

Bolivia update on debt issue

Gail Hurley from the Eurodad Secretariat has been in Bolivia for the last 3 weeks, working with Fundación Jubileo on debt-related issues.

The debt issue is also very much on the agenda of the new Bolivian Government – in more ways than one. Despite the fact that the World Bank office in Bolivia insists that the new government has no real plan as to how to tackle and manage the debt issue, the Government Ministries (and Central Bank) officials I spoke to were all perfectly aware of some of the serious debt difficulties that continue to plague the country, and are developing some conventional and more innovative ways to try to deal with them. It is early days for the new government and only time will tell whether some of these initiatives will be the success that is hoped. Below, Eurodad goes into more detail on current problems and plans on debt in Bolivia. These reflections are based on a range of interviews and meetings held during the course of my visit.

Bolivia: public debt stocks (2005) (millions of US\$)

Stock and service	2005
External debt stock	4.941.6
Domestic debt stock	2.210.1
External debt service	367.6
Domestic debt service	668.3
Total debt stock	7.151.7
Total debt service	1.035.9
Net Present Value of external debt	2.372.8

Source: Central Bank of Bolivia

Overview

Bolivia is a Heavily Indebted Poor Country (HIPC) as classified by the World Bank and International Monetary Fund. Bolivia has faithfully followed the HIPC Initiative programme and has therefore benefited from a partial debt write-down both under HIPC, and more recently the MDRI (Multilateral Debt Relief Initiative), which will deliver a further US\$43mn per year over the next 35 years, according to the World Bank, amounting to a total of US\$1.7bn (cancellation of World Bank and IMF debt only).

This has reduced Bolivia's debt levels to approximately 20% of GDP (Gross Domestic Product) and both the World Bank and the IMF believe that Bolivia's external debt burden is now manageable and gives no cause for serious concern over a five to six year time horizon. But as this update suggests, Bolivia is certainly not "out of the cold". Indeed according to Eurodad calculations, in 2005 Bolivia paid out 3.5 times more external debt service than it could afford to pay without jeopardizing essential investments in the development of its people and economy (*see heading: debt sustainability for further elaboration*).

According to Katy Murrillo of the Fundacion Jubileo, "despite repeated debt write-downs, Bolivia's external debt burden has remained constant at around US\$ 7.5bn. But

what gives us serious cause for concern are increased levels of domestic debt coupled with growing indebtedness to the Andean Development Corporation (CAF). These credits are expensive and cost Bolivia a lot of money. Debt owed to the Inter American Development Bank (IDB) has also not been cancelled and Bolivia owes around one third of its external debt burden to the IDB”.

Bolivia’s debt has gradually been “Bolivianised” over recent year, i.e. domestic debt has grown exponentially and in 2005 represented two-thirds of overall debt service (see table above). Only 37% of Bolivia’s debt is held in US\$. At the same time, successive governments have increasingly resorted to CAF loans simply because the credits are disbursed quickly and with little conditionality imposed.

World Bank and IMF imposed conditionalities (associated with the HIPC Initiative and IMF-supported programmes) have been a thorn in Bolivia’s side as well as provoked serious civil disturbances over recent years. According to Fundacion Jubileo’s Jorge Jimenez, among the conditionalities associated with the HIPC Initiative were: privatization of gas, electricity, water, telecommunications and an airline. He describes the results very candidly as follows: “the privatization of gas resulted in a total theft from the country which the present government is now trying to turn around. Electricity and water resulted in increased prices, and in the case of water popular unrest. The privatization of Lloyd Aéreo Boliviano has resulted in the airline being almost totally dismantled and today it barely functions. The only relative success has been in telecommunications and access is generally good in Bolivia, although expensive and foreign owned (mainly Italy)”. In both social and economic terms then, Bolivia has paid a high price for its faithfulness to the HIPC Initiative and to IMF-supported programmes. These difficulties, coupled with persistently high levels of poverty help to explain the Movement for Socialism (MAS) and Evo Morales’ spectacular rise to power over the last year.

Poverty indices in Bolivia

Percentage of population officially classified as poor

1999	2003
62.64	67.30

Percentage of population officially classified as extremely poor

1999	2003
36.78	39.66

Incidence of rural poverty

1999	2003
81.58	79.51

Source: Fundacion Jubileo, Bolivia

So given recent political changes and some debt reduction under HIPC and MDRI, what next on debt in Bolivia?

Debt sustainability

The issue of debt sustainability is on everyone's lips in Bolivia and certainly became the overarching "raison d'être" for Eurodad's visit to Bolivia. Why the issue is such a "hot" and unusually exciting topic in Bolivia is, in my view, for several reasons.

Bolivia enjoys relative "debt sustainability" (according to official definitions anyway) following recent rounds of multilateral debt relief under the HIPC Initiative and the MDRI. However the country's new left-leaning government has ambitious plans to double spending between 2007 and 2011. To many civil society and official actors, it is not entirely clear where the government intends to get the money from to finance its bold plans and some fear fresh rounds of new (unsustainable) borrowing. Indeed increasing levels of indebtedness both internally and with the CAF already give cause for serious concern. Perhaps another reason why the issue is such a hot topic is that Bolivians generally do not consider themselves to have serious allegations of odious and illegitimate debt.

An alternative vision of sustainability

The Fundacion Jubileo, with the participation of the Bolivian Government and the financial backing of the German Government, are undertaking an exceptional research project which aims to conduct an "alternative debt sustainability analysis" of the country. The alternative Debt Sustainability Analysis (DSA) aims to rival traditional DSAs conducted by economists in the World Bank and IMF which rely on financial indicators only such as an assessment of the country's macroeconomic growth prospects, growth in exports, availability of financial resources and vulnerability to external shocks. The alternative DSA will be much more comprehensive in scope however.

It will cover the historical evolution of Bolivia's debt burden (stock and service), current budget limitations, key social indicators and recent trends in the fight against poverty, an assessment of the investments needed to reach the Millennium Development Goals (MDGs), an evaluation of domestic debt, an analysis of options as they relate to new finance (most appropriate mix) with a focus on pro-poor investments, an assessment of key fiscal reforms to boost greater internal resources, and potential ceilings on central government debt. Because of its comprehensive nature and because the study has been carried out in a participatory manner in Bolivia, it is expected that the results of this alternative DSA will be more accurate, useful and legitimate than a traditional IFI Washington-based "risk-only" assessment.

Eurodad was invited several times to both the Ministerio de Hacienda and the Ministerio de Planificación de Desarrollo in order to support this process and to present Eurodad's critique of the new Bank/Fund debt sustainability framework and our own approach to the debt sustainability issue, which turns the IFI's concept of debt sustainability on its head. Eurodad argues that the "official" concept of debt sustainability merely considers a country's capacity to repay its debt given (un-) certain economic projections of growth and vulnerability. This concept says nothing about what potential impact these repayments may have on the economic and human development of a country. Instead, Eurodad argues that a country must firstly assess what it needs to spend on essential needs such as health, education, water, police, civil service, basic

infrastructure and several other essential areas. Only once this assessment has been carried out can there be any consideration of what external debt service can be paid by any money that may be left over. In this way, the Eurodad approach puts human dignity firmly at the centre.

What can Bolivia afford to pay?

Using figures for Bolivia's 2006 central budget, Eurodad and Fundacion Jubileo applied the Eurodad methodology to Bolivia. The results are indicative only but suggest that in 2006, Bolivia can afford to pay only US\$98mn in external debt service. In contrast, it paid-out US\$368mn in 2005, i.e. 3.5 times more than this.

The analysis presented below takes the central budget as its starting point. From this amount (US\$2.6bn in Bolivia's case), we deduct the total amount of money needed for basic investments and essential running costs in the country. In Bolivia's case, this amounted to a minimum of US\$2.3bn. This meant that only US\$293mn was theoretically available for external debt service. However Eurodad considers that only one third of this amount should be allotted to external debt service. Why? Because a country has many other essential investments and running costs to meet such as housing, industrial and productive investments, defense, electricity, protection of environment and cultural heritage etc. etc. Our analysis did not consider these other vital costs and can therefore only be considered as indicative.

The Bolivian Government was however excited by these indicative results, and seems keen to include social indicators in future assessments of the sustainability of their country's debt burden. The Ministerio de Hacienda was quite open about the fact that staff are usually accustomed to performing the more traditional DSAs and in this context welcomed Eurodad's presentation of an alternative approach. In particular they seem interested in just how far countries are sacrificing essential domestic investments in order to pay debt service, and on a very positive note, the government does not appear afraid of the potential results of the "alternative DSA" as it is to be carried out.

Finally, I was also very keen to talk to the Bolivian Government about issues of ownership and leadership, i.e. the importance of breaking the current monopoly the IFIs hold over DSAs and the scant participation of debtor country authorities in their preparation, as well as the potential lessons that could be brought forward for other countries as a result of Bolivia's experience of an alternative DSA. Again the government reacted very positively and does not appear afraid to stick its neck out.

Sadly, this was not the case in conversations held with staff of official bodies such as the World Bank. However the IMF did seem a little more open in this regard. Its country representative was of the opinion that such alternative DSAs are "perfectly complementary" to traditional financial analyses of the sustainability of a country's debt burden. World Bank country-office staff did not appear to believe that it is wholly realistic to include social indicators in debt sustainability analyses. This is because the social sectors are "riddled with corruption and inefficiency" and "do you measure the quantity or quality of the investment. DSAs have to be simple".

Final thoughts

Bolivia is at a real turning-point in its modern history. It has a government which is truly representative of the people and which has ambitious plans to improve the welfare of the population. Whether this will translate into reality and the government will be able to effectively fight off pressure from rich countries and manage resources competently and transparently, only time will tell.

In relation to Bolivia's debt burden, successive rounds of relief under HIPC and now MDRI have reduced external debt levels to approximately 20% of GDP. Both the World Bank and the IMF believe that Bolivia's external debt burden is now manageable and gives no cause for serious concern. But Bolivia is certainly not "out of the cold". Its increasing levels of domestic debt and debt owed to CAF and the Inter American Development Bank (which have not been cancelled) do give cause for serious concern. In addition, Bolivia is likely to graduate from International Development Assistance – World Bank (IDA) over the next couple of years and essentially already qualifies as a "blend" country. This means that Bolivia will no longer have access to highly concessional IDA finance, but IBRD loans at market interest rates instead. But even before that happens, Bolivia may as of next year have its IDA allocation sharply reduced. This is because IDA lending decisions are based on a country's CPIA (Country Policy and Institutional Assessment) score, a key component of which is "openness to the private sector". Given recent moves to renegotiate and even nationalize the gas and mining sectors in Bolivia, the country is likely to score poorly (and even negatively) here. So it still seems that the logic of "give with one hand while take away with the other" seems to prevail with respect to the Bolivian case.