



BTC

**BELGIAN
DEVELOPMENT AGENCY**

TECHNICAL NOTE

BASKET FUND IN WATER BASIN MANAGEMENT (PNC II)

BOLIVIA

DGD CODE: NN 3015129

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TABLE OF CONTENTS

1	PROGRAMME DESCRIPTION.....	7
1.1	THE WATER SECTOR IN BOLIVIA.....	7
1.2	THE NATIONAL WATER BASIN PLAN (PNC).....	8
1.3	DONORS' SUPPORT TO THE WATER SECTOR	9
1.4	THE 'PNC II BASKET FUND' IN WATER BASIN MANAGEMENT	9
1.5	BELGIAN SUPPORT TO THE WATER SECTOR.....	10
2	RISK ASSESSMENT	12
2.1	MACRO-ECONOMIC FRAMEWORK AND PFM	12
2.2	SECTOR POLICY – SECTOR STRATEGY	21
2.3	SECTOR BUDGET AND POLICY FINANCING.....	25
2.4	INSTITUTIONAL SETTING AND CAPACITY	29
2.5	MONITORING AND EVALUATION SYSTEM	33
2.6	POLICY DIALOGUE AND DONOR COORDINATION.....	35
2.7	SUMMARY OF CRITICAL RISKS AND MITIGATING MEASURES	37
3	MODALITY DESIGN	41
3.1	INPUTS.....	41
3.2	BELGIAN FOCUS IN POLICY DIALOGUE.....	41
3.3	COORDINATION WITHIN THE BELGIAN PORTFOLIO	42
3.4	DISBURSEMENT CONDITIONS AND FINANCIAL PLANNING	42
4	ANNEXES	44
4.1	ANNEX 1: MEMORANDUM OF UNDERSTANDING.....	44
4.2	ANNEX 2: SPECIFIC AGREEMENT PROPOSAL.....	52
4.3	ANNEX 3: BUDGET IMPLEMENTATION AGREEMENT	58
4.4	ANNEX 4: TOR EXPERTISE	59

LIST OF ACRONYMS

ANB	Asociación Nacional de Bancos
BCB	Banco Central de Bolivia
BF	Basket fund
Bs	Bolivianos (Jan 2015: Bs 6.96 = US\$ 1)
BTC	Belgian Technical Cooperation
CAF	Corporacion Andina Fomento / Development Bank in Latin America
CCS	Sector Coordination Councils
CD	Capacity Development
CGE	Contraloria General del Estado/ National Audit Office
CONCERTAR	Swiss Program of Sustainable Resources Management at local level
COPAGUA	Consejo Plurinacional de Agua / National Water Council
CPIA	Country Policy and Institutional Assessment
DGD	Directorate General for Development Cooperation and Humanitarian Aid
EITI	Extractive Industries Transparency Initiative
EMAGUA	Empresa de Apoyo al Agua / Public Water Enterprise
EMAPA	Empresa de Apoyo a la Producción de Alimentos
EU	European Union
FAO	Food and Agriculture Organization
FC	Fortalecimiento de Competencias del Sector de Agua y Medio Ambiente / Capacity Development support of the Water and Environment Sector
FPS	Fondo Productivo Social
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GNI	Gross National Income
GIZ	Gesellschaft für Internationale Zusammenarbeit
GRUS	Group of Development Partners
HIPC	Heavily Indebted Poor Countries
HR	Human Resources
IDA	International Development Aid
IDB	International Development Bank
ILO	International Labor Organization
IMF	International Monetary Fund
INE	Instituto Nacional de Estadísticas / National Institute of Statistics
INTOSAI	International Organization of Supreme Audit Institutions
IRAI	World Bank's IDA Resource Allocation Index
IWM	Integrated Water Management

JICA	Japanese International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
M&E	Monitoring and Evaluation
MED/PAF	Marco de Evaluación de Desempeño / Performance Assessment Framework
MEFP	Ministry of Economy and Public Finances
MIC	Middle-Income Country
MMAyA	Ministerio de Medio Ambiente y Agua / Ministry of Environment and Water
MoU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
NIR	Net International Reserves
OGC	Organización de Gestion de Cuenca / Water Basin Management Organization
PAERE	Proyecto de Apoyo en Experticias, Estudios y Asistencia Técnica al Sector Agua y Medio Ambiente / Project in Support of the Water en Environment Sector through in Expertise and Studies
PAF	Performance Assessment Framework
PARC	Programa de Apoyo al Riego Comunitario
PAMPFM	Plan de Acción para la Mejora de la Gestión de las Finanzas Públicas
PEFA	Public Expenditure and Financial Accountability
PEI	Plan Estratégico Institucional/ Strategic Institutional Plan
PDC	Plan Director de Cuencas
PFM	Public Finance Management
PIEB	Programa de Investigación Estratégica en Bolivia
PNC	Plan Nacional de Cuenca
PPCR	Pilot Program for Climate Resilience
PRONAREC	Programa nacional de apoyo al Riego Comunitario
PRRD	Natural Disasters Risk Reduction Program
RUPE	Registro Único de Proveedores del Estado / Unique Registry of Public Suppliers
SAFCO	Sistema de Administración Publica de Contabilidad
SATH	Sistema de alerta temprana Hidrica/ Early Hydric Alert System
SEDERI	Servicio Departamental de Riego/ Local Irrigation Service
SEIF-D	Sistema Estatal de Inversion y Financiamiento para el Desarrollo/ National Investment and Finance System
SENAMHI	National Service of Meteorology and Hydrology
SENARI	Servicio Nacional de Riego / National Irrigation Service
SICOES	Sistema Integrado de Compras y Servicios
SIGEP	Sistema de Gestion Publica/Public Management System
SIGMA	Sistema Integrado de Gestion y Modernizacion Administrativa

SIN	National Tax Service
SISFIN	External Financial Information System
SISIN	Instrumento de registro de proyectos de inversión/ Investment Projects Information System
SPIE	Sistema de Planificación Integral del Estado/ National Planification System
SUBAT	Grupo de donantes en el Sector Riego
TA	Technical Assistance
TESA	(Estudio) Tecnico Económico Social y Ambiental/ Technical, Social and Economical Environmental Study
VIPFE	Ministry of Public Investment and External Financing
VRHR	Viceministerio de Recursos Hídricos y Riego / Direction for Water Resources and Irrigation
WB	World Bank

BASIC DATA OF THE BELGIAN CONTRIBUTION

Title of the program	Support to the National Water Basin Plan II		
Earmarking (sector/subsector/region)	Integrated Management of Water Resources		
Country	Bolivia		
Calendar	2015 – 2017		
Financial data	Total budget available for 2013-2017	Belgian contribution	Total donor contribution basket Fund PNC II
	115 million \$US	10,000,000 Euro	25,000,000 Euro
DAC – Code /Sector	14010 Water Sector Policy and Administrative Management		
DGD Code	NN 3015129		
BTC Code	BOL 14 035 11		

Calendar / Installments in Euro

Installments	2016	2017	Total
2	6,000,000	4,000,000	10,000,000

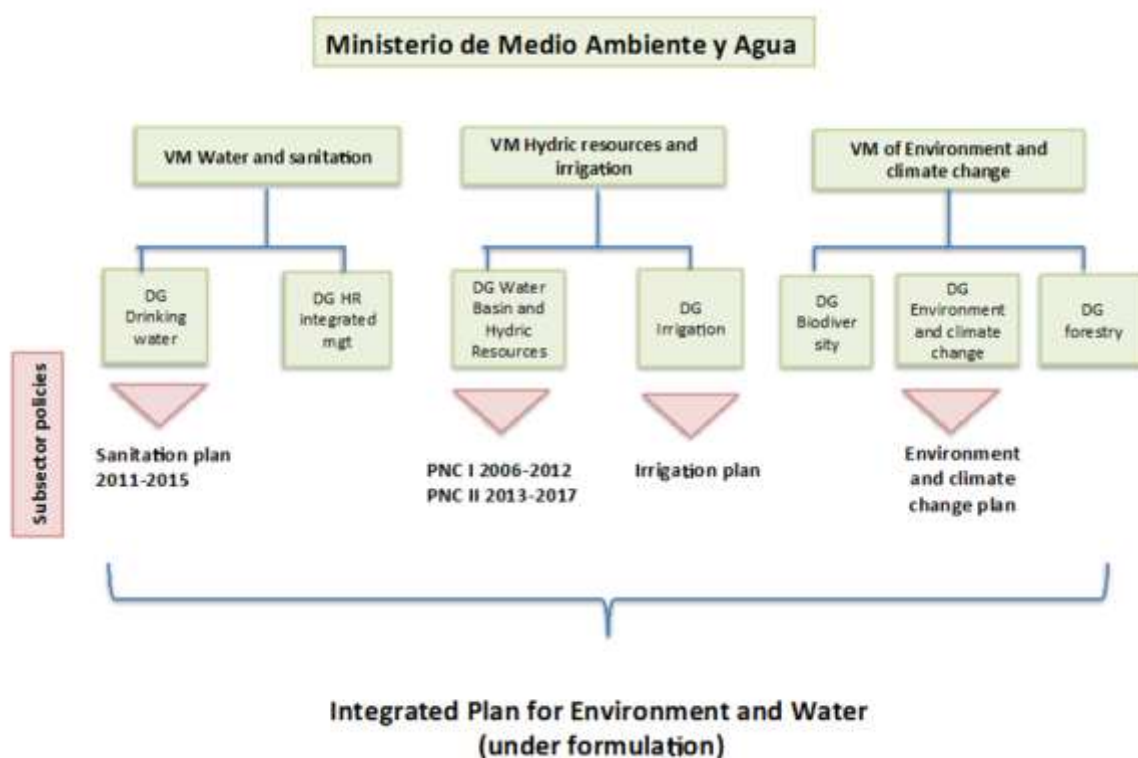
1 PROGRAMME DESCRIPTION

1.1 The Water Sector in Bolivia

Water is considered as an issue in a wider context linked to environment. This is in line with constitutional priorities and the willingness to enhance policy coherence across different interdependent subsectors. The Ministry of Environment and Water (*Ministerio de Medio Ambiente y Agua*) (MMyA) is in charge of the 'National Water Strategy' focusing on 3 aspects: i) Irrigation, ii) basic services, and iii) water basin and hydric resources.

The organizational chart of MMyA reflects this policy, and is divided in 3 sections: i) Water and Sanitation; ii) Hydric Resources and Irrigation; and iii) Environment, Biodiversity, Climate Change and Forestry (Fig 1). In total there are 7 directions including the Irrigation and Water Resources Direction (VRHR).

Fig. 1: Organization of the Ministry of Environment and Water



1.2 The National Water Basin Plan (PNC)

The *Plan Nacional de Cuencas – The National Water Basin Plan* (PNC) constitutes the overarching national strategy for integrated water management in Bolivia, in line with the National Development Plan. Its objective is to ‘promote integrated management of water resources and water basins on the basis of participation and self-management, and as a means for sustainable human and environmental development rooted in the perspectives of local cultures and livelihoods’.

PNC I (2006-2012)

The first phase of PNC was conducted from 2006 to 2012 focusing on water and sanitation, irrigation, environment, biodiversity and climate change. PNC I was aligned on the National Development Plan (2007-2011) and designed to solve major problems linked with water resources management (e.g. contamination, drought, flood, erosion, ...).

The major achievements of PNC I can be summarized as:

- Mainstreaming of the concept of Integrated Water Management and the Integrated Management of Basins (MIC) in the public debate and the political agenda (e.g. the topic is present in the discourse of an increasing number of political leaders, media, civil society and in the growing attention of the Bolivian government for environmental issues);
- Increased attention for direct beneficiaries and project implementers at all levels on Integrated Water Management (government, association of municipalities, municipalities, empresas);
- Strengthened VRHR with increased credibility;
- 61 operational Integrated Water Management structures, spread out over the country;
- Development of Water Basin Master Plans, to ensure appropriate coordination and upscale experiences from the micro level to the macro/institutional level. These Master Plans have strengthened alliances between different actors and allowed a financial flow to support the management of the water basins.

The major lessons of PNC I are:

- Basin Management Organizations (OGC) are an interesting tool to resolve water problems at the basin’s level but require increased follow-up;
- In order to be sustainable, a cycle of minimal 4 years is required;
- The institutional capacity to manage water resources has increased at all levels, but the capacity at local level is still insufficient;
- Improved communication on concepts such as ‘integrated water management’ and ‘basin integrated management’ is required. Monitoring the change in public attitude and political agendas, is equally necessary;
- There is a clear need to improve the alignment of objectives and components and to increase coordination between donors;
- The performance evaluation system oriented towards results is an appropriate M&E tool.

PNC II

PNC II 2013-2017 builds on the vision and lessons learnt and provides a conceptual framework for the subsector. The policy has been completed with the *Programa Plurianual de Recursos Hídricos y Manejo Integral de Cuencas 2013-2017*, which is a Multi-Annual Action Plan that sets out the policy implementation framework, including the program structure (objectives, components, indicators) the budget, the institutional framework and the monitoring and evaluation framework.

The goal of PNC II is to obtain sustainable human and environmental development in a context of social, economic and environmental vulnerability. Its general objective is to promote the implementation of the Integrated Water Management Resources and Water Basins in Bolivia. The approach is based on participation and self-management of the Integrated Basin Management (MIC) modalities, from the perspective of local cultures and life systems and as support for sustainable human and environmental development, in order to overcome poverty in a context of vulnerability to climate change and natural disasters. PNC II has seven specific objectives and components. It also defines specific performance indicators and targets to be achieved by 2017 (See also Table 7 subsection 2.2.2).

PNC II continues to focus on integrated water basin management based on Basin Master Plans. It intends to mainstream emerging themes such as climate change and water quality, and to promote a better risk management. It provides increased resources for knowledge management and capacity development.

The total budget for PNC II is estimated at \$US 115 million, which means over 3 times the amount disbursed during PNC I. However the VHRH direction counts on financial contribution from the local level (departments and municipality) and from donors. To tackle all institutional challenges, the VHRH direction plans to develop decentralized offices and proposes a strengthened monitoring and evaluation Unit. It counts on technical assistance provided by different donors, including Belgium, Germany, and EU and a substantial financial contribution from the donor community.

1.3 Donors' support to the water sector

The EU supports the whole sector through budget support, with three sub programs in each subsector. The envelope for PNC II is 23 million Euro. They are the leading donor for the integrated plan of the water sector, which would allow them to transform their three programs in one and unique budget support. Besides the financial support, they provide expertise at the VIPFE level through an expertise fund of 3 million Euro.

PNC has been financed through projects and a PNC basket fund.

The World Bank supports the PNC through its "Programa Piloto de Resiliencia Climática" with 36 \$ million (PPCR). Also Japan (JICA) and Switzerland contribute through project support.

1.4 The 'PNC II Basket fund' in Water Basin Management

The PNC basket fund was created in 2008 by Sweden, Germany, Denmark, Switzerland and the Netherlands (*Acuerdo de financiamiento conjunto*). The main objective of the basket fund is to support the implementation of PNC, the promotion and the strengthening of the integrated management of the water resources and the water basin management.

PNC I was supported through the PNC I basket fund for an amount of \$US 25 million. The basket fund provided the opportunity to improve donors' coordination and policy dialogue. As donor

coordination mainly focuses on technical assistance for capacity development, policy dialogue has worked in monitoring area setting a performance framework and in increasing intra-sectorial coordination between the three sub sectors of MMAyA.

After a positive evaluation in 2012, the Bolivian government asked the donors to continue support through a basket fund. The signatories of this new financing agreement will be the government of Switzerland, Germany and Sweden. The basket fund PNC II supports the new integrated approach of the environment and water sector, while continuing functioning on the same modality as the PNC I Basket Fund. The amount committed of the new Basket Fund increases to 31 \$ million for 2014-2017. The Netherlands decided to stop their support programme to Bolivia in 2013.

The following donors support the PNC II Basket Fund:

- KfW contributes to PNC II with 10 million Euro focused on a specific basin (Cuenca Ravelo). It reserves also a budget of 190 M Euro for drinking water and irrigation projects.
- The Swiss cooperation supports water management within its program GESTOR. It has 4 components¹, including 3 million Euro for the basket fund.
- The Swedish cooperation contributes 20 Million SEK (2 million Euro) to the basket fund.

Contribution mechanisms

- In addition to the Memorandum of Understanding, each participant to the basket fund signed an agreement specifying disbursement modalities (tranches, date, value) and specific mechanisms can be agreed upon.
- All donors provide funds to one account opened by MMAyA at National Treasury, specific to PNC. It makes a distinction between investment and recurrent expenses.

Planning and budgeting

- The VRHR provides yearly an operational plan (POA) with its costing to the group of donors.

Evaluation and Audits

- Evaluations are foreseen in 2015, 2016 and 2018.
- Yearly, an external Audit is conducted by a specialised enterprise. Its conclusions are revised and approved by the group. Donors participate in the elaboration of Terms of reference.

1.5 Belgian Support to the water sector

Belgian Development Cooperation adopted a 'portfolio' approach to support the sector to ensure multiplier effects across different projects in the sector, namely:

- a Capacity Development project (FC)
- an institutional development project at MMAyA (PAERE²)
- the PARC³ project anchored in VRHR which is focusing on financing small community irrigation projects

¹ The "Programa de Bolivian governmenternabilidad para el Desarrollo Territorial Sostenible" (CONCERTAR), the "Proyecto de Desarrollo Concurrente Regional" (PDCR), the "Plan Nacional de Cuencas" (PNC) for 3 million Euros and the "Programa de Manejo Integrado de Cuencas" (PROMIC).

² PAERE : Project in Support of the Water and Environment Sector through in Expertise and Studies

³ PARC : Programa de Apoyo al Riego Comunitario

- PNC II Basket Fund: Belgium was approached by the national government to support the PNC basket fund during the second phase of PNC. During the joint commission in February 2014, it was decided to support the basket fund with a 10 million Euro grant.

The total financial support to the sector for the period 2011-2017 amounts to 25.1 million Euro

This mix of different modalities allows supporting central and local levels alike, taking advantage of the added value of each aid modality. The basket fund will focus on establishing and reinforcing the institutional framework whereas some activities of projects will provide support to selected organizations and individuals at subnational level.

Topics/field	FC ⁴ /PAERE/PARC Projects	PNC II Basket Fund
Decentralization and Public Finance Management	Strengthen organizational and individual capacities of subnational autonomous governments	Contribution to an enabling regulatory, functional and financial framework in the water subsector. Discussion on PFM issues at MMAyA, Ministry of Finance and donor community level
Water Sector	Support MMAyA in the implementation of the Integrated Plan, namely in coordination mechanisms and knowledge management	Support VRHR to develop and strengthen the M&E and coordination framework in the Basin subsector (interministerial, intergovernmental, delegation agreements, CCS...)

⁴ FC : Capacity Development Support of the Water and Environment Sector

2 RISK ASSESSMENT

2.1 Macro-economic Framework and PFM

2.1.1 Update IRAI – index

The World Bank's IDA Resource Allocation Index (IRAI) is based on the results of the annual CPIA exercise that covers the IDA eligible countries. It rates countries against a set of 16 criteria grouped in four clusters: (a) economic management; (b) structural policies; (c) policies for social inclusion and equity; and (d) public sector management and institutions.

The overall IRAI score was 3.6 compared to 3.8 in 2009. Despite this slight decline, Bolivia largely meets the pre-condition stipulated in the Belgian directives for budget support. The cluster 'Public Sector Management and Institutions' remained at 3.2 (well above the 2.5 minimal score to provide budget support⁵). Progress was observed in the area of 'efficiency of revenue mobilization' (4.0) which is a key priority of the PFM reform, and in the area of 'transparency and accountability' (3.5). These two areas were followed by the 'quality of public administration' (3.0) and by the "quality of financial management" (3.0). The area with the lowest score relates to property rights and rules based government (2.5). Table 1 provides a comparison with other countries in Latin America for which data are available.

Table 1: Summary of 2011 IDA resource Allocation Index "Public Sector Management and Institutions"

IRAI	Public Sector Management and Institutions					
	Property rights & rule based government	Quality of budget & financial management	Efficiency of revenue mobilization	Quality of public administration	Transparency, Accountancy & corruption in the public sector	Avg
Bolivia	2.5	3.0	4.0	3.0	3.5	3.2
Guyana	3.0	3.5	3.5	2.5	3.0	3.1
Honduras	2.5	3.5	3.5	2.5	3.0	3.0
Nicaragua	3.0	3.5	4.0	3.0	3.0	3.3

The cluster 'Policies for social inclusion/equity' reached 3.7 in 2013. This included progress in the area of environmental sustainability, which is the focus of the proposed operation. According to WB data, rural population with access to improved water resources in Bolivia has progressed from 68% in 2008 to 72% in 2012. Social and redistributive policies to fight poverty were launched but inequality levels remain particularly high and constitute a major challenge.

In 2013, the cluster 'Economic management' scored 4.0, including monetary and exchange rate, fiscal policy, debt policy and management.

The cluster 'structural policies' registered the steepest decline, i.e. from 3.8 in 2009 to 3.3 in 2013. Nevertheless, performance is uneven depending on the area: in trade matters Bolivia performed well, reaching a score of 4.5. In terms of financial sector Bolivia reached a score of 3.0, whereas it

⁵ The Vademecum for Belgian Budget Support prescribes as a minimal governance guarantee an IRAI average > 2.5 for cluster D "Public Sector Management and Institutions" of the IRAI assessment.

only reached 2.5 in terms of 'business regulatory environment'. This last score explained on its own the negative trend of the overall composite index.

Compared to other countries worldwide, Bolivia ranked 19th out of 63 countries for the year 2012⁶ for overall IDA resource allocation. Table 2 provides a comparison for countries in Latin America.

Table 2: Regional comparison of IDA resource allocation ranking

Country	Overall Ranking	Economic management	Structural policies	Policy for social inclusion	Public sector management
Bolivia	3.6	4.0	3.3	3.7	3.2
Guyana	3.4	3.7	3.3	3.3	3.1
Honduras	3.3	3.0	3.7	3.6	3.0
Nicaragua	3.8	4.2	3.7	3.9	3.3

2.1.2 Macro- economic stability

Overall policy and trends: a new role for the State

Since 2005 Bolivia embarked on a path of major economic reforms. While strengthening domestic demand as the main engine for growth, the reforms increased the State intervention in productive activities and in service provision (banking services, air transportation, product commercialization, road construction, sugar production, etc.). Since then, the State has created at least 21 new state companies in different sectors. Central Bank funds are used to finance these productive ventures.

Since 2007, the government of Bolivia has established redistribution mechanisms to increase the income level of the most vulnerable sectors of the population. Conditional cash transfer mechanisms have been created⁷, reaching 30% of the population and amounting to 1% GDP in 2012. These transfers have stimulated local demand for goods and services, supporting economic growth.

Since 2009, Bolivia is considered a lower middle-income country. The GNI per capita was estimated at US\$ 2,550 in 2013⁸.

Economic growth and poverty rate

In recent years the economy has benefited from strong private consumption and investment growth, largely fuelled by high public spending. Bolivia's strong macroeconomic performance, backed by high commodity prices and active social policies, has resulted in an exceptional rise in GDP per capita (from 1,182 US\$ per year in 2006 to 2,584 US\$ in 2012). Following a slowdown in gas exports, the economy has been losing momentum but is still high compared to surrounding countries. Growth in 2014 was estimated at 5.5% of GDP, still the second highest rate in Latin America.

Poverty levels have declined. The share of the population living in *moderate poverty*⁹ decreased from 63.5% in 1999 to 45% in 2011. The percentage of the population living in *extreme poverty*

⁶ <http://orkii.com>

⁷ such as the *Bono Juancito Pinto* or the Juancito Pinto stipend (2007), which is disbursed to school-age children; the *Bono Juana Azurduy* (2008) for pregnant women, and the *Renta Dignidad* for people over 60.

⁸ www.worldbank.org/en/country/bolivia on 7 April 2015

⁹ The World Bank website : Bolivia, 7 April 2015 : Extreme poverty is defined by the World Bank as the percentage of people living with less than \$US 1.25 a day, moderate poverty between \$2.50/person/day and \$US 1.25 a day

decreased from 40.7% in 1999 to 20.9% in 2011.

Notwithstanding this progress, Bolivia continues to rank low in the UN Human Development Index (108 out of 187 in 2012). Child and maternal mortality remain high, and water and sanitation coverage is low, especially in the rural and poor marginal urban areas. An aggravating factor is the persistence of high inequality levels. The Gini coefficient went from 0.53 in 2009 to 0.50 in 2010¹⁰, with larger discrepancies in rural areas. In 2009, the 10% top income bracket of the population earned 14.7 times more than the 10% bottom income bracket of the population.

Labour market indicators have progressed but job creation continues to be a major challenge. The macroeconomic policy succeeded in isolating the country from the effects of international crises because substantial buffers allowed to deal with external shocks. This, along with a greater role of the state in the economy, had a favourable impact on unemployment rates. According to the IMF, unemployment rates declined from 8% in 2006 to 3.2% in 2013¹¹. Informal employment also slightly declined but remained over 80% of total employment in 2010 (ILO, 2013).

External position and trade balance

Bolivia's external position continues to be strong with a positive trade balance that has grown from 508 million US\$ in 2005 to 3,586 million US\$ in 2012. The trade balance surplus achieved during consecutive years has allowed accumulating a large volume of Net International Reserves. In 2013 they reached 49% of GDP.

About 90 percent of Bolivia's exports are commodity based — with natural gas representing roughly 50 percent of total exports. The oil and gas sector is the most important sector of the economy, which together with minerals, constitute the country's main sources of income.

In 2014 the trade surplus was narrowing, reflecting a slowdown in gas exports sales. The contribution of the hydrocarbon sector to state financing is decreasing and is expected to continue to decrease over time. This should lead to growth driven by other sectors and by the improvement and expansion of the tax base. Multiyear contracts with trading partners should guarantee comfortable export volume.

Fiscal policy

In line with recent reforms, the State holds an important stake in the economy, close to 50% of GDP. Revenues from oil and gas, minerals, taxes and trade related tax revenues are the basis of State financing¹². Public debt in 2014 was 35% of GDP, with China currently as its largest bilateral creditor.

Since 2007, Bolivia has a positive fiscal balance (surplus), a situation resulting from the increase in tax revenues, economic performance and most of all, by an important increase in revenues from the exploitation of oil, gas and minerals. In addition, the entry into force of the HIPC I and II, the Paris Club and the Multilateral Debt Relief initiatives have reduced considerably debt service obligations and pressure on the budget.

Prudent macroeconomic management has allowed saving part of the hydrocarbon revenue windfall, with continued twin surpluses in the fiscal and external accounts strengthening the resilience of the economy to adverse shocks. The last Article IV consultation highlights that the Bolivian government remains committed to a prudent fiscal policy that safeguards low fiscal deficit levels and purchasing power of local currency.

¹⁰ Source: MEFP: Bi-annual Fiscal Dossier 2012

¹¹ Although different sources provide different figures, all sources agree on a downward trend and show parallel curves.

¹² Remittances have stabilized around 1,000 million US\$. A small reduction in remittances is expected due to the crisis in countries that receive Bolivian immigrants (Spain, Argentine, US) but no significant impact is expected on international reserves and even less on GDP growth.

The State is expected to play an increasingly prominent role in the development strategy, by ensuring a sufficient tax collection capacity, a transparent system for the allocation of resources and sound fiscal expenditure control mechanisms.

Revenue growth is expected to lose momentum in the following years reflecting less favourable commodity prices, rising domestic gas demand and limited progress in tackling contraband trade.

Table 3: Tax-to-GDP and effective collection-estimated potential ratios

Year	Sample	Tax ratio (% of GDP)			Estimated effort (Effective tax revenue in % of estimated potential)		
		Median	Maximum	Minimum	Median	Maximum	Minimum
2010	Nb countries						
Lower MICs	24	16.5	36.6	9.5	63.2	87.1	38.1
Bolivia			26.6			67.6	

Source: www.oecd.org : revenue statistics

Monetary policy and inflation

Bolivia's open and commodity-dependent economy is rather vulnerable to inflationary pressures from both external and domestic supply shocks. Since end-2011, monetary policy has been anchored to a stable nominal exchange rate vis-à-vis the USD, supplemented by liquidity management through open market operations.

After inflation rose to 14% in 2008, the government has been successful in keeping regular fluctuations under control and below this rate. In 2013 inflation rose to 7.5% but the 12-month inflation rate of 2014 dropped back to 5.9%.

Since 2009, the central bank is authorized to lend to the central government at concessional terms. This practice might negatively affect independency and the solvency of the Central Bank, undermining macroeconomic stability and price stability in the long term. Preliminary discussions have taken place with the IMF on the possibility that lending activities are taken over by a sovereign saving fund administered by the ministry of finance and supported by strong governance structure and clear investment criteria

Concerns have been raised on the new Financial Services Law, and more specifically on the risk that by applying regulated interest rates and credit quotas the law might create distortions and complicate the conduct of monetary policy.

Financial sector

Access to financial services has expanded overtime. Preserving these gains will require monitoring the current credit expansion closely, maintaining banking sector buffers, and continuing to strengthen supervision. The Bolivian government is also working on establishing a real estate price index to better assess any potential misalignment in property prices.

The banking sector is solid and the financial sector has significantly grown. According to IMF, the Private sector credit growth was moderate in 2013 but remained high amid negative interest rates. Banks' capital adequacy ratio stood at 12.5 % in 2013, above the regulatory minimum of 10%, and the NPL (non-performing loans) ratio declined to 1.7 percent (from 8.7 percent at end-2006). The steady increase in reserve requirements on foreign currency deposits and the stable exchange rate have contributed to a significant fall in the dollarization ratio (23 percent of total deposits in

September from 53 percent in 2008). In 2012, 67% of all deposits and 73% of all credits are now in Bolivianos (Bs). This is an important achievement in terms of system's liquidity, since it enables the execution of a more effective monetary policy. The solvency indicator and liquidity confirm Bolivia's capacity to honour its debt.

Table 4: Solvency and Liquidity of the economy of Bolivia

SOLVENCY AND LIQUIDITY OF BOLIVIA'S ECONOMY	2009	2010 (p)	2011(p)	2012 (p)	Threshold for weak policies
Solvency (ED / GDP)	14.9	14.6	14.5	14.5	30
(ED/Exports)	48.5	46.4	41.9	39.4	100
Liquidity (SED / Exports)	4.9	4.8	2.8	4.8	15

Source: Developed from the BCB's database: *Informe de la deuda externa pública. Al 31.12.2012.*

A new Financial Services Law came into effect in November 2013. The law establishes a comprehensive legal framework for the regulation of financial services, financial institutions, and financial groups. Its focus is to ensure financial inclusion and productive development.

Key Issues

The biggest risk to Bolivia's economy is its dependency on commodity exports, and particularly on the oil and gas sector. A strong external position, sizable international reserves (49% GDP in 2013) and Government deposits at central bank (26% GDP in 2013) represent sound safeguards against external shocks.

The non-hydrocarbon primary deficit and the adverse effects of depletion of gas resources on debt after mid-2020 might challenge medium term sustainability. Acceleration of investment in gas exploration and a 'surplus' fiscal balance oriented policy should mitigate these risks.

Widespread legal insecurity significantly hinders domestic and foreign private investments. Establishing a favourable business climate for private investment is key in order to leverage Bolivian government efforts to industrialize the resource sector, diversify the economy and boost competitiveness, productivity and employment creation.

Child and maternal mortality remain high. Water and sanitation coverage is still low, especially in the rural and poor marginal urban areas.

Conclusion on Macroeconomic eligibility criteria for budget support

Overall, it can be stated that Bolivia largely fulfils the macroeconomic eligibility criteria for budget support and there are no immediate risks that could destabilize the economy. The budget and the medium term macroeconomic framework are adequate to support the Government's program. The budget follows a prudent fiscal strategy of consolidation backed by lower spending and increased revenues, supported by continued tax administration and PFM improvements. The medium term outlook, including inflation, economic growth and financing remains positive but heavily conditioned on favourable external conditions and continued donor support.

There is wide consensus, at multilateral agency and bilateral cooperation agencies level, that Bolivia's macroeconomic policy is stability-oriented and that there are ample buffers and institutional measures to manage macroeconomic related risks.

2.1.3 Public Finance Management

The Public Financial Management (PFM) system has evolved significantly during the last twenty years. In the '90s, Bolivia was one of the first countries in the region to implement comprehensive and innovative regulations in the field of public finance management.

As part of these measures, the law on Financial Management and Government Control, 'Ley SAFCO'¹³, was approved in 1990, stipulating key processes in main PFM areas¹⁴. Consequently, the Bolivian government developed SIGMA, a financial management IT system that significantly improved the presentation of budget and financial reporting as well as the internal control and the public expenditure management. Since then, several systems such as SIGMA¹⁵, SISIN, SISFIN, SICOES, were developed.

In 2000 a major shift was made towards a more 'systemic' approach. By building on the findings of a set of studies such as the Country Financial Accountability Assessments in 1999 and in 2004, the Public Expenditure Reviews in 2004 and in 2006, a self-evaluation of public finances (EFIP) in 2008, and a PEFA in 2009, the Bolivian government developed its PFM reform, the '*Plan de Acción para la Mejora de la Gestión de las Finanzas Públicas* (PAMPFM)' for 2011-2015. The total budget provided to cover the reform amounted to about 34 million US\$, mainly from local resources.

The PAMPFM has been structured along the six PFM dimensions included in the PEFA methodology¹⁶ and it targets specific weaknesses of the Bolivian system, such as the revenue collection, which is the main focus of the first phase of the reform.

Without entering into a detailed review of each component (which is available to a large extent in the 2014 'BTC overall assessment'), the table below provides an overview on the main PFM dimensions.

¹³ It refers to the System of Governmental Management and Control and its subsystems to regulate control, planning, public investment, operations, budget and the accounting-financial management of all public institutions.

¹⁴ Planning of operations; administrative organization; budget, personnel administration, administration of goods and services, treasury and public credit, accounting and government control, including internal control and external control.

¹⁵ SIGMA was established in 2000 and integrates computerized systems of public management administration and generates financial information in real time and contributes in this way to improve transparency.

¹⁶ The six dimensions are: i) Budget credibility; ii) Comprehensiveness and transparency; iii) Policy based budgeting; iv) Predictability and budget execution; v) Accounting, registry and reporting; and vi) Scrutiny and external auditing.

Table 5: Overview of the Bolivian PFM assessment

	Global assessment
Budget credibility	Positive assessment with GOOD progress made: <ul style="list-style-type: none"> – new law on budget management – expansion of use of the SIGMA and SIGEP at departmental level – Integrated accounting system which gives good information on payments in each fiscal year
Comprehensiveness and transparency	Regular assessment with REGULAR progress made: <ul style="list-style-type: none"> – Promoting laws (treasury and public national credit system, Public enterprise) – Publishing Budget classifiers and guideline, – Different measures for promoting local PFM – Few measures to promote fiscal information
Policy-based budgeting	Positive assessment with GOOD progress made: <ul style="list-style-type: none"> – New investment system (SISIN) fully operational – Good progress on implementing multiannual budget framework (MTFF and MTEF)
Predictability and Budget Execution	Positive assessment except in payrolls control and quality of audits with GOOD progress made: <ul style="list-style-type: none"> – Tax and duty Bill, Law 100 on Development and security (against contraband) – Customs control system reformed and more efficient – Improved registry revenues at local level with new Tax information system – Improvement in predictability of resources and cash management system at national level – Good information on external debts and financial sector – Functional state purchase system (SICOES) with a registration system for supplying companies (RUPE) – Increased control on expenditures with budget with use of SIGEP
Accounting, registry and	Positive assessment with GOOD progress made: <ul style="list-style-type: none"> – Good availability of information for budget, with various reliable sources – Unique budget programing and analysis of financial statement system in implementation
Scrutiny and external audit	Regular Assessment with POOR progress made: <ul style="list-style-type: none"> – Working progress in external organic audit law and creation of a budget office in the assembly although no audits are performed by the CGE – Good availability of information for budget, with various reliable sources – Unique budget programing and analysis of financial statement system in implementation
Source: based on results of BTC overall assessment 2014	

Major improvement in the budget cycle process has been achieved in the field of multiannual budgeting, Medium term Fiscal framework, and access to the budget information.

Following the New Constitution and the Decentralization law in 2009, the comprehensiveness and

transparency have modified. As a result, autonomous governments have been created and all public management systems need to re-align to these changes in order to enable all tiers of government to assure their responsibilities.

External Audit and oversight is the area where least progress has been achieved. This might be ascribed to the fact that, on the one hand, the PAMPFM does not fully address this PFM function and, on the other hand, this area is under the responsibility of the National Audit Office and of the Assembly, which are independent bodies outside the executive. In 2009 the PEFA found that the participation of the legislative branch in the budget process was almost non-existent. In none of the years assessed, the parliament had formally and explicitly approved the budget. Since then, progress has been made, as the timeframes have been adjusted, allowing the two chambers to review and approve the General budget of the State in 2013. Yet, the oversight role and capacity of the Assembly still needs to be strengthened. In this field there are discussions on the creation of a liaison office between the MEFP and the national Assembly to help prepare technical information and facilitate the review and approval process. The National Audit Office does not audit the expenditures of central administration or budget execution; its main function is to perform special audits on an ad hoc basis. In this framework, it has unrestricted access to financial information of all public sector institutions, including subnational governments. 'Special audit' reports are submitted to the top executive of the audited entity and annual reports are submitted to the legislative assembly. Audit reports are published on the webpage. As the table above shows, there are various legislative initiatives in the pipeline to modernize the external audit system.

Conclusion on PFM eligibility criteria for Belgian budget support:

Bolivia meets the precondition for Belgian budget support, as it has a relevant and credible PFM reform in place aiming at addressing identified weaknesses. Notwithstanding that results have been better in some dimensions than in others, overall progress has been favourable in all dimensions. It has been achieved despite difficult circumstances where most financing came from domestic resources, demonstrating the commitment of the Bolivian government to the reform.

2.1.3.1 Sector Audit

The audit report for the fiscal year 2013 was officially submitted and validated by the PNC II partners (through KfW) on the 28th of October 2014.

It is worth noting that the report provides two different opinions: i) on the general financial statements related to the implementation of the full PNC II plan, and ii) on the specific basket fund financed by the PNC II partners. Overall, the audit opinion is clean.

Concerning the overall PNC II plan, the auditors conclude that the financial statements present fairly, in all material respects, the funds received and disbursed to the PNC II, and that the budgetary execution is in accordance with the international Basic Rules of the Integrated Accounting System, with the terms of the basket fund financing agreement, and with the basic rules of the administrative and accounting management.

In regard to the specific section on the PNC II basket fund, the auditors conclude that except for the partial fulfilment of the thirteenth clause, related to the delayed contracting of the external audit, the

MMAyA has fully complied with the provisions of the basket fund financing agreement.

After previous consultations with the PNC II partners, the ToRs for the basket fund external audit 2014 were agreed on the 16th of March 2015 .

2.2 Sector policy – sector strategy

2.2.1 The Water Sector in Bolivia

The State has acquired a more prominent role in the management of water resources and the sector has been gradually structured. However, the ‘Water War’ (2000) revealed the existence of strong conflicts between different stakeholders over the access and use of water. It also reflected the State’s limited institutional capacity to regulate, administer and guarantee access, quality and sustainable use of water.

PNC was conceived as a bottom up process, aiming at testing Integrated Water Management approaches at local levels and feeding back upstream processes with lessons learned. To this aim, the PNC I had 7 strategic objectives translated in seven components, including one aiming at financing and executing locally driven projects¹⁷. The Multi-Annual Plan 2008-2012 operationalized the PNC I. However the structure of the plan was not fully aligned to the PNC, which created confusion in terms of prioritization and strategic approaches.

The Performance Assessment Framework (PAF) for PNC I paved the way for result based management in the sector and was an important step to move towards policy based budgeting. According to the Overall Assessment conducted by BTC the water sector was the most advanced in this field. In addition, the establishment of the PAF has improved donor coordination and harmonization, facilitating joint policy dialogue. VHRH re-conducted and renewed the exercise under PNC II.

PNC I showed that it is possible to make progress in the development and implementation of a subsector policy without having yet in place an overarching sector policy. A key challenge is the wide scope of the sector and the fact that the MMyA remains a relatively new ministry that brings together subsectors that are not used to work together. Coordination and policy coherence are limited because:

- Not all subsectors have a policy and cycles of existing policies are not synchronised (e.g. the Basic Sanitation strategy covers 2011-2015, whereas PNC II covers 2013-2017);
- Not all directions are involved in the formulation of each subsector strategy. The different directions tend to work in ‘silos’ and can even compete for resources.
- There is no overall Environment and Water Policy that encompasses all subsectors and acts as a common guiding framework for all subsectors to foster synergies.

MMyA is developing an Integrated Plan for Environment and Water including five key priority areas: i) Integrated Hydric Resource Management; ii) Environmental and Basic Sanitation in human settlements; iii) Restoration and preservation of Mother Earth Health; iv) Institutional development of the sector; v) Response to climate change impacts. This plan should improve the coordination with other relevant sectors and ministries¹⁸. Effective (inter)sectorial and intergovernmental coordination requires institutional support to VRHR and MMAyA.

¹⁷ 1) Locally driven investment projects; 2) Institutional development; 3) Information, knowledge, communication on integrated management of water resources and integrated water basin management; 4) Capacity development of professionals, civil servants and water managers; 5) Monitoring of strategic topics; 6) Development of administrative and financing mechanisms; 7) Cross border basin management

¹⁸ e.g. Ministry of Foreign Relations and Development Planning for all issues pertaining to cross border waters; Ministry of Rural Development and land for all issues pertaining to the National Integrated plan for Coca II; the Mining Ministry for all issues pertaining to water pollution

Box 1: Main results of PNC I:

Through PNC I, the concept of Integrated Water Management and Integrated Management of Basins (MIC) were mainstreamed in the public debate and the political agenda (e.g. the topic is present in the discourse of an increasing number of political leaders, media, civil society and in the growing attention of the Bolivian government for environmental issues. Municipal and department bodies, the private sector and the civil society have been able to integrate the new concept and the way of working. Multiannual plans and the performance assessment framework have been instrumental in this process. There is an increased attention for direct beneficiaries and project implementers at all levels on Integrated Water Management (government, association of municipalities, municipalities, *empresas*).

61 operational Integrated Water Management structures, spread out over the country, are implemented (investment stage) which can be divided in two categories: 25 integrated water and basin management projects and 26 integrated water resources management projects (including irrigation, underground water management and sanitation) (2 and 26 at pre investment and investment). An additional 27 projects are in the planning phase. These projects are located in 68 municipalities and include 780 small infrastructure to captivate water, 11 irrigation systems for 373 ha, 22 drinking water infrastructures. Overall, 20 % of the municipalities have been involved in the process.

Under PNC I, masters plans were developed for Rio Katari and Rio Grande which cover a surface of more than 30 % of the national territory, and more than half the population. Both are in the implementation phase. Master plans for Lago Popoo and Rio Gualdalquivir are in the planning phase. These Master Plans have strengthened alliances between different actors and allowed a financial flow to support the management of the water basins.

Appropriate tools have been developed to guide the implementation of projects, while the human resources have strengthened the institutional capacity.

2.2.2 PNC II 2013-2017

Target groups and stakeholders

The stakeholders that have a role to play in policy formulation and/or implementation are presented in Table 6. Some are also target groups, as PNC seeks to influence their behaviour in order to address key challenges. For instance, autonomous governments are public authorities in charge of implementing the national policy and developing local policies that prioritize Integrated Water Management. In this respect they are also target groups, as PNC II seeks to provide incentives to influence their behaviour and prioritize Integrated Water Management in their local policies.

It would be expected that mining companies are another target group whose behaviour needs to change, because part of the water pollution problem comes from their environmental regulations non-compliant practices. However PNC II does not directly deal with them: none of the policy instruments directly addresses mining companies. For instance, there is no tax or penalty foreseen in order to encourage environment-compliant practices. Such a tax or penalty would help modify the behaviour of the target group, reinforce the environmental/water protection in line with the constitution and generate additional resources for policy financing. Without such monetary instruments it is questionable that mining companies' behaviour can be influenced only through regulatory and awareness raising activities that have failed up to now. Furthermore, it means that the costs of the policy are exclusively born by public actors and beneficiaries (who already pay taxes) and not by target groups.

Table 6: Overview of the stakeholders in PNC

National level	MMyA (3 VM), Ministry of Planning and Development, Ministry of Rural Development and Land, EMAGUA, National Institute of Agricultural and Forest Innovation, National Service of Meteorology and Hydrology (SENAMHI), National/Departmental Irrigation Service (SENARI/SEDERI), Ministry of Foreign Affairs, Ministry of Mining
Subnational levels	Nine Autonomous Departmental Governments (GAD) 337 municipalities and associations of municipalities, municipal, departmental associations and the Federation of Municipal Associations of Bolivia
Academic sector and civil society	Universities: Universidad Mayor de San Simón (UMSS – AGUA Water Center), Universidad Técnica de Oruro (UTO), Universidad Mayor de San Andrés (UMSA), PIEB (through its Environment Research Program), Communal Civil Society Organizations
Private sector	Mining companies and all companies in numerous sectors as agriculture, forest and wood, chemicals, agroindustry, construction...

Table 7: Summary of PNC II 2013-2017

Strategic field	Components	Specific objectives	Indicators	Targets 2017
Planning, implementation and monitoring of Water and Basin integrated management	1. Promotion and development of Basic Master plans (Planes directores de cuencas)	Improvement of water governance in strategic basins through inter-institutional coordination of processes and actions at short, medium and long term	Water governance indicator	5 Basin master plans are consolidated Few more Basin Master plans Indicator: 0,30
	2. Implementation of Integrated Water and Basin management projects	Promote investment in projects to boost sustainable management of natural and water resources and to increase local capacities for the management of micro-basins	Increase of the number of on-going investment projects and sustainability indicator	30 more projects Sustainability indicator: 0,6
Mainstreaming of emerging themes	3. Hydric and climate change risks management	Mainstreaming of hydric risk and climate change management in PNC II projects and programs	Nb of municipalities with Early Hydric Alert System (SATH)	30 municipalities with SATH access
	4. Water quality management	Prevention and reduction of hydric pollution through water quality management	Ha of forest areas in Basins with PNC intervention Nb of water quality monitoring systems in pollution vulnerable zones	6000 hectares i) 20 water zones with a monitoring system; ii) Proposal for water quality management based on available information on water quality; iii) Creation of an inter-institutional platform; iv) Implementation of a water quality management proposal in priority basins
Knowledge development and capacities	5. Pedagogical Basins	Development and dissemination of experiences of solidary, equitable and sustainable water and national resources management in pedagogical basins, through the 'dialogue between local and scientific knowledge'	Nb of pedagogical basin projects capitalised and disseminated	9 pedagogical basin projects generate 18 researches, 12 pedagogical material, 10 systematizations of experiences, 5 dissemination programs and 4 publications.
	6. Knowledge and information management on water resources and basins	Consolidate an information and knowledge management system at different levels of intervention	Information systems at Basin Master plan & national level PNC visibility at national and subnational level	Geo-database in 7 strategic basins with Basin Master plans Increase of 50% of the visibility index as compared with 2013 baseline
	7. Institutional development and capacity development for water and basin integrated management	Capacity development for planning, facilitation and implementation of processes/actions on basin and water resources integrated management. Institutional and individual capacities in public/private entities and social organizations, at national, regional and local levels.	Nb of municipalities with institutional capacity to carry out integrated water and basin management.	50 municipalities have the capacities to implement integrated water and basin management policies (municipal capacity index $\geq 0,65$)

Source: MMyA: multiannual Plan PNC II 2013-2017

Policy instruments

The choice of monetary and non-monetary policy instruments is a key tool to influence stakeholder's behaviour. They need to be consistent with pursued objectives and with target groups whose behaviour is to be modified. The mix of policy instruments is a key factor in terms of institutional capacities.

	Direct	Indirect
Monetary	Provide/Purchase	Tax/subsidies
Non-monetary	Prohibit/Require	Inform/implore

PNC II focuses on non-monetary policy instruments, mainly targeting the development of the legislative framework (e.g. decentralization), development of guidance and methodologies, raising awareness. These aspects are well described under each component and they are also captured in performance indicators.

Although PNC II mentions some monetary instruments and provides massive financing for public investment, financial aspects are the weakest aspect of the subsector policy. This is reflected in the sector budget (cf. chapter on sector budget). In addition, the Multi-Annual Action Plan vaguely refers to some monetary instruments but it is not as explicit as regards their purpose, how they will be used and designed: these aspects are not detailed in the description of the components and they are neither captured in performance indicators.

For this reason it is not possible to confirm the adequacy and relevance of monetary instruments. These issues are always sensitive and the risk of not having them explicitly addressed is that work on these areas gets off-track.

Key issues:

The Ministry of Environment and Water (*Ministerio de Medio Ambiente y Agua*) (MMyA) is the institution in charge of the 'National Water Strategy. The *Plan Nacional de Cuencas 2013-2017* (PNC II) constitutes the overarching national strategy for integrated water management in Bolivia. This strategy is operationalised through the multi-annual action plan '*Programa Plurianual de Recursos Hídricos y Manejo Integral de Cuencas 2013-2017*'.

Strengthening the institutional framework and the capacities is a major challenge and the VHRH counts on the provision of technical assistance by the different active in the sector.

Supporting the Bolivian government to define adequate financial instruments of the policy, in particular, the budget and fiscal decentralization tools is also a key issue to follow.

Another key challenge is the wide range of stakeholders, including central government and local autonomous governments, public administrative bodies; entities to which the MMyA has delegated some responsibilities; the academic sector and the civil society. Improved coordination would facilitate further progress.

Not addressing private actors is a weakness in PNC, as it cannot address a key underlying cause for drinking water scarcity. This may be further addressed in coordination with the PFM and Macro Group.

2.3 Sector Budget and Policy Financing

As shown in the table here below, the national budget allocated to the water sector significantly increased over time, moving from 300 million Bs in 2010 to 717 million Bs in 2014. However, the positive trend in the sector has not been reflected in the financial allocation to the national strategy for integrated water management, which has declined from 38 million Bs in 2010 to 19 million Bs in 2014.

In the PNC I (2006-2012), the execution rate by VRHR reached 90 % at the end of 2012 on a total budget of 31 million \$US (212 Million Bs) without local contributions. This corresponds to an annual budget of \$ 10 million \$US a year as the expenses really started in 2010. At decentralized level, the execution rate was equivalent to 77.9% showing a delay between transfer from central to execution entities (departmental or municipal government, and national execution entities as Emagua¹⁹ and FPS).

Table 8: Overview of the budget of MMayA and PNC 2010-2014, in 1,000 BOB

	2010	2011	2012	2013	2014
Budget MMayA	300,506	439,182	466,400	551,483	717,824
PNC	38,302	27,045	28,790	21,890	19,775
% PNC	13%	6%	6%	4%	3%

Source : MMayA

VRHR plans investments on the basis of the performance assessment framework, establishing in this way the basis for results oriented management. The budget is defined based on the components, indicators and logical framework of the multi-annual Plan. This means that the budget is built on program costs, expected products and previous experiences.

The share of capital investment and recurrent costs as set out in the multi-annual budget is 85% and 15% respectively. The PNC report (June 2013) mentioned a first level of execution of the basket fund contributions (including EU BS) of 90% while the real execution rate at implementing partners level for investment projects reaches 77%. On the other hand, the execution of the 2012 annual plan, including local and national contribution hardly achieves 42%.

¹⁹ Emagua is a public water enterprise created in 2006, in charge of the execution of projects and programs of MMayA

Table 9: Medium term budget for the subsector (2013-2017)

Component	Financial contribution in US \$					
	Total	%	Grant	Loan	national budget	Local contribution
1 Promotion and development of basic Master Plans	5,390,000	5%	1,617,000	2,695,000	539,000	539,000
2 Implementation of integrated water and basin management projects	64,575,000	56%	39,045,000	6,457,500	-	19,072,500
3 Hydric and climate change risk management	34,195,000	30%	13,650,000	10,084,500	710,500	9,750,000
4 Water quality management	2,050,000	2%	1,420,000	32,000	333,000	265,000
5 Pedagogical basins	5,610,000	5%	3,844,500	725,500	417,000	623,000
6 Knowledge and information management on water resources and basins	1,760,000	2%	1,084,000	-	676,000	-
7 Institutional and capacity development for water and basin integrated management	2,220,000	2%	2,115,500	-	49,500	55,000
TOTAL	115,800,000		62,776,000	19,994,500	2,725,000	30,304,500
		100%	54%	17%	2%	26%

Source : MMAyA

The Annual investment budget is expected to grow from \$12 million up to \$35 million during 2013-2017. This is a major challenge in terms of absorption capacity and budget execution capacity at all levels, particularly at subnational level where most investments will take place.

PNC II recognizes the need to:

- Increase VRHR human resources capacities in technical but also in administrative/management positions and consider the creation of a de-concentrated unit to implement PNC II;
- Develop management tools to improve operational efficiency;
- Pursue and complete the decentralization of responsibilities in the subsector.

Financial sustainability

Financial sustainability remains a major concern for the subsector policy. As shown in the table here above, 54% of the PNC II financial resources are grants provided by donors, 26% by local contributions²⁰, and only 2% by the government. The budget depends on external financing (grants and loans) that amounts to 71% of total budget.

In addition, the budget seems to be inconsistent with the rules set out in the policy to co-finance concurrent investments. Component 2 concentrates the bulk of investments in the Hydric Resources

²⁰ The Multi-Annual Plan does not specify what local contributions means exactly. This analysis is based on the hypothesis that local contributions are financed from local revenues and not from central transfers to subnational levels.

and Irrigation subsector. PNC II has set out the share for financing concurrent investments as 5% for municipalities, 20% for departmental governments, 70% for VRHR and 5% for beneficiaries respectively. Yet, according to the budget, the National Treasury does not provide any financial contribution, which means that VRHR contribution is fully covered by external financing. This means that, component 2 relies on local contributions and external financing (grants and loans), making local government financing highly dependent on external unpredictable and unstable financing. This is likely to be an obstacle to develop sustainable local policies and improve local systems.

The adequacy of the share of central and local resources to finance the national policy is questionable, as state budget should be the main financing source, at least for central prerogatives and delegated functions. It also raises the sustainability of the policy in the longer term, as it is unlikely that local contributions are able on their own to fill the financing gap that external contributions fill today.

Choice of fiscal/financial instruments to finance local investment

Compared to PNC I, PNC II started off with improved capacities at national and subnational levels, as much in terms of PFM systems as in terms of Integrated Water Management capacities. Nevertheless, local capacities will be one of the biggest challenges for budget execution under PNC II. To this aim, there is need to put in place adequate financial instruments and arrangements.

Up to now, the PNC has been driven more by 'projects' than by functions and institutional processes. PNC I prioritized the financing of projects at local level to disseminate integrated water and basin management and reinforce coordination around concrete processes. This experimental approach achieved good results in terms of bringing VRHR closer to the communal basis, stimulating local dialogue and raising awareness.

Yet, the evaluation of PNC I also found out weaknesses, such as wide project dispersion, uneven project results, quality and sustainability. In addition, if a 'project' approach is useful to test different institutional arrangements before generalizing them, it fails to provide an institutional response to policy financing and capacity development needs in the medium term. Therefore, the evaluation recommended gradually moving away from an approach where PNC is managed as an accumulation of 'ad hoc' projects towards a more institutionalized process.

The prioritization of investments into strategic watersheds is part of the planning process of the PDC's. **A guide²¹ for prioritizing PDC investment was designed and validated in 2012 under the PDC-Río Grande (Mendoza et al, 2012).** This guide describes the selection process for investment projects in water basins according, the following categories of parameters:

- 1) biophysical (climate, geology, earrings, etc.);
- 2) socioeconomic (population, production, management practices, etc.);
- 3) institutional (Water basin Management Agency, existence of rules local, political support, etc.).
- 4) Climate Change Adaptation.

The projects eligible for funding under the PNC intervention, will be identified from the Institutional Strategic Plan (ISP) 2013-2017 and from the POA (Annual Work Plans); the most degraded basins will be a priority for intervention of the ISP PNC II 2013 -2017. The municipalities with a good performance during the previous phase, a good technical and institutional capacity (including a PDC technical unit) at decentralised level and were good prospects for investment and competition exist will have a clear advantage to be selected for funding.

²¹ Metodología de Priorización de Microcuencas. 2013. Ministerio de Medio Ambiente y Agua – Viceministerio de Recursos Hídricos y Riego. 90 p.

In line with the PNC I evaluation, PNC II seeks to evolve towards a more institutional, stable and predictable approach. To this aim, the multi-annual program mentions that work will be carried out under component 7 to allocate and transfer appropriate resources to subnational governments. It also mentions that it will consider the creation of a transfer mechanism.

2.4 Institutional setting and capacity

2.4.1 Legislative and regulatory framework

The legal framework for the water and environment sector is provided by a comprehensive set of laws and regulations. Within the scope of this exercise, it is worth recalling the following two key overarching laws:

- Law on Mother Earth and Integrated Development for the Wellbeing Nr. 300, 2012: it sets out i) the objectives in terms of integrated development, ii the way forward to achieve national wellbeing, and iii) the legal bases for planning, public management and the institutional strategic framework for its implementation.
- Law on Decentralisation and Local Autonomy Nr.031, 2010: it operationalises the legal basis for the territorial and functional structure of the State set out by the national Constitution (2009). The law defines the mandate of the different levels in regards to drinking water and sanitation, natural resources, biodiversity and environment, and water resources and irrigation. Moreover, it establishes the Sector Coordination Councils, which act as coordination platform between the central level and the local autonomous entities. It also promotes intergovernmental agreements between autonomous territorial entities for the coordinated exercise of their competencies and joint implementation of programmes/ projects.

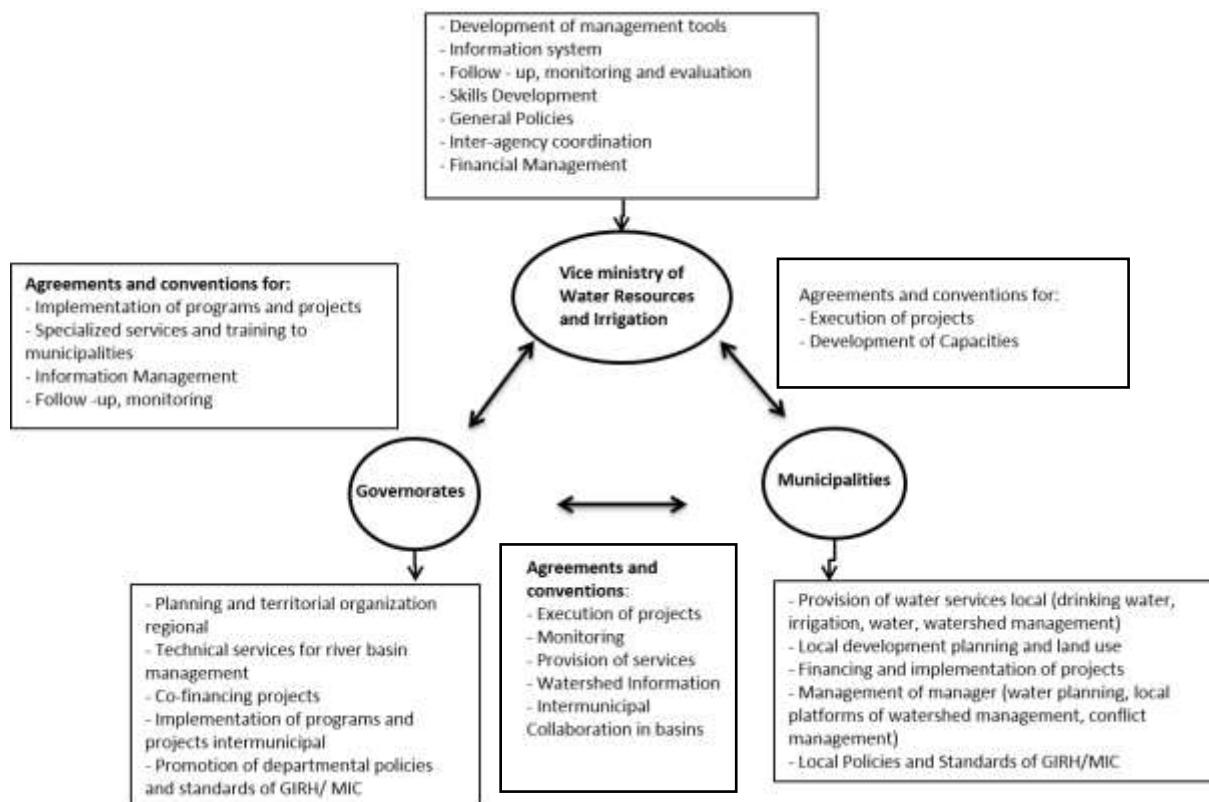
Art. 89 spells out the competences of each government level:

- the central level (national level) defines the policies and plans (including programmes) related to the water resources and their services.
- the departmental level (governorates) is in charge of formulation of regional plans concerning basin and water management and design and execution of water projects following the rules and policies approved by the State's central level;
- the local level (municipalities) is in charge of design, execution and administration of projects for the exploitation of water resources taking into account the interests, initiatives and contributions of local populations and organizations.

Each government level interacts in a geographical area involved in a Basin Management Plan, which generally includes several municipalities, or even several departments.

The figure here below depicts the three main levels described here above and their main responsibilities.

Figure 1: Legal framework and mandates of the different levels in the water and environment sector.



Source: MMAyA

These laws represents a significant step forward in the decentralisation process because they attempt to provide a first distribution of roles and mandates among the different levels. Nevertheless, it is worth noting that being in such an early stage of the process it means also that the operational framework needs to be fine-tuned. This is particularly true for the transfer mechanism and the budget allocation between the central and the local level.

The multi-annual action plan 2013-2017 clearly tackles these issues as it sets out the following areas of work under component 7 'Institutional development':

- Definition of more specific regulatory framework, including legal and regulatory instruments;
- Development of functions and capacities at three autonomous levels;
- Allocation and transfer of resources to subnational autonomous governments.

2.4.2 Institutional Capacities

At central level

MMAyA leads the management and coordination of the environment and water sector. The Evaluation of the MMAyA's institutional capacities (2010)²² concluded that there are sufficient internal managerial capacities and clear planning processes to implement the policy. In addition, MMAyA has developed an Institutional Strategic Plan (PEI) for 2014-2018 to address key weaknesses. This should be the basis to align capacity development support and ensure the sustainability of results.

MMAyA has not completed the de-concentration process and has only one de-concentrated office.

²² Royal Embassy of the Netherlands; Consulting firm report: "Evaluation of the MMAyA's Institutional Capacity", July 2010.

This is a challenge when it comes to providing technical assistance to autonomous governments and to carrying out central prerogatives in the territory.

MMyA is in charge of steering the policy but actual implementation depends on a wide range of other sector and subsector stakeholders that fall beyond MMyA's responsibility. To this aim, effective policy coordination mechanisms at sector and subsector level need to be in place (inter-ministerial and intergovernmental). Although various coordination mechanisms have been created 'on paper', in practice there is not yet an effective formal dialogue mechanism. Most recent evolutions concern the Water Bill, which creates COPAGUA as the highest multi-sector platform to plan and coordinate water management, to discuss and formulate policies and to monitor policy implementation.

Although the Law on Decentralization establishes Sector Coordination Councils (CCS) as intergovernmental coordination mechanisms at sector level, they have not yet been created and their relation with COPAGUA needs to be clarified.

The achievements of PNC I have contributed to consolidate the credibility and capacity of VHRH. It succeeded to increase its permanent staff from 5 in 2006 up to 45 in 2012/2013. This evolution provided internal stability, continuity and independence from international financing. VRHR's institutional development is an explicit component of the subsector policy. PNC I dealt with Institutional development issues under its component 1. The evaluation of PNC I questioned the degree of direct applicability of available tools and recommended an assessment. It also identified weaknesses regarding organizational structures, functional relations and workflows²³. Therefore PNC II focuses on:

- Consolidating the VRHR functional structure and supporting the specialized units, staff and leaders of different PNC components;
- Developing tools, guidance and training;
- Cooperating with academic institutions to provide training and creation of a pool of facilitators, as an alternative to the lack of de-concentrated units in the territory;
- Developing a M&E service under the Information Management Unit, directly accountable to the Vice-Minister.

At local level

The subsector rests on local dynamics in which local autonomous governments are expected to play an increasing role, either by developing and implementing their own policies (devolution) or by implementing PNC II components on behalf of the central government (delegated). The Multi-Annual Action Plan 2013-2017 sets out the organizational structure at subnational level for the implementation of PNC II and increase their capacities.

Organizational structure at departmental level:

Although progress has been made at departmental level²⁴ in terms of Integrated Water Management, most departments still lack capacity to comply with their mandate. The multi-year program aims at improving departmental competencies of at least 7 out of 9 departments. To this aim, it promotes the creation of: i) parallel technical units at departmental level that can operate independently from political decisions for their current operations; ii) regional technical units accountable to the departmental government; iii) institutional platforms aiming at co-managing and adopting departmental policies on Integrated Water Management.

²³ Functional relations seem to be unclear between different vice ministries and between them and their directions and departments. The final evaluation mentions that the structure does not facilitate coordination across different services. In addition, the evaluation points out that there are no regular meetings and no clear information and communication flows.

²⁴ Some departments have already created an Integrated Water Management /MIC dedicated unit, others have a wider environmental unit that deals with water resources and manages PNC Projects.

Organizational structure at municipal level:

Increasing the capacities at municipal level is likely to be the biggest challenge for PNC II. Some support has already been provided to some municipalities in the development of local policies for Integrated Water Management. However, their capacities are even more limited than at departmental level, due to their recent creation and due to the fact that, as it stands, the legal and policy framework does not give them explicit competencies in Integrated Water Management. The multi-annual plan targets 50 municipalities. In terms of organizational structure, it foresees the: i) creation of Technical Units within the municipalities to implement investment projects. The role of these units is to develop local policies on Integrated Water Management and to manage investment projects; ii) creation of coordination platforms with the aim of generating broad based consensus with other stakeholders involved in local development and improving in this way synergies and continuity of local policies; iii) reinforcement of Basin Management Organizations as local intercommunal managers at micro basin level; iv) support to Mancomunidades to reach a wider number of municipalities. In addition, as mentioned above, the multi-annual plan foresees the strengthening of the Social Unit and the creation of a pool of facilitators to provide technical advice and training to local governments.

Lessons learned from Water Basin Management Organizations (OGC)

PNC defines Water Basin Management Organizations (OGCs) as local managers at micro-basin level. The Final Evaluation of PNC I found that results have been uneven, depending on OGCs representativeness and the role of the municipality therein. In many cases, OGCs were created as parallel structures linked to a specific investment project, sometimes bypassing their role. OGC's legal status and governance structure are unclear and not fully representative. As a result, most OGCs disappear at the end of a project. In addition, it is not clear what is the respective role of OGC and municipalities during a project implementation (e.g. who decides, who finances and who receives and manages central funds?). The evaluation also concluded that basin management was more effective and sustainable in those basins where the municipality had a catalytic and central role and used the OGC as a tool for consultation and coordination. In the case where the municipality was not in the 'driving seat', local investments were found not sustainable, because they were not adequately linked to municipal policies and therefore, their maintenance was not integrated in municipal budgets and activities.

Key issues:

PNC II explicitly promotes 'decentralized implementation' and defines organic structures for policy implementation at central, departmental and municipal levels. The MMyA, who is the institution in charge of the management and the coordination of the environment and water sector, has developed an Institutional Strategic Plan (PEI) for 2014-2018 to address key weaknesses. This should be the basis to align capacity development support.

Support to the MMyA is needed in terms of:

- Consolidation of sector dialogue mechanisms
- Elaboration of action plan appropriately costed and coordinated internally as well as with the ministry in charge of civil service in order to ensure synergies, sustainability and domestic financing sources.
- Development of a consolidated strategy for the development of Master Plans at basin level (Component 1).
- Decentralization / deconcentration process in the sector

2.5 Monitoring and evaluation system

In the Multi-Annual Action Plan, the improvement of the M&E system and its institutional framework is included. Therefore a Planning and M&E Unit has been created which is in charge of the overall planning and coordination of the multiannual program. It is under the Information Management Unit that is directly accountable to the VRHR. The Planning and M&E unit consolidates all M&E information but M&E activities are also carried out under each component. The Planning and M&E Unit is in charge of providing clear directives and guidelines as well as technical support to technical teams dealing with M&E activities under each component (See Table 7).

In terms of accountability, the Law 004, *Marcelo Quiroga Santa Cruz Law*, requires all public institutions to make public all information concerning their performance. In this context, MMyA has shared its report with civil society, international cooperation and subnational actors. In addition, it has also developed a website with sectorial information. As stipulated in the Constitution, the President of the State must provide a State of the Nation report in front of the Legislative Assembly. This exercise has been conducted and has allowed setting clear targets to be met in the sector and subsector.

Related to information systems and tools MMyA has four tools to generate financial and non-financial management information, namely:

- MMyA' DGP Integrated Information System that enables looking at progress made in objectives.
- VRHR's internal system to monitor intervention in basins;
- MEFP's SIGMA Information System;
- Planning System (SISIN).

VRHR has also developed the following subsector information systems:

- SIG development in basins and water resources²⁵;
- development of project information and monitoring system²⁶;
- development of the PNC sector information platforms and webpages open to the public²⁷.

The INE is the Executive Organism of the national System of Statistical Information (SNIE),²⁸ and its functions are to reveal, classify, codify, compile and diffuse, officially, the country's statistical information. The 11th Population and 5th housing censuses were finalized in 2013 and constitute the most complete and updated database, helping identify unmet basic needs, poverty indicators, the situation of education and health, the population's working conditions and economic activity, the quantification of existing homes and basic services and the updating of the existing rural and urban statistical cartography. In addition, INE is also in charge of supplying information on 2 water indicators²⁹ through the *National Service of Meteorology and Hydrology National Institute of Statistics* (SENAMHI).

M&E framework

A key achievement of PNC I was the elaboration of a Performance Assessment Framework (PAF)

²⁵ The system enables the delimitation of geographic units and the identification of basin scales for VRHR investment projects. It also includes manuals for technicians and purchase of cartography licenses. SIG has been applied, among others for PNC projects such as Master Basin Plans or Pedagogical Basins. VRHR has a SIG Unit that provides technical training to subnational levels. The GeoBolivia project, which is under the responsibility of Vice-presidency centralizes SIG databases to ensure consistent approaches

²⁶ The Pre-investment and investment project monitoring system (CGODA) is a database and is in full operation. Yet, coordination between the SIG unit and the projects monitoring unit should be reinforced.

²⁷ In line with the Evaluation of PNC I, the objective is to disseminate information and to improve PNC visibility. Therefore, VRHR has established a web page (www.cuencasbolivia.org) that is regularly updated

²⁸ National Statistical Information System Law (SNIE) - DL 14100 of November 5, 1976.

²⁹ Average water volume of Bolivian rivers per control point and river (m3/second); Average water volume of Bolivian rivers per control point and river (in cm).

which has become a guiding tool for VRHR. This process paved the way for result based management in the sector and is an important step to move towards policy based budgeting and better link results to resources. In addition, the establishment of the PAF has improved donor coordination and alignment, setting out the ground to improve harmonization and engage in joint policy dialogue

Based on the positive results achieved with the PAF, VRHR decided to renew the exercise. The Multi-Annual Action Plan integrated performance indicators that are adequately linked to PNC components and strategic objectives, as recommended by the Evaluation of PNC I. It also sets out the composition of each composite indicator, method of calculation and targets. This is already a remarkable progress, as it can serve as a common reference for all sector stakeholders to monitor progress. Yet, it is key to be aware of the limitations of three indicators that are particularly relevant for the Belgian program, including FC and PAERE projects:

- Water governance indicator: some components do not necessarily imply that water governance improves (e.g. existence of a technical unit) and some others are subjective and difficult to quantify (e.g. level of coordination, expansion of the knowledge base). Finally, the indicator does not capture any financial aspects of how subsector resources are allocated and managed. Yet, these elements should be addressed, as they are fundamental to ensure results and accountability.
- Investment projects sustainability indicators: This indicator is particularly important, as sustainability is one of the challenges that PNC II seeks to improve. Yet, it has various limitations: i) the indicator does not capture financial sustainability aspects, which is key to ensure continuity of actions; ii) it is questionable that the establishment of the OGC is a factor of sustainability on its own; according to the evaluation of PNC I, the role of municipalities is even more determinant but it is not captured by the indicator; iii) the indicator does not capture other fundamental elements for sustainability, such as pre-investment processes and requirements (e.g. feasibility studies to approve projects and commit funds);
- Municipal capacity index: the Multi-Annual Action Program uses three components to measure municipal capacity (strategic management; operational management and vertical and horizontal management). All three are relevant, but it is not clear how each component will be measured and whether financial aspects are captured.

Key Issues:

The MMyA considers M&E as a priority. Accordingly, a Planning and M&E Unit has been created under the Information Management Unit with the mandate of consolidating all M&E information, providing clear directives and guidelines as well as technical support to technical teams dealing with M&E activities under each component.

Based on the positive results of the first Performance Assessment Framework (PAF) developed under PNC I, the Multi-Annual Action Plan 2013-2017 has integrated performance indicators that are adequately linked to PNC components and its strategic objectives (see Table 7).

Getting the results structure 'right' at subsector level is fundamental and can be a strategic area for support. Particular attention may be given to the following aspects:

- Clarifying roles, responsibilities of each subsector stakeholder in the achievement of expected results as well as in the M&E process;
- Strengthening the M&E unit;
- Moving gradually to organizational performance assessment and to senior staff performance. Organizational and individual performance needs to be addressed in coordination with the ministries in charge of public administration and civil service reform

2.6 Policy dialogue and donor coordination

The donor community is particularly active in the water and environment sector. Table 10 provides an overview of the main donors currently involved in the sector:

Table 10: Overview of the donors involved in the water sector in Bolivia (2014)

Bilateral Donors	Multilateral Donors and Financing Institutions	UN System
Germany (KfW)	EU	Food and Agriculture Organization (FAO)
Sweden	World Bank	Unicef
Switzerland	Inter-American Development Bank (IDB)	
Belgium		
Japan (JICA)		

Coordination and harmonization efforts have been fruitful and have led to a gradual shift from bilateral agreements towards joint efforts /sector wide approach.

Policy dialogue takes place at three formal levels:

- The *Group of Partners for Development (GRUS)*, led by the Ministry of development planning and including main bilateral and multilateral donors. It is the highest policy dialogue umbrella forum in Bolivia where transversal issues and/or intersector coordination may be addressed as necessary (e.g. link to PFM or macroeconomic framework).
- The *group for environment (GMA)* who focuses on common topics for both subsectors drinking water and environment. The group was created in 2013 by the UE, WB, Germany, Japan, Italy, Belgium, Switzerland and Denmark. The rotating chair is currently ensured by the EU and Switzerland.
- The *drinking water and sanitation group (GRAS)*, composed by the World Bank, KfW, Spain, Italy, Japan, Belgium, the EU, CAF, Unicef and WB. It launched the activities in September 2014.
- The *PNC II Group* (formerly Basin Group) led by the VRHR and composed by the four donors of the basket fund, the EU, Sweden and the WB. The group aims at coordinating donors active in the subsector and at reviewing progress made in the implementation of the subsector policy. It is.
 - Within this group, a *sub group (SUBAT)* (formerly initiated by the donors of the first basket fund) started meeting in 2014 with the aim of sharing information and coordinating technical assistance provided by the different donors, i.e. the EU, the Netherlands, Switzerland, Germany and Sweden. The VRHR is currently leading the group. SUBAT follows the calendar of the PNC II Group. The rotating chair is currently held by GIZ, who had already led the group in the first phase. A shared vision on the needs and availability of technical assistance has been agreed among the partners and VRHR. More detailed information is presented in annex 6.

With regard to the PFM area, policy dialogue between the donor community and the Bolivian government takes place at three main levels:

- the Group of Development Partners (GRUS);
- the 'Macroeconomic and public finance group', which provides support at technical level;
- bilateral dialogue between donors active in PFM and the Bolivian government.

It is worth emphasizing the valuable work made by the PNC II Group during the 2006 -2012 term in harmonizing and aligning donors support to the subsector policy, coordinating Technical Assistance and developing the joint Performance Assessment Framework (PAF). The PAF has been successful in harmonizing approaches, serving as a shared tool to assess progress and paving the ground for joint policy dialogue. The exercise has been renewed under PNC II. MMyA may develop a wider PAF that encompasses all its subsectors.

A recent evolution is the fact that the donor community and more particularly the EU is in a transition towards a joint programming in 2017. This will be the first time and it will be a key achievement. In this context, the current program is important to prepare the joint programming.

PNC II Basket Fund coordination

The Memorandum of Understanding signed by the PNC II Basket fund (BF) partners in August 2014 foresees a structured and well-defined coordination mechanism. As reported under Art.11, the MMyA will provide three main reports per year that will be discussed in ad-hoc meetings:

- in April–May to discuss the annual report on previous year,
- in September to discuss the intermediary report (first semester,) and
- in November/December to approve the Annual Plan for the coming year and to discuss potential changes to the multi-annual plan.

Moreover, as foreseen in Art. 12, the MMyA as well as the PNC II BF technical and financial partners have the possibility to organize special meetings to discuss critical issues with the whole set of agencies and donors intervening in the sector.

An official meeting note is circulated by the VRHR among the group's partners within 15 days after the meetings.

A coordinating partner acts as focal point vis-à-vis the MMyA and is in charge of organizing the internal coordination meetings and sharing the communications within the group. Germany is currently playing this role.

Execution reports of PNC mentioned the amounts which have been transferred from the National Treasury account to an implementing partner (ministry, department, municipality, EMAGUA...) as well as the amount transferred from implementing partners to final beneficiaries (service provider, construction enterprise, current expenses, etc..).

Key Issues:

Policy dialogue takes place through several formal groups that gather to a different extent the partners supporting the water and environmental sector.

The ownership of VRHR is high.

A structured coordination mechanism is foreseen for the PNC II BF. Partners officially meet three times a year.

2.7 Summary of critical risks and mitigating measures

The table here below provides an overview of the key risks and the related mitigating measures. Risks are classified as followed: low, moderate, substantial, high.

Risk Identification		Risk Analysis				Mitigating Measures
Category Risk	Description	Category	Probability	Impact	Rating	Mitigating Measures
Risks related to the general context						
IRAI Index Risk	Slight decline from 2009, particularly in the field of structural policies.	OPS	Low	Low	Low risk	Steady policy dialogue with the government and donor community, particularly in the area of 'business regulatory environment' Follow up of the area 'environmental sustainability'
Macroeconomic risk	Low performance overtime in terms of UN Human Development , with child and maternal mortality remaining high, and water and sanitation coverage low. Widespread legal insecurity. Central bank's practice to lend to central government at concessional terms might negatively affect independency and the solvency of the Central Bank.	OPS	Low	Low	Low risk	Policy dialogue with the government and donor community (in particular on the possibility that lending activities are taken over by a sovereign saving fund administered by the Ministry of Finance and supported by strong governance structure and clear investment criteria). Support the government to create favourable business climate for private investment.
PFM risk	Credible PFM reform. Progress in all PFM dimensions overtime. Modernization of the external audit function ongoing	FIN	Low	Low risk	Low risk	Support the government to carry out the PFM reform and to empower the autonomous governments to carry out the new administrative and financial functions. Policy dialogue on the audits and close follow-up of the recommendations.
Risks related to the PNC II						

Sector Policy's Quality	<p>A key challenge is the wide scope of the sector and the fact that the MMyA remains a relatively new ministry that brings together subsectors that are not used to work together.</p> <p>Coordination and policy coherence are limited, mainly because of the lack and/or alignment of the subsectors policies.</p> <p>Mining companies' damaging behaviour is not seriously tackled by the sector strategy.</p>	OPS	Moderate	Moderate	Moderate risk	<p>Follow up of progress made in the achievement of all the PAF indicators (MED)</p> <p>Provision of expertise on monitoring and evaluation.</p> <p>Promoting policy dialogue between MMyA, VRHR, subnational autonomous governments, civil society and the PNCII Group on the four components 1,2 6,7:</p> <p>Identification and implementation of good practices at the different government levels through the TAs expertise.</p>
M&E of the sector	M&E roles and responsibilities throughout the different levels are not yet fully developed.	OPS	Low	Low	Low risk	<p>Policy dialogue with MMyA to promote organisational performance assessment</p> <p>Provision of expertise to support the M&E unit</p>
Budget of the Sector	<p>Financial sustainability remains a major concern as external financing still represents more than 70% of the sector budget. Domestic revenue mobilisation very limited.</p> <p>Transfer mechanism from central to local level still at an early stage.</p>	FIN	Moderate	Moderate	Moderate risk	<p>Coordination and policy dialogue with the Ministry of finance and the ministry in charge of decentralization (SEA).</p> <p>Provision of expertise directly for: PNCII with specific TA in the area of PFM/Fiscal decentralization.</p> <p>Possible provision of expertise, trainings and systems through PAERE and FC projects (budget preparation, support local PFM processes, financial information systems at municipality level,..)</p>
Effectiveness of Public Administration	<p>Ongoing decentralisation process, both in fiscal/financial and administrative terms. This implies that procedures, distribution of responsibilities, and financial arrangements are still to a large extent incomplete.</p> <p>Policy coordination mechanisms between the different sector and</p>	OPS/FIN	High	High	Substantial	<p>Technical support to the consolidation of sector decentralisation process and coordination mechanisms.</p> <p>Training and coaching at local level.</p> <p>Strengthening of the policy dialogue in the field of scrutiny and external audit.</p>

	<p>subsector stakeholders are still lacking Capacity at departmental and municipal level is significantly limited .</p> <p>Not fully effective internal controls. Oversight role and capacity of the Assembly still needs to be strengthened.</p>					<p>Technical support to internal audit units in the MMyA as well as to the 'Contraloria General el Estado'.</p> <p>Monitoring of audit reports and action plans.</p>
Overall Risk	<p>The overall risk is considered low to moderate.</p> <p>Some risks are out of the PNC II and Belgian's scope of control (macro-economic context and IRAI), but are not likely to have an immediate effect on the sector's performance and the basket fund implementation.</p>	Moderate				<p>A continuous and well informed policy dialogue associated to the provision of technical expertise in the field of water management and PFM will allow Belgium to mitigate the relevant risks related to the basket fund PNC II. These actions and measures will be implemented in close partnership with the other technical and financial partners.</p> <p>The PFM expert and the water management expert will closely monitor, report and advise Belgium and BTC on evolutions, technical and fiduciary risks in the sector.</p>

The assessment shows also great opportunities to reinforce institutional capacities by supporting the following areas in the subsector

- **Addressing PFM** in the sector is a fundamental element to strengthen institutional capacities in the sector in general and to implement PNC II in particular. In this way, Belgium will address key policy implementation risks, (sub) sector governance risks and bottlenecks for sector expenditure. This support will benefit the water subsector and the entire MMAyA sector. In addition, improving PFM in the sector allows supporting wider Bolivian government efforts in this field and creating synergies across the two parallel reforms. Furthermore, various elements show there is a window of opportunity to work on this issue and achieve positive results. MMAyA is one of the most advanced ministries in terms of policy based budgeting. This means that there is 'trigger' to work on these issues and that Belgium can capitalize on ongoing processes to achieve 'quick wins' and multiplier effects. Finally, from an instrumental point of view, addressing PFM in MMAyA will allow managing risks linked to budget support implementation. It allows keeping a continued satisfaction of the PFM eligibility criterion and reduces risks for program implementation by strengthening domestic systems.
- **Addressing decentralization is key** for various reasons: i) decentralization appears to be a common challenge under the four eligibility criteria where additional efforts are required; ii) PNC II recognizes that realigning the water sector to the new decentralized structure is the main challenge for 2013-2017 and defines the following areas of work: completing the regulatory framework, clarifying functional assignments and allocating and transferring appropriate resources to subnational levels; ii) central–local relations are key in the subsector. Establishing appropriate policy and financial frameworks is fundamental from an institutional development perspective and allows addressing key risks for policy implementation; iii) without addressing (fiscal) decentralization, supporting organizational and individual capacities at local levels cannot be sustainable, as local performance greatly depends on central behaviour in transferring clear functions and resources. This means that without tackling fiscal decentralization support at local level may not ensure 'value for money'.
- **Addressing M&E and coordination capacities** is a fundamental element to improve institutional capacities in the sector. PNC II recognizes this explicitly by creating a dedicated unit and elaborating clear guiding principles to improve the existing framework. At domestic level, M&E is key to ensure that findings from experience feed policy decisions, to ensure accountability and to further tie results to resources. Weak coordination is a major implementation risk. Addressing and supporting coordination of such a complex and transversal sector helps mitigate policy failure risks. Establishing a robust domestic M&E system is key to inform policy dialogue, ensure credibility and assess progress over time, including for disbursement decisions.

3 MODALITY DESIGN

3.1 Inputs

Belgium will actively support the MMAyA in the implementation of the water and environment strategy in an effective, efficient and sustainable way. It will contribute to the PNC II Basket Fund with:

- A grant of 10 million Euro for the period 2015-2017 to be channelled through the national PFM system.
- Long-term BTC technical assistance based in Bolivia:
 - A sector expert in the water sector management;
 - A PFM/Fiscal decentralization expert.
- Technical support from BTC HQ

The technical expertise to be provided by Belgium will play a critical role to support on the one hand the Belgian policy dialogue and, on the other hand, to technically nourish the decisions of the basket funds partners and to strengthen the national partners on key functions. In this regards, it is worth noting that these experts will be complementary to the management profile of the current KfW coordinator, who is in charge of ensuring the administrative follow up of the basket fund operations.

3.2 Belgian focus in policy dialogue

Belgium will focus its policy dialogue on the following areas:

Water and Environment:

- All PNC II components and PAF indicators but with a particular focus on component 1, 2, 6 and 7;
- Coordination across all MMAyA subsectors, linked to the National Development Plan
- IRAI Environmental sustainability indicators;
- Follow-up the implementation of the Integrated Plan;
- Cross sector dialogue, in particular regarding the EITI initiative and the mining sector

M&E:

- Clarifying roles, responsibilities of each subsector stakeholder in the achievement of expected results as well as in the M&E process, in line with decentralization
- Strengthening the M&E unit, by supporting the development of evaluation directives/standards for monitoring and reporting on results and for periodic reviews, develop human resources capacities (e.g. training, recruitment...), coordination between evaluations and investment decisions (e.g. contribution to MTEF exercise and budget process), support the development and implementation of a VRHR evaluation plan and setting aside an envelope under each project, component and program to finance monitoring and evaluation functions;

PFM- Decentralization:

- Fiscal/financial decentralization, including revenues (e.g. Fiscal Pact, revenue assignments and revenue sharing agreements; transfers and investment mechanisms)
- PFM in the sector: subsector budget, financial sustainability and orderliness of budget

preparation in the sector, including improved communication to subnational levels on budget allocations), decentralization (revenue assignments and transfers), expansion of financial management information systems at subnational level and support to local PFM at local level (including internal control and audit at central and local level for the entire MMyA sector), strengthen MTEF (in particular for PNC II until the integral Plan is finalized);

- Promoting consistent underlying public management practices and accountability

Policy dialogue will also seek to strengthen joint processes in view of the joint programming exercise. To this aim it will participate to joint assessment of the PAF and will promote the organization of joint annual reviews in view of the Joint Programming exercise.

3.3 Coordination within the Belgian portfolio

It is crucial for Belgium to ensure a coordination mechanism between the different interventions of the sector portfolio, to nourish and enhance a coherent policy dialogue. This means that within their own scope, each intervention will promote the same values and principles and try to reinforce each other's results (or, at least, to avoid harming what is being done by another intervention of the portfolio). A regular technical coordination between experts will allow the cross fertilisation among the interventions, the exchange on critical issues that might have an impact on the portfolio, and the preparation of joint positions.

The two experts provided in the framework of PNC II will support the Belgian Embassy in Lima in charge of the policy dialogue and ensure the link with the rest of the Belgian portfolio.

- They will work in consultation with the donors that are part of the PNC II group, the GRAS, the GMA, the GRUS, the Macroeconomic and public finance group.
- They will organise a forum involving all partners of the Belgian cooperation in the sector. It will assure that information at policy, institutional and operational level is exchanged. It will ensure that technical debate and feedback within the Belgian interventions is organised. Finally, it will allow the different experts to reach a common understanding of the context and, hence, to have a harmonized position.

3.4 Disbursement conditions and financial planning

Disbursement conditions

The proposal of the disbursement conditionalities is based on the PNCII legal agreement, the Vademecum for Belgian Budget Support (2008) and its Annexes (2011), and the 2014 Note of the Inspection of Finance on the audit. They are aligned as much as possible to the Bolivian fiscal year and reporting system as well as to the 'mesa de donantes', which is the donor coordination platform. More specifically, 'the mesa de donantes' provides a joint mechanism for the i) definition of the disbursement conditions and their assessment, and ii) the follow-up of the budget execution by component, which allows identifying potential bottlenecks in the transfer from the central to the departmental levels.

The disbursement of the Belgian funds will be done as follows:

- A first instalment of 6,000,000 € will be transferred in 2016
- A second instalment of 4,000,000 will be transferred in 2017

The disbursement of both instalments will be linked to the achievement of the following three conditions:

- Approval of annual Operational Plan and Budget for the fiscal year Yn+1

- Approval of Evaluation on PNC implementation Y n-1
- Approval of yearly external Audit Yn-2

The basic principle is that in year N, the decision for year N+1 will be based on reporting of year N-1, audit of year N-2, and POA N+1..

These conditions have been agreed by the basket fund partners and they are foreseen as such by the MoU. They represent a cornerstone for the policy dialogue with the MMAyA. Moreover, approving these three key annual sector documents represent a powerful tool to mitigate potential risks related to the sector policy, and particularly the implementation of the sector plan, as well as the sector PFM, both in terms of financial planning, expenditures, and governance.

Regarding the approval of the audit, it is worth recalling that the Note of the Belgian Inspection of Finance (2014) specifically refers to 'a positive audit', which is defined as:

- an audit report 'clean' or 'unqualified';
- an audit report with qualified opinion(s), but provided with a sound management response, which is discussed with the development partners. In this specific case, the disbursement will be done only upon submission of both documents, the audit report and the management response and upon indication that no objection has been raised on this latter.

In case of negative audits, which refer to the case of 'Adverse Opinion' or 'Disclaimer of Opinion', there will be a temporary suspension of the budget support. Development partners will consult on the actions to be taken and the conditions to be met to activate again the budget support. The Belgian Vademecum on Budget Support provides the legal framework on the subject.

Financial Planning

The table here below shows the timing of Belgian disbursements to the PNC II. The proposed amount of each instalment is based on the consultations with the other technical and financial partners.

2016	2017
Semester 1	Semester 1
6 M €	4 M €

In order to harmonize with the disbursement calendar of the other partners, instalments will be executed in the second semester of each year (2015-2016-2017). The table below summarises the total contribution of each technical and financial partner over the period concerned.

Table 11: Overview of the disbursement plan for donors supporting the PNC II Basket Fund

Year	BELGIUM	SWEDEN	KFW	SWITZERLAND
2013		0.5 M €	1.5 M US	-
2014	—	-	2.5 M US	-
2015		1.5 M €	2.5 M US	1 M US
2016	6 M €	-	2.5 M US	
2017	4 M €	-	2 M US	
Total PNC II 2013-2017	10 M €	2 M €	10 M €	3 M €

4 ANNEXES

4.1 Annex 1: Memorandum of Understanding

Acuerdo de Financiamiento Conjunto del Plan Nacional de Cuencas entre las Agencias de Cooperación Internacional y el Gobierno del Estado Plurinacional de Bolivia

1. LAS PARTES

Las partes intervinientes en el presente Acuerdo de Financiamiento Conjunto son:

1. El Estado Plurinacional de Bolivia, representado por la Lic. Viviana Caro Hinojosa, Ministra de Planificación del Desarrollo.
2. El Ministerio de Medio Ambiente y Agua, representado por el Lic. José Antonio Zamora Gutiérrez, en adelante la "Organización".
3. Los Gobiernos de: Suiza representado por el señor Peter Bischof, Embajador; Alemania representado por el señor Peter Linder, Embajador, Bélgica representado por el señor Roland Provot, Ministro Consejero de la Cooperación, y Suecia representado por la señora Aurora Lundkvist, Jefa de Cooperación, en representación de sus correspondientes agencias de cooperación, que en adelante se denominarán las "Agencias de Cooperación Internacional (ACI)".

El Representante del Estado Plurinacional de Bolivia, la "Organización" y los representantes de las "ACIs", en forma conjunta, de aquí en adelante se denominarán los "Signatarios".

2. ANTECEDENTES

El Plan Nacional de Desarrollo (PND) "Bolivia digna, soberana, productiva y democrática para Vivir Bien", a través de la política "Agua para Todos", ha asumido la Gestión Integral de los Recursos Hídricos (GIRH) y el Manejo Integral de Cuencas (MIC) como los instrumentos que permitan promover el uso y aprovechamiento adecuado de los recursos hídricos y otros.

El Plan Nacional de Cuencas (PNC), aprobado mediante Resolución Ministerial No. 110 de 29 de diciembre de 2006, se constituye en el principal instrumento de operativización de las estrategias definidas para los Recursos Hídricos. El PNC tiene como objetivo la promoción y el fortalecimiento de la Gestión Integrada de los Recursos Hídricos y el Manejo Integrado de Cuencas en Bolivia, bajo modalidades de participación y autogestión, como sustento del desarrollo humano y ambiental sostenible, desde la perspectiva de las culturas y sistemas de vida locales.

En fecha 7 de mayo de 2008, se suscribió el Acuerdo de Financiamiento Conjunto (AFC) del PNC entre las Agencias de Cooperación Internacional (Gobierno de los Países Bajos, del Reino de Dinamarca, Suiza y Suecia y Alemania) y el Gobierno de Bolivia, en el que se establece armonizar el apoyo al PNC de las ACIs bajo el liderazgo del Ministerio de Medio Ambiente y Agua (antes Ministerio del Agua). El citado AFC nació bajo el concepto de armonización de los donantes destacado en la Declaración de París de 2005 para apoyar la implementación del PNC y tiene vigencia hasta el 31 de diciembre de 2013.

El presente Acuerdo de Financiamiento busca afianzar los logros significativos de armonización; Acuerdo que será ajustado según las necesidades y alineando esfuerzos para:

- Establecer un sistema de financiamiento conjunto al PNC bajo la conducción y administración del Gobierno del Estado Plurinacional de Bolivia.
- Generar coherencia y eficiencia en el apoyo internacional al PNC tanto financiera y de asistencia técnica, evitando la duplicación de sistemas de gestión técnica-financiera-administrativa de carácter particular.
- Promover que el PNC se desarrolle hacia un Programa Sectorial Integral incrementado la orientación hacia un mayor nivel de inversión e involucrando a otras agencias de cooperación.
- Promover la elaboración del MED sectorial como herramienta para la medición de los avances en el desarrollo del sector de cuencas, compartida entre las agencias de cooperación que financian el PNC.
- Adecuar los convenios bilaterales existentes y por suscribirse de conformidad a los criterios indicados en este Acuerdo.

3. INCORPORACIÓN DE OTRAS ACIs

Los Signatarios aceptan la posible incorporación de otras ACIs al presente Acuerdo, siempre y cuando manifiesten su conformidad con el tenor integro del presente Acuerdo.

Las ACIs, podrán incorporarse al presente Acuerdo mediante la suscripción de una adenda.

La nueva ACI especificará el valor de la contribución y el periodo de ejecución basados en el presente Acuerdo.

4. OBJETIVO

El objetivo de este Acuerdo es armonizar el apoyo de las ACIs bajo el liderazgo de la Organización, apoyo destinado al PNC en la promoción y el fortalecimiento de la gestión integrada de los recursos hídricos (GIRH) y el manejo integral de cuencas (MIC) en el Estado Plurinacional de Bolivia bajo modalidades de participación, autogestión y descentralización como sustento del desarrollo humano y ambiental sostenible, desde la perspectiva de las culturas y sistemas de vida locales.

5. PROGRAMA PLURIANUAL Y PRESUPUESTO

Para operativizar el PNC, la Organización desarrolló el Programa Plurianual de Gestión Integrada de Recursos Hídricos y Manejo Integral de Cuencas 2013 – 2017, con objetivos específicos, resultados esperados y criterios de selección de actividades y proyectos para orientar los aportes nacionales y de las ACIs. Anualmente formulará un Plan Operativo Anual (POA) en base al Programa Plurianual. El POA incluirá un presupuesto detallado de acuerdo a los procedimientos establecidos en la normativa boliviana. Las ACI's aprueban en conjunto su apoyo a los planes cada año.

Si existe la necesidad durante el año de realizar ajustes significativos al POA, la Organización acordará y comunicará previamente a la ACIs, las modificaciones a ser realizadas.

6. MECANISMO DE ASIGNACIÓN DE RECURSOS

El Programa Plurianual, establece las instancias que puedan beneficiarse de los recursos y prestaciones de las ACIs y los mecanismos de asignación de recursos de acuerdo a la legislación boliviana y de tal manera que contribuyan al cumplimiento de los objetivos del PNC.

7. CONTRIBUCIONES DE LAS ACIs

Cada ACI, firmará un acuerdo/contrato con la Organización, especificando el periodo y el valor de su contribución al PNC, que serán tomados en cuenta en el Programa Plurianual y en los POAs.

Para facilitar la administración de los recursos y prestaciones de los informes, la gestión administrativa será anual, independientemente de las fechas de los desembolsos de las ACIs.

Asimismo, cada ACI podrá, bajo solicitud de la Organización, brindar un apoyo directo para asistencia técnica adicional. La Organización asegurará la gestión concurrente y articulada de la asistencia técnica al PNC.

Al concluir el periodo de la contribución específica de una de las ACIs, la Organización presentará, en el lapso de dos meses, una declaración de los fondos recibidos y los fondos usados de esta ACI acompañada por el último informe técnico y financiero del PNC y el dictamen de auditoría de la última gestión.

Los fondos que cada ACI ha puesto a disposición de la Organización y que subsistan tras haberse completado el periodo de apoyo serán devueltos en forma proporcional a la respectiva ACI sin demora y de forma incondicional. Sin embargo, la ACI y la Organización podrán decidir el utilizar estos recursos para el siguiente POA.

Cualquier saldo temporal de fondos o fondos restantes a favor, debido a fluctuaciones en el tipo de cambio, será utilizado para las actividades del PNC. En caso de saldos negativos la Organización deberá cubrir el déficit o ajustar las actividades.

La Organización administrará y rendirá cuentas de los fondos donados por las ACIs de acuerdo con los procedimientos establecidos en la normativa boliviana vigente (Ley No. 1178 SAFCO).

Las ACIs podrán detener transferencias o pagos de la totalidad o parte de los fondos ya transferidos, si no se satisfacen las obligaciones contractuales o de información, contabilidad y auditoría; o si cualquiera de los informes mencionados en el numeral décimo primero u otra fuente externa muestra que los fondos no están siendo empleados para la implementación acordada de los recursos; o si resulta haberse conseguido financiamiento alternativo (ya sea total o parcial), dando así lugar a doble financiamiento.

8. DESEMBOLSOS

Al respecto de los desembolsos se aplicarán los siguientes criterios:

- Los desembolsos de las ACIs se efectuarán en una Libreta de la Cuenta Única del Tesoro abierta exclusivamente para el PNC, en base al POA y las necesidades de liquidez.
- Cada ACI, firmará un acuerdo/contrato con la Organización, especificando el periodo y el valor de la contribución al PNC y las fechas para los desembolsos anuales. En el caso de la prestación de servicios directos de parte de una ACI, el acuerdo especificará el servicio a prestar.
- La Organización informará a las ACIs durante el mes de julio, en base a una actualización de gastos del primer semestre, sobre la existencia de retrasos significativos que hicieren necesario reducir o no efectuar los desembolsos para el segundo semestre. Las posibles reducciones se repartirán de manera proporcional entre las ACIs.

Además de lo previsto en los puntos anteriores, será la condición para desembolsos en el segundo semestre del año en cuestión que se cuente con los siguientes documentos: Informe Anual Financiero y Técnico y el Dictamen de Auditoría de la gestión del año anterior.

9. ADQUISICIONES Y SERVICIOS

Las adquisiciones de bienes y servicios que se efectúen con fondos de las contribuciones de las ACIs, serán efectuadas en el marco de lo establecido por el Decreto Supremo N° 181 del 28 de junio de 2009 - Normas Básicas del Sistema de Administración de Bienes y Servicios.

10. MODIFICACIONES AL POA Y PRESUPUESTO

La Organización podrá realizar modificaciones al POA y Presupuesto del Plan con la No objeción de las ACIs para:

- Incrementos o modificaciones por encima de los límites aprobados para el gasto de inversión y funcionamiento
- Proyectos no incorporados en la programación inicial
- Operaciones especiales o extraordinarias no tomadas en cuenta en la Programación inicial

Las modificaciones al POA y Presupuesto originadas por ajustes normales de la ejecución del Plan, dentro de los límites aprobados por las ACIs para el gasto de funcionamiento y de inversión, no requerirán de autorización o No objeción de las ACIs. Debiendo hacer conocer el POA y Presupuesto Reformulado antes del cierre de cada gestión.

11. REUNIONES E INFORMES

La Organización presentará tres informes durante el año, que serán discutidos con las ACIs.

- El POA del siguiente año que se discutirá en Noviembre o Diciembre, juntamente con posibles ajustes al Programa Plurianual.

- Informe de avance del primer semestre incorporando un análisis financiero, que se discutirá durante el mes de Septiembre.
- Informe anual que se discutirá en marzo o abril del año siguiente. Este informe consolidará los aspectos técnicos y financieros de las actividades previstas en el POA, así como un análisis de resultados de las actividades en relación con los objetivos del Programa Plurianual del PNC, la calidad de la implementación, posibles desviaciones de los planes aprobados, problemas encontrados y acciones correctivas que se hayan tomado. Se incorporará una tabla con las contribuciones de las ACIs en su moneda original y la moneda nacional.

La Organización presentará los informes, redactados en español y en moneda nacional, con 10 días de anticipación de cada reunión.

La Organización presentará dentro un periodo máximo de 15 días después de cada reunión un acta para ser suscrita entre los participantes como resultado de la reunión.

12. COORDINACIÓN Y REUNIONES ESPECIALES

Las ACIs nombrarán entre ellas a una de las agencias de cooperación que se constituirá en interlocutora con la Organización, conforme a la Declaración de París de 2005 y el Código de Conducta del Consejo de la Unión Europea de 15 de mayo de 2007.

La Organización y la "ACI Interlocutora", cuando así lo requieran, se pondrán de acuerdo para convocar por escrito a reuniones entre ellas y las otras ACIs, para intercambiar puntos de vista a través de sus representantes en relación al progreso del PNC en conformidad del Programa Plurianual y el presupuesto. La Organización invitará a estas reuniones a otras agencias de cooperación que financian a través de otros mecanismos de financiamiento, al PNC.

La Organización terminada la reunión elaborará un acta que será presentada ante las ACIs.

13. EVALUACIONES

La Organización en coordinación con la "ACI Interlocutora" organizará tres evaluaciones de la ejecución del Programa Plurianual:

- Una evaluación de progreso en el primer semestre de 2015
- Una segunda evaluación en el primer semestre de 2016
- Una evaluación final en el primer semestre del 2018

Para este fin la Organización desarrollará los Términos de Referencia y contratará a un equipo evaluador. Las ACIs por solicitud o en consulta con la Organización podrán brindar asistencia técnica al equipo evaluador.

Los resultados de las evaluaciones serán presentados en una reunión entre la Organización y las "ACIs" y si fuera posible en una de las reuniones mencionadas en el punto de "Reuniones e Informes".

14. AUDITORIAS

La Organización contratará anualmente los servicios de una auditoría externa. Para ello la Organización establecerá una lista corta de empresas de auditoría externa calificadas, en coordinación con las ACIs, para requerir la oferta de servicios. La Organización podrá contratar los servicios de auditoría externa para todo el periodo del Programa Plurianual de Gestión Integrada de Recursos Hídricos y Manejo Integral de Cuencas 2013 – 2017, asegurando la verificación anual de la calidad de los servicios de auditoría.

Los términos de referencia, preparados por la Organización, serán coordinados con las ACIs y estarán basados en normas nacionales y estándares internacionales generalmente aceptados en auditoría.

Los costos de las auditorías serán incluidos en el presupuesto anual.

La Organización realizará la auditoría en el plazo de seis meses después de terminada la gestión y entregará a las ACIs copias de los informes conforme al propósito y previsiones de las cláusulas Octava y Décima.

Las ACIs podrán requerir o encargar, en consulta con la Organización, auditorías especiales.

15. REFERENCIA A OTROS ACUERDOS.

La cooperación y las partes bajo este Acuerdo, también se rige por los acuerdos generales entre los ACIs y el Gobierno del Estado Plurinacional de Bolivia.

16. RESCISIÓN Y/O SUSPENSIÓN DE DESEMBOLSOS.

Las ACIs se reservan el derecho de suspender o reducir sus desembolsos, siempre que en su opinión fundamentada, la Organización no hubiera cumplido con lo establecido en el presente Acuerdo.

Si las ACIs, pretenden suspender sus desembolsos o concluir sus apoyos al Acuerdo de Financiamiento Conjunto, se convocará a una reunión de "Signatarios" para comunicar su decisión con anticipación de seis meses de aviso escrito por cualquiera de las partes.

En caso de que una o el conjunto de los ACIs den por terminado el Acuerdo, no aplicaran restricciones a los fondos ya comprometidos de buena fe por el Gobierno del Estado Plurinacional de Bolivia a terceras partes, antes de la fecha de aviso de conclusión, siempre que los compromisos se hubieran hecho en concordancia con este Acuerdo y otros Acuerdos. En caso de que el Gobierno del Estado Plurinacional de Bolivia dé por terminado el Acuerdo, ningún fondo se hará disponible para las actividades llevadas a cabo después de la fecha de aviso de expiración del Acuerdo.

Si surge cualquier desacuerdo entre los Signatarios en cuanto a la interpretación, aplicación o ejecución de este Acuerdo o en relación con cualquier Acuerdo adicional que pueda resultar del mismo, que no pueda ser resuelto de forma amigable, cualquier firmante podrá invitar a las otras partes a conciliar bajo procedimientos establecidos en la Normativa Boliviana para tal efecto, con efecto en la fecha en que este Acuerdo fue convenido.

17. ENTRADA EN VIGENCIA Y DISTRIBUCIÓN DE ESTE ACUERDO.

El presente Acuerdo tendrá una vigencia a partir de la firma del mismo y permanecerá válido para la ejecución de actividades programadas del Plan Plurianual hasta diciembre de 2017 y para la evaluación final hasta el primer semestre de 2018. Después de ser suscrito, el Gobierno del Estado Plurinacional de Bolivia se compromete a distribuir copias de este Acuerdo a todos sus Ministerios, Autoridades y otras instituciones involucradas en el programa de cooperación y si fuese necesario proporcionara información acerca de su contenido.

18. ANTICORRUPCION

Los Signatarios cooperarán en la prevención de la corrupción entre y dentro de los programas financiados por las ACIs.

La Organización deberá exigir que su personal y consultores relacionados con proyectos o actividades financiados por las donaciones, no ofrezca a terceros o busque, acepte o le sea prometido por parte de terceros, para ellos mismos o para cualquier otra parte, ningún regalo, remuneración, compensación o beneficio de cualquier tipo, que pueda ser interpretado como una práctica ilegal o corrupta.

Los Signatarios tomarán acciones legales para parar e investigar hechos de corrupción.

Los Signatarios intercambiarán información por cualquier circunstancia referida en esta cláusula y la Organización informará sobre medidas tomadas

19. CONFORMIDAD

El Ministerio de Planificación del Desarrollo, representado por la Ministra Viviana Caro Hinojosa, el Ministerio de Medio Ambiente y Agua, representado por el Ministro José Antonio Zamora Gutiérrez, y los representantes del Gobierno de: Suiza Peter Bischof, Alemania Peter Linder, Bélgica Roland Provot, y Suecia Aurore Lundkvist, manifiestan su conformidad con todos y cada uno de los numerales contenidos en el presente Acuerdo y comprometen a su fiel y estricto cumplimiento.

Es suscrito en fecha **15 AGO 2014**, en la ciudad de La Paz, en seis ejemplares originales de igual valor legal.

Por el Estado Plurinacional de Bolivia:



Viviana Caro Hinojosa
MINISTRA DE PLANIFICACION DEL DESARROLLO



José Antonio Zamora Gutiérrez
MINISTRO DE MEDIO AMBIENTE Y AGUA

Por las Agencias de Cooperación Internacional:



Peter Bischof
Embajador
Embajada de Suiza



Peter Linder
Embajador
Embajada de la República Federal de Alemania



Roland Provot
Ministro Consejero Jefe de la Oficina de Cooperación al Desarrollo
Embajada de Bélgica



por

Aurore Lundkvist
Jefa de Cooperación
Embajada de Suecia

4.2 Annex 2: Specific Agreement Proposal

CONVENIO ESPECÍFICO

entre

EL REINO DE BELGICA

y

**EL ESTADO PLURINACIONAL DE
BOLIVIA**

relativo

**A UN FINANCIAMIENTO DE UN FONDO
CANASTA PARA LA
IMPLEMENTACIÓN DEL “PLAN
NACIONAL DE CUENCAS – 2da fase –
PNC2”**

Ver 10/08/15

El Reino de Bélgica, por una parte,

y

El Estado Plurinacional de Bolivia, por otra parte,

En adelante denominadas « las Partes »;

Considerando las relaciones de amistad y de solidaridad existentes entre los dos Estados;

Visto el Convenio General de Cooperación entre el Reino de Bélgica y el Estado Plurinacional de Bolivia firmado en Bruselas, el 20/05/2009;

Visto el Acta de las Reuniones de la VI Comisión Mixta entre el Gobierno del Estado Plurinacional de Bolivia y el Reino de Bélgica firmado el 28/02/2014 en La Paz;

Visto el Programa de Cooperación bilateral 2014-2016 firmado el 28/02/2014 en La Paz;

Vista la adhesión del Reino de Bélgica al Plan Nacional de Desarrollo y a la Agenda Patriótica 2025;

Visto el “Programa Plurianual de Gestión Integrada de Recursos Hídricos y Manejo Integral de Cuencas 2013-2017” del Ministerio de Medioambiente y Agua;

Visto el “Acuerdo de Financiamiento Conjunto” firmado en La Paz el 15/08/2014 entre las Agencias de Cooperación Internacional y el Gobierno del Estado Plurinacional de Bolivia;

Con el propósito de velar por una ejecución óptima de las prestaciones de cooperación y desarrollo;

Disponen lo siguiente:

Artículo I – Definición y objeto del Convenio.

- 1.1. El presente Convenio rige la contribución financiera no-reembolsable de la Parte belga al financiamiento del Fondo Canasta para la implementación del “Programa Plurianual de Gestión Integrada de Recursos Hídricos y Manejo Integral de Cuencas 2013-2017” o “Plan Nacional de Cuencas – 2^{da} fase” (en adelante PNC2).
- 1.2. El objetivo global del Programa es el siguiente: “Impulsar la Gestión Integrada de Recursos Hídricos y el Manejo Integral de Cuencas en Bolivia, bajo modalidades de participación y autogestión, desde las perspectivas de las culturas y sistemas de vida locales, como sustento del desarrollo humano y ambiental sostenible, en un contexto de vulnerabilidad frente a desastres naturales y al cambio climático”.
- 1.3. De los 7 objetivos específicos que se derivan de este objetivo general, son tres los que enfocará el programa de la Cooperación Belga:
 - Contribuir a promover la inversión en proyectos que impulsen el manejo sustentable de los recursos naturales y el agua y fortalezcan las capacidades locales de gestión de microcuencas;
 - Apoyar la consolidación de un sistema de gestión de información y conocimientos, como soporte para la GIRH y MIC en los diferentes niveles de intervención, articulado al Sistema de Información Ambiental del MMAyA;

- Contribuir a la promoción del desarrollo y fortalecimiento de capacidades individuales institucionales e interinstitucionales en entidades públicas, privadas y organizaciones sociales, en los niveles nacional, regional y local, para la promoción, planificación, facilitación y ejecución de procesos y acciones de GIRH y MIC;

Artículo 2: Responsabilidades de las Partes.

- 2.1. El Estado Plurinacional de Bolivia, representado por el Ministerio de Planificación del Desarrollo, designa al Ministerio de Medioambiente y Agua (MMAyA) como la Entidad ejecutora responsable de la buena utilización del financiamiento otorgado.
La Entidad operadora será el Viceministerio de Recursos Hídricos y Riego (VRHR).
- 2.2. La Parte belga designa a la Dirección General de la Cooperación al Desarrollo del Servicio Público Federal de Asuntos Exteriores, Comercio Exterior y Cooperación al Desarrollo, en adelante denominada « la DGD », como la entidad responsable de su contribución al programa. La DGD está representada en el Estado Plurinacional de Bolivia por el Agregado de la Cooperación Internacional de la Embajada de Bélgica en Lima, en adelante denominado « El Agregado ».
- 2.3. La Parte belga encarga a la Cooperación Técnica Belga, sociedad anónima belga de derecho público con finalidad social, en adelante denominada « la CTB », la ejecución de sus obligaciones. La CTB está representada en el Estado Plurinacional de Bolivia por su Representante Residente en La Paz. La CTB desempeñará este deber, en cumplimiento a un Convenio de Implementación firmado entre la misma y el Estado Belga.
- 2.4. Las responsabilidades de las Partes están descritas en el Documento “Acuerdo de Financiamiento Conjunto”. Este documento está anexado al presente Convenio.

Artículo 3: Aportes de las Partes.

- 3.1 La contribución belga al Fondo Canasta se eleva a 10.000.000 euros.
- 3.2 Este financiamiento belga mencionado al artículo 3.1 será utilizado conforme a los principios del Documento “Acuerdo de Financiamiento Conjunto”, siempre que no estén en contradicción con el presente Convenio.
- 3.3 Modalidades de Desembolso:
 - El aporte belga mencionado en el artículo 3.1 será depositado por la Parte belga en una libreta del Banco Central de Bolivia; Cuenta Única del Tesoro M/E N° 5970034001; Libreta "MMAyA US- PLAN NACIONAL DE CUENCAS (PP 13-17) N° 00860108024”, según las modalidades siguientes:
 - a) una primera fracción de 6.000.000 de euros dentro de noventa días después de la entrada en vigencia del presente Convenio y después de la aprobación por la Parte belga del POA y presupuesto 2016;
 - b) una segunda fracción de 4.000.000 euros después de una auditoría externa positiva, aprobada por la Parte belga correspondiente al año 2015, así como del informe técnico y financiero de ejecución del programa correspondiente al año 2016 y después de la aprobación por la Parte belga del POA y presupuesto 2017;

En el lapso de un mes después de la transferencia, el Banco Central enviará un recibo al Representante Residente de la CTB para confirmar el monto recibido y la cuenta de banco en la cual esta transferencia fue realizada.

- 3.4 En caso de una auditoría negativa, será necesario recibir una respuesta gerencial del Ministerio de Medioambiente y Agua. Un plan de acción para la implementación de dicha respuesta deberá ser presentado por la Parte boliviana y deberá ser aprobado por la Parte belga. Esto constituye una condición suficiente para la transferencia de fondos.
- 3.5 El desembolso previsto podrá ser postergado o incluso anulado si se detectase un caso evidente de fraude, si éste no hubiese sido resuelto correctamente y si las medidas no se hubiesen tomado para que el problema de fraude no se reproduzca tras haber sido detectado y notificado. De registrarse usos graves inadecuados de la transferencia de los fondos, Bélgica se reserva el derecho de exigir de forma unilateral o conjunta, el reembolso total o parcial de los fondos.
- 3.6 Adicionalmente, la Parte belga financiará y contratará por 3 años a un experto en Gestión del Agua y a un experto en Gestión de Finanzas Públicas, que **apoyarán** el monitoreo y seguimiento del programa. El apoyo en asistencia técnica será orientado al fortalecimiento del VRHR en la implementación de los objetivos específicos mencionados en 1.3, incluyendo el acompañamiento diario para el alcance de la metas establecidas en el MED (Marco de Evaluación del Desempeño) del Programa. Estos expertos, gozarán de los privilegios e inmunidades mencionados en el artículo 9 del Convenio General de Cooperación al Desarrollo entre Bélgica y Bolivia, firmado en Bruselas el 20 de mayo 2009, siempre y cuando no tengan la nacionalidad boliviana. Los términos de referencia correspondientes a estos expertos están anexados al presente Convenio Específico.

Artículo 4: Seguimiento, evaluación y auditorías.

- 4.1. Adicionalmente a lo descrito en el Documento Acuerdo de Financiamiento Conjunto, las Partes tomarán todas las medidas para alcanzar los objetivos del presente Convenio Específico, incluyendo control y evaluación técnica, administrativa y financiera, conjunta o separada, como indicado en el art. 14 del Acuerdo de Financiamiento Conjunto. Las Partes se informarán mutuamente sobre los resultados y recomendaciones de las prácticas de control y evaluación.
- 4.2. La CTB es responsable de la participación belga en el seguimiento de la implementación del PNC2, en colaboración con la Embajada de Bélgica en Lima. La asistencia técnica belga en La Paz, contratada por la CTB, participará también con las otras Cooperaciones Internacionales, en el marco de los mecanismos de seguimiento existentes.

- 4.3. En el diálogo político, el enfoque de Bélgica será sobre:
- los componentes 1, 2, 6 y 7 del PNC2;
 - la coordinación entre los subsectores del MMAyA;
 - los indicadores IRAI de sostenibilidad ambiental;
 - el seguimiento de la implementación del Plan Integral;
 - el diálogo intersectorial
 - la clarificación de los roles y responsabilidades de los actores, en el marco de la descentralización;
 - el fortalecimiento de la Unidad de Monitoreo y Evaluación del VRHR;
 - la descentralización fiscal y financiera;
 - la gestión de las finanzas públicas en el sector;
 - la promoción de buenas prácticas de gestión pública y rendición de cuentas.

Artículo 5: Informaciones

Cada una de las Partes transmitirá a la otra, todas las informaciones relativas al Convenio Específico necesarias para la buena ejecución del Proyecto.

Artículo 6: Impuestos y derechos de importación.

La contribución belga no será en ningún caso utilizada para el pago de impuestos, derechos aduaneros, impuestos de entrada y otras cargas fiscales (incluido el IVA) sobre suministros y equipos, trabajos y prestaciones de servicios. La entidad ejecutora tomará las previsiones del caso para que dichos impuestos, cargas fiscales y prestaciones sean cubiertos con cargo a sus recursos propios sin utilizar la donación.

Artículo 7 : Duración, extensión, suspensión, cancelación, modificaciones y controversias

- 7.1. El presente Convenio entrará en vigor el día de su firma por ambas Partes hasta el 30 de junio de 2019.
- 7.2. Cualquiera de las Partes podrá suspender la ejecución del presente Convenio. Si una de las Partes considera que la otra no haya cumplido con una de las obligaciones fundamentales que le incumben en virtud del presente Convenio, con una obligación resultando del respeto por los derechos humanos, con los principios democráticos y con el Estado de derecho, así como en los casos de corrupción, le notificará a la otra Parte la información pertinente necesaria para realizar un examen detallado de la situación así como el hecho que se considera suspender el presente Convenio en caso de no tener una solución aceptable en el plazo de 3 meses. Las Partes realizarán consultas y determinarán las acciones adecuadas que deben adoptarse en el plazo de tres meses siguientes a la notificación.
- 7.3. Cualquiera de las Partes podrá suspender la ejecución del presente Convenio en caso de fuerza mayor⁽¹⁾. La parte que alega un caso de fuerza mayor, le notificará a la otra Parte la información pertinente necesaria para realizar un examen detallado

de la situación así como el hecho que se considera suspender el presente Convenio en caso de no tener una solución aceptable en el plazo de 3 meses. Las Partes realizarán consultas y determinarán las acciones adecuadas que deben adoptarse en el plazo de tres meses siguientes a la notificación.

- 7.4. El presente Convenio podrá rescindirse por cualquiera de las Partes por nota verbal, con un aviso previo de tres meses. La utilización del saldo disponible y no comprometido será definida mediante Intercambio de Notas Reversales.
- 7.5. Las disposiciones del presente Convenio Específico pueden ser modificadas de mutuo acuerdo entre las Partes, mediante Intercambio de Notas Reversales.
- 7.6. Cualquier controversia relativa a la aplicación o a la interpretación del presente Convenio será resuelta por medio de la negociación.

⁽¹⁾ *fuerza mayor: obstáculo externo, imprevisto o inevitable que origina una fuerza extraña al hombre que impide el cumplimiento de la obligación (entre otros incendios, inundaciones y otros desastres naturales)*

Artículo 8: Direcciones.

8.1 Las notificaciones previstas por el presente Convenio Específico, y particularmente aquellas que tienen por objeto su modificación o su interpretación, serán transmitidas por la vía diplomática:

Para la Parte belga: a la Embajada de Bélgica, a la atención del Agregado de la Cooperación Internacional, Angamos Oeste 380, Miraflores, Lima 18, Perú.

Para la Parte boliviana: al Ministerio de Relaciones Exteriores, Plaza Murillo, La Paz, Bolivia con copia al Ministerio de Planificación del Desarrollo, Casilla 12814, La Paz, Bolivia y al Viceministerio de Inversión Pública y Financiamiento Externo (VIPFE), Casilla 8994, La Paz, Bolivia.

8.2. Las notificaciones o la correspondencia relativas a la implementación del Programa serán transmitidas:

Para la Parte belga: a la Representante Residente de la CTB, Casilla 1286, La Paz, Bolivia

Para la Parte boliviana: al Ministerio de Medioambiente y Agua, Capitán Castrillo 434, La Paz, Bolivia.

Hecho en La Paz, el de 2015 en cuatro ejemplares originales, en español.

Por el Estado Plurinacional de Bolivia

Por el Reino de Bélgica

René Orellana
Ministro de Planificación
del Desarrollo

4.3. Annex 3: Budget Implementation Agreement

BOL 14 035 11 : PNC2														
Code Budget	Description des postes budgétaires	Code Tâche	Code Secteur	Coût unitaire	Nombre	COUT TOTAL CONTRIBUTION BELGE en €	2015		2016		2017		2018	
							S1	S2	S1	S2	S1	S2	S1	S2
A_01_01	Prix : Expertise													
	International water sector expert (homme habillé)	Régie	14010	15,000	28	420,000		30,000	90,000	90,000	90,000	90,000	30,000	
A_01_02	International PFM expert (homme habillé)	Régie	14010	15,000	28	420,000		30,000	90,000	90,000	90,000	90,000	30,000	
A_01_03	Operating expenses (communication, office rent, office consumables, transport)	Régie	14010	4,144	28	116,032		8,288	24,864	24,864	24,864	24,864	8,288	
A_01_04	Investments (ICT equipment, furniture, ...)	Régie	14010	7,000	2	14,000		10,000	0	4,000	0	0	0	
A_01_06	Monitoring and backstopping/annual review BTC HQ	Régie	14010	5,000	2	10,000		0	0	5,000	0	5,000	0	
A_01_06	Consultancy (Technical audit, financial analysis, evaluation, ...)	Régie	14010	25,000	2	50,000		10,000	15,000	10,000	15,000	0	0	
	SOUS TOTAL PRIX					1,030,032		88,288	219,864	223,864	219,864	209,864	68,288	
	Don: Contribution au "Programme"													
B_01_01	Art. 3 Point 3.3 Convention Spécifique	Aide budgétaire	14010			10,000,000			6,000,000		4,000,000			
	SOUS TOTAL DON					10,000,000		0	6,000,000	0	4,000,000	0	0	
	TOTAL					11,030,032		88,288	6,219,864	223,864	4,219,864	209,864	68,288	

4.4. Annex 4: ToR Expertise

Terms of Reference of the International Water Management Expert

The Water Management Expert will monitor the Water sector, more specifically the Water Basin Management sub sector, follow the PNC II activities and provide technical expertise on water issues to the Belgian Embassy in Lima, the development partners and the Bolivian authority, especially the VRHR.

The Water Management Expert will be based at work at the BTC Representation office under the administrative supervision of the Belgian BTC Resident Representative (ResRep) . He/she will work in collaboration with the PFM expert, as well as with other Technical Assistants supporting Belgian interventions in the water and environment sector.

Main tasks

Support to the Belgian Embassy

- Provide technical / policy advice to the representative of Belgian Embassy with regards to the Belgian position on policy issues related to the water basin management sector.
- Ensure technical coordination of the ongoing Belgian bilateral water projects to ensure a common position in policy dialogue.
- Support the PFM expert in the assessment of the disbursement's conditions of the Belgian financial contribution to the Basket fund as defined in the Specific Agreement. Both experts will then jointly formulate a clear advice to the Belgian Embassy in this respect;
- Report to the Belgian Embassy through the BTC representation on a quarterly basis on the programme implementation and the sector policy dialogue.

Support to the Basket Fund and to the policy dialogue

- Promote a shared vision and a coherent approach through the existing technical coordination mechanisms in order to facilitate the sector policy dialogue.
- Ensure the technical secretariat of the PNC II basket fund and SUBAT's meetings.
- Actively participate in the different Technical Working Groups (GRAS, drinking water group, GRUS) relevant to the PNC II program.
- Contribute to the preparation of the annual Joint Sub Sector Review and the monitoring of the PAF indicators.
- Establish, develop and maintain good working relations and continuous dialogue with the main stakeholders in water, in particular with Government Ministries (namely MMAyA, VIPFE, MEFP, Local Governments), national and local institutions, and development partners.
- Support knowledge sharing initiatives in support of the sector.

Support to the overall functioning of the Integrated Basin Management sub sector

- Support the Ministry of Water and Environment, and more specifically the vice-Ministry for hydric resources and irrigation (VRHR) to strengthen the overall monitoring and evaluation system;
- Monitor and support the implementation of the water sector plan;
- Where possible, take initiative and/or facilitate research and empirical studies in the field of water and environment.

Qualifications and required experience:

- MSc in agronomy, agro economy, environment, water management or any related subject;
- Experience (min 3 years) in water basin management;
- Experience (min 3 years) in institutional strengthening of the public sector;
- Experience (min 1 year) in M&E systems;
- Experience (min 1 year) in dealing with ministry authorities and coordinating experts;
- Experience (min 5 years) in a multicultural context.

Required skills:

- An attitude of continuous reflection, self-motivation and ability to work independently with minimum supervision;
- Negotiation and diplomatic skills;
- Analytical skills and critical attitude;
- Good communicator;
- Good reporting and writing skills;
- Spanish and English proficiency, both in speaking and writing;
- Proficiency of Dutch or French.

Terms of Reference of the Public Financial Management Expert

The Public Financial Management (PFM) Expert will follow the Basket Fund operations and provide valuable expertise on PFM related issues to the Belgian Embassy in Lima, the development partners and the Bolivian MMAyA.

The PFM expert will work under the administrative supervision of the Belgian BTC Resident Representative (ResRep), in collaboration with the Water Management expert as well as with the other Technical Assistants supporting Belgian interventions in the water and environment sector.

Main Tasks

Support to the Belgian Development Cooperation

- Provide technical / policy advice to the representative of Belgian Embassy with regards to the Belgian position on PFM and decentralisation related to the water and environment sector.
- Make sure that new policies or critical issues raising in the field of PFM are brought to the attention of Embassy. Provide them with prompt advice
- Report to the Embassy and to BTC Representation on a quarterly basis on the PFM related issues of the programme implementation and the policy dialogue.
- Elaborate the disbursement reports for the release of the Belgian financial contribution to the Basket Fund in collaboration with the Water Management expert.
- Contribute to the technical consultation among the different TAs working in the Belgian projects in the field of water and environment sector.

Support to the Basket Fund and to the policy dialogue on PFM and decentralisation

- Actively participate and contribute to the basket fund and the other relevant Technical Working Groups at sub sector level or related to PFM in the water and environment sector. Seek active consultation with other TAs working in this field.
- Liaise with other development partners supporting the sector and participate to PFM related joint missions (eg: PEFA, FAF etc.) when appropriate.
- Contribute to the preparation of the annual Joint Sub Sector Review.
- Follow-up the implementation of all financial/execution decisions related to the basket fund.
- Follow-up the annual audit process, analyze the audit reports, contribute to the policy dialogue between the Ministry and the development partners on these matters by facilitating a joint position on critical issues, closely monitor implementation of action plan and recommendations.

Support to the PNCII program and the overall functioning of the sub sector

- Contribute to ongoing decentralization process by strengthening the link between PFM at sub sector, sector and macro level. In particular, support the national partners to improve the financial flows and the transfer mechanisms through the different levels.
- Follow up the implementation of the PNC II: analyze budget planning, budget execution, financial reporting, and internal and external control systems in the water and environment sector at central and local level; provide support to the Bolivian partners on these matters.
- Support knowledge sharing initiatives in the field of PFM

Profile:**Qualifications and required experience :**

- MSc in economics, public management, public administration, law, political science or related;
- Experience (min 1 year) in PFM and decentralisation in development countries (any experience in Latin America is an asset);
- Experience (min 5 years) in institutional strengthening of the public sector;

Skills

- ability to work independently with minimum supervision;
- Cooperative and networking attitude;
- Critical thinking;
- Negotiation and diplomatic skills;
- Extensive professional experience in a multicultural context;
- Spanish and English proficiency, both in speaking and writing. Knowledge of Dutch and French is an asset.