities such as the Ministry of Finance, the regulatory authority SISAB, the Ministry of Popular Participation and the Board of Development Funds DUF, this leadership of VMBS is absolutely crucial for a successful final design and implementation of NFP. Therefore, capacity development and strengthening of VMBS and of the new structure of NFP implementation is the focus of an ongoing consultancy financed by German Financial Cooperation.
- Establish clear structures and realistic rules for NFP, considering (i) the limited implementation capacities in public institutions participating in the execution of NFP, (ii) the need for a clear conceptual mechanism for the allocation of investment funds by the NFP Steering Committee based on unsupplied population, payment capacity and managerial efficiency, and (iii) the threats arising to NFP from the political and social situation in Bolivia. In order to succeed in the difficult balancing act between these necessities, the VMBS - with the support of the ongoing consultancy- coordinates key elements of NFP in a participatory process – including workshops and periodic discussion meetings - within governmental and non-governmental institutions (including civil society) as well as the donor community. The overall aim is to create strong ownership of all participants with regard to the new policy.
- A key issue for further success of this policy is the continued leadership of VMBS and the strengthening of its technical capacity, which will be reflected in the capacity of the NFP Steering Committee. Initially this leadership can be encouraged and achieved by the ongoing financing and conditioning in the context of the SSPSAC (see also point 4 e), but in the medium and longer term, the capacities of VMBS have to be self-supporting.

The first discussions on improving the coordination between the government and main donors in the sector clarified that the successful introduction of the NFP also depends on a reorientation and a new attitude of “giving way” on behalf of each donor. While the individual donors to a large extent have followed own priorities and standards so far, they now have to align themselves with clear rules established by the Bolivian government if NFP wants to become a success story of the water and sanitation policy in Bolivia.

NFP means to break with traditional infrastructure-based thinking on all sides (government, municipalities, service providers, beneficiaries and donors). In the future, investment financing in decentralized WU will work on a transparent basis and will set stronger incentives for sustainable management. The focus will shift from infrastructure financing to stronger responsibility and ownership within WU. WUs' Strategic Development Plans and their implementation as well as their monitoring will serve as basis for applying and receiving investment funds and also as the reference plan for regulation compliance. As there is also a strong need for institutional changes and external consultancy to these WU in addition to the political willingness for reform in deficient WU, frequently FUNDASAB (see below) represents the second essential component for policy reform and CD in the water and sanitation sector in Bolivia.

b. Sector Information System

In 2000, the Bolivian government started a project (supported by the Canadian International Development Agency) to implement a Sector Information System (SIAS) for the WSS sector. SIAS will be administered by the VMBS with branches at the departmental level, and will be interconnected with WU and municipalities. The aim of the information system is to provide

up-to-date data on sector development to decision makers, WU, municipalities and donors. At present, SIAS has an integrated system dedicated to collect information and to provide sectoral managerial and planning tools based on the following components: i) Sectorial Data Base, ii) Managerial System Support and, iii) Municipal Decentralization System Support. SIAS has developed ten modules: a) Programs and Projects Monitoring; b) Projects Information related to outcomes and basic indicators (number of connections, latrines and so on); c) EPSAs Statistics; d) WSS information from the National Census; e) National Sector Directory; f) WSS Planning regarding goals and MDG fulfillment; h) Legislation on WSS; i) Econometric simulation regarding investment impacts in health, in development and in leverage of coverage indicators ; j) Geographic Information System (GIS); and k) Project Preparation for funds eligibility of medium and small WU. As a complement, a sectorial website has been implemented to provide direct WSS information to the sector and to the civil society.

The project is scheduled to finish – as a project now integrated into the context of BWSSP - in June 2005. At present, several workshops and seminars are conducted for some WUs' and municipalities' assimilation as well as for the administration by VMSB personnel. Yet, despite all efforts made, weaknesses and inefficiencies within the VMBS and lack of funds jeopardise SIAS sustainability; therefore, sectoral efforts should be given to support SIAS sustainability at the end of the project as part of the comprehensive CD concept related to BWSSP. SIAS dissemination in all Bolivian WU and municipalities remains as an issue that also needs to be faced more intensively.

c. FUNDASAB

In a bid to strengthen national ownership and with the aim of reducing donor fragmentation and harmonising technical and administrative procedures, the government with (some of) its main donors (European Commission, Canada, and Germany Technical Cooperation - GTZ) has decided to set up an independent advisory institution, the Foundation for the Support of Sustainable Basic Sanitation (FUNDASAB) to be financed by an ad-hoc basket fund. In addition to technical and management advisory services to WU, one of the major responsibilities of FUNDASAB is to interact closely with the NFP Steering Committee, sharing eligibility criteria and indicator monitoring for the initial disbursement and subsequent disbursements, as much as securing the promotion of social participation in water management issues.

FUNDASAB is based on a former Bolivian experience with the creation of the System for Sustainability Support (SAS) in 2000, launched as a business unit of the National Water Utilities Association (ANESAPA) with GTZ co-financing to provide capacity building and technical assistance to urban WUs. The financial scheme agreed with ANESAPA was to cover 70% of its administration costs (including salaries and general expenses), while the overall capacity development support services to WU were to receive 30%-50% co-financing, demanding WU to pay the remaining percentage.

FUNDASAB is expected to strengthen Bolivian capacity development ownership, based on a *cascade model* of successive outsourcing as described below. Hence, the approach is based on working through - rather than around - local institutional structures and local professionals.

FUNDASAB is intended to be the national institution to concentrate and integrate capacity development at the WU level, along with – *but not restricted to* – investment projects driven by the NFP.

Based on a holistic analysis of the situation in most of the Bolivian WU and the evolution of SAS, the following main areas of activity for FUNDASAB were identified:

- a) **Human Resources Development:** Advancement of personnel by increasing knowledge, abilities and skills at all levels of WU.
- b) **Institutional Development:** Efficiency and sustainability are the core concepts of WU-related activity. Hence managerial procedures, organizational re-engineering, informatics software and tools/appliances are transferred to WU by means of learning-by-doing actions. The importance of low-cost technologies is also emphasized, as are O&M best practices. Nevertheless, some WU are aware that having the best efficiency does not assure sustainability, and they are encouraged toward the formation of Regional WU to generate economies of scale and scope³.
- c) **Social Management Development:** Citizens' awareness of the social as well as economic value of water is important to economic sustainability. Environmental protection, pollution mitigation and restoration concepts are needed to generate a new WSS consumer culture.

These three areas of activity are implemented by different instruments such as:

- i) **Consultancy:** Consists of specialized consultancies to implement changing processes characterized by a formal sequence of diagnosis, solution plan, immediate actions to generate immediate outcomes and sustained actions for real performance improvement. In rural areas, TA includes advice on investment project preparation (documents, formats), since water supply of most rural areas is delayed: even though they have final designs, they are not in compliance with governmental specifications.
- ii) **Training:** To enhance knowledge, abilities and skills. Training has different modes of implementation: specific courses following the Annual Training Program, or as a continuous process of sequential courses designed to specific WU, and/or tailor-made open courses. Human resources certification should be one of the forthcoming actions.
- iii) **Organizational Advice:** Comprises WU' continuous assessment on organizational development, by encouraging management best practices, leadership, working on groups through personnel empowerment based on functions and levels, monitoring, evaluation and sense of ownership, also an evaluation of entrepreneurship climate for a new organizational culture.
- iv) **Technical Standards and Appropriate Technologies Awareness:** Includes up-to-date technical standards and new technologies transferred to EPSAs by means of document copies, sometimes content explanation and ways of using them.

FUNDASAB will have two main functions: financing allocation to Eligible Contractors' Entities (ECEs) and overall quality assurance in the WSS sector (including the monitoring and performance evaluation of ECEs in terms of impacts and outcomes).

FUNDASAB's organizational concept follows the idea of a lean organization and responds flexibly to changes in the political, social and institutional environment. Due to the two main functions described above, FUNDASAB will not deliver capacity development services by itself but through ECEs. Following a cascade model, ECEs are thought to be independent institutions, but linked to FUNDASAB through annual contracts and agreements on Capacity Development services; and they are also encouraged to seek cost-efficiency and universal

³ Some WU can achieve best efficiency, nevertheless are not self-sustainable because of small market (consumers quantity) and to group WU into only one regional WU is desirable.

access to professionals. In this regard, there is a common agreement among government and donors that SAS will become the ECE for urban areas, on account of its expertise. Other ECEs are in progress for rural areas, as is an engineering institute's network for technological development and technical standards. Based on this cascade organizational approach, ECEs should hire and supervise NGOs and freelancers depending on the topic, their vicinity to WU, regional presence and similar criteria following a general outsourcing concept. ECEs are liable to FUNDASAB for the outcomes and impacts as well as for those of NGOs or freelancers hired.

FUNDASAB principles are the following: (i) demand-orientation, (ii) co-liability among suppliers and demanding WU, (iii) WSS optimization services toward sustainability, (iv) setting-up of specialized institutional capacity, (v) quality chains generation of ECEs, (vi) equitable opportunity to NGOs and freelance professionals to become the final executors, and (vii) universal access to FUNDASAB services, including state-owned WU, cooperatives or municipalities who deliver WSS services by their own.

The expectation is to have a sustainable financial approach to FUNDASAB. However, due to WUs' weaknesses, there is a pre-agreement between three donors (EU, CIDA and GTZ) and the government to start FUNDASAB's services with a sort of a basket fund to subsidize CD services for the first 3-4 years with 50% to 70% cofinancing, while WU are to cover the remaining percentage. In a short and medium-term approach, FUNDASAB will conclude annual agreements with donors based on an annual program and an annual budget. The budget should include resources to Capacity Development and also cover 75%-80% of FUNDASAB's current expenses (including salaries and general expenses). Based on the NFP and FUNDASAB short term approach, options are in study to avoid a continuous donor dependence. One of them could be the following: WU in metropolitan and large cities will receive a combination of low-rate credits and grants –instead of commercial credits as was the case before the NFP - and will thus become sustainable and stronger. In exchange, they should pay an annual fee to FUNDASAB (pro-sustainability fee) for the forthcoming WU on a solidarity basis, and a rotating fund should be implemented.

At present a legal, financial and technical final design study is being conducted to develop a long term approach. Also, a series of workshops is programmed with other donors, as well as with small and medium WU (because larger WU are aware and convinced of its implementation) and also with civil organizations. However, NFP implementation - as an ongoing parallel action - will be decisive for FUNDASAB's continued life.

d. SIFAp

Based on the above elements, Bolivia is on a good way to implementing a comprehensive sector investment funding arrangement to be financed by several donor agencies in the form of a SIFAp. Investment funds to be provided by donors should be channeled towards investment projects through a common basket in accordance with NFP, and the allocation of funds could be performed by the NFP Steering Committee and national governmental institutions. The use of the funds will have to be closely coordinated with capacity development as supported by FUNDASAB in a sustainable manner.

Although interests of donors to participate in a SIFAp are real, this means a shift of responsibilities from current donors to the Bolivian government and vice versa. At least in the early stages of implementation, this shift means higher transaction costs for donors and even the government, because of coordination needs with donors and within governmental structures. The harmonization of donor standards is a major challenge for the VMBS in designing the new implementing structure of NFP and presupposes willingness for flexibility on the part of all donors. In the medium and longer term, however, reduced transaction costs and higher executing efficiency for the government is expected to materialize.

The intended transfer of financial responsibility from donors to the governmental institutions simultaneously calls for better safeguards on existing fiduciary risks. Similar challenges arise on environmental issues. The Bolivian government needs to prove its ability to cope with donor necessities by strengthening capacities even before implementing a SIFAp in the sector. Alternatively, donors and VMBS could opt for a gradual starting of a SIFAp based on new institutional structures, continued capacity development measures and parallel control schemes by the donors. After a starting period to test the recently established new capacities, donor control could be gradually reduced. VMBS has not yet defined which of the above models it would prefer.

e. SSPSAC

A transversal Social Sector Programmatic Structural Adjustment Credit (SSPSAC) co-financed by the World Bank and German Financial Cooperation (KfW Entwicklungsbank) and intensively discussed and coordinated with the donor community in Bolivia, has been and is an important vehicle to promote sector reform issues within the Bolivian government and donor community. In particular, steps toward the implementation of NFP and FUNDASAB have been included as triggers in the policy matrix of SSPSAC. The positive effect of SSPSAC as a leverage for implementing sector reforms can not be overestimated and is recognized by donors and the government.

Hence, SSPSAC has become the relevant platform for sector dialogue not only between the government and the co-financing agencies but also any other donor working in the sector. The government used this discussion platform to introduce a round table on sector policies joined by the government and the donor community, which helps to coordinate all relevant sector challenges.

Although SSPSAC can help to counterweigh or mitigate the risks of political decisions on sector policies, social unrest, which has become a common symptom in the current Bolivian political situation, can heavily influence government decisions, even against the own beliefs of political decision makers. It seems to be impossible for a government to stay immune to these needs for decision-making on a day-to-day basis, facing social and economic pressure. Recent events in Bolivia show that it seems to be quite easy to mobilize the population with water-related topics. In order to handle these conflicts, capacity development should be considered to support the government with specialized conflict management schemes.

5. Challenges

Capacity development implementation as a nation-wide strategic line is not an easy process wherever it is launched. In Bolivia it took three years to sensitize national authorities and other bilateral or multilateral donors. The New Financial Policy, FUNDASAB (including SIAS) and the planned SIFAp together constitute a broad approach based on lessons learnt in many years of sector work of bilateral and multilateral cooperation with Bolivia; all together become a part of the BWSSP. Nevertheless, new challenges exist:

- Implementing the NFP and its major implementation vehicle, the planned SIFAp requires good technical (also in terms of financial management) performance of a sectoral body combined with strong political support in the face of oppositional demands. Donors' efforts on capacity development in Bolivia are about to address that need.

- Institutionalising CD as the “soft arm” of the NFP is still a challenge. It demands a cautious interaction between FUNDASAB and the NFP Steering Committee, also a sensitive coordination with WUs because disbursements of investment funds will depend among others on successive monitoring and benchmarking by FUNDASAB.
- Beyond financial support by donors, water utilities’ ownership to implement their reengineering and local reform agenda and to attract financial counterparts for TA and external investment funds is crucial and at the same time a major challenge. To have sufficient counterpart funds implies (for example) good billing and tariff collecting systems, and most of all sustainable tariff levels (mostly not given, so far) covering at least O&M. This has to be implemented in a social environment where people are reluctant to accept higher tariffs.
- With regard to FUNDASAB, albeit the former understanding and practice of capacity development as technology-based and implemented through fragmented TA or scattered training courses has been overcome at the level of the government and the main donors, there remains an important issue to deal with: to reach effective CD achievements by means of quality assurance, monitoring, evaluation and feedback on mid-term outputs/milestones and impacts. A shared ownership among government (and its leadership), WUs, ECEs as well as FUNDASAB itself is a fundamental basis for its success.
- The entire sectoral approach described above depends to a high degree on the government’s political ability to manage and – even more importantly in the medium term – to prevent conflicts about water issues in a prudent but also a sustainable manner. Whether and by which means the government can be supported in this matter is still an unresolved issue of discussion, also among donors in Bolivia.

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