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**REVIEWING BOLIVIA'S
ECONOMIC TRANSFORMATION**

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Preface

The debate swirling around the impact of structural adjustment, free trade initiatives, and economic reform on democratic government is generally reserved for countries such as Chile and Mexico--the "success" stories--or Peru and Brazil. The lack of attention paid to Bolivia, by policymakers and scholars alike, misses the radical economic change its government initiated in 1985 as well as the political difficulties with which *Bolivianos* are presently confronted.

On July 15, 1992, in one of the best attended events of the year, the Latin American Program brought together two Bolivian government ministers with leading U.S. economists to discuss the country's radical economic reform program and the political changes that have accompanied it. The ministers, *Jorge Quiroga*, Minister of Industry, and *Fernando Campero*, Minister of Exports and Competitiveness, made presentations. *Stanley Fischer* of the Massachusetts Institute of Technology, *Shane Hunt* of Boston University, and *Kevin Healy* of the InterAmerican Foundation commented on their remarks. A period of discussion followed.

The Latin American Program found Bolivia's story to be replete with lessons for achieving profound economic and political change while also preserving democratic ideals. And, in this sense, we feel we achieved our objective: to give Bolivia its due and to highlight issues important to the country and region as a whole.

We are pleased that "Reviewing Bolivia's Economic Transformation" attracted a wide audience and provoked a highly informative discussion. The following edited transcript of the seminar is provided to generate further debate both in North and Latin America about the Bolivian experience.

REVIEWING BOLIVIA'S ECONOMIC TRANSFORMATION

JORGE QUIROGA

When you do things quietly, slowly, and responsibly, you often have difficulty attracting attention. This seminar is part of an attempt to attract some attention to the economic transformation that Bolivia has recently undergone and continues to undergo.

It is important, first, to note that the political framework changed when Bolivia regained democracy in 1982. But although the Congress was reestablished, the economic situation remained fairly chaotic (Bolivia reached some of the world's records for hyperinflation during that period). Democracy by itself does not guarantee sound economic performance, but it does provide a basis for it because economic freedom without political freedom is difficult to sustain. I will outline what we have accomplished since 1985 regarding stability, freeing prices, and seeking a proper alignment between the public and private sectors in Bolivia. I will also address the current emphasis we are trying to place on the social sector.

Elections at the national and local level are now routine in Bolivia. In the last municipal elections in December 1991, the winners were announced on the night of the election as opposed to after three months of rinky-dink ballot counting. For the first time, Bolivia has an independent electoral court, which is something quite remarkable. This court has also been given the additional power to administer the civil registry, which registers citizens to vote. A ruling government ceding control of the

electoral machinery is unheard of in Latin America. But, this has been accomplished under the government of President Jaime Paz Zamora. On July 9, 1992, while some of our neighbors in Latin America were arguing about how to get along, the political leaders of Bolivia joined with the president to sign a document agreeing on a number of points that addressed judicial and political reforms. These included the requirement that all judges, like the controller general, be named by two-thirds of the Congress.

President Paz Zamora is determined not to let things slip during the last year of his administration. For the first time in almost thirty years, Bolivia has a president who, although he must sit out at least one term, is young enough to run again for the presidency. He made some changes this year, naming some young people to posts in the cabinet. This has been criticized, but these are people with a future in government who will attempt to keep the momentum going. Bolivia is also getting a much needed extension of its International Monetary Fund (IMF) agreement. Some people argued that it was foolish to get an IMF agreement in an election year because it puts a clamp on maneuverability; but it is just what was needed.

In 1993 Bolivia will hold presidential elections. One of the clauses in the recent agreement was that the elections would be moved back one month to June; they will not be held as originally planned during the first week of May. During the usual period between election day and the swearing in (about three months, between May and August), reserves have tended to dwindle and interest rates to shoot up. The presidential

candidates hope that leaving only a two-month window will prevent, or greatly reduce, some of the usual problems, especially those stemming from vote counting, given the presence of an independent electoral court. It is impossible to govern in Bolivia without a majority in Congress; therefore, two candidates must unite to form a governing coalition. Since two of the three candidates have known programs and have been in government recently (the third is a businessman), at least one of them will be involved in the next government.

Bolivia is now seeking alignment between the private sector and the public sector, to negotiate the areas that they should be concentrating on, such as opening areas for private initiative, providing infrastructure, and paying attention to the social sectors. That sounds simple, but it is probably the most painful part of the process. In Latin America, in general, there has been criticism that the model we have applied is not working fast enough. That is a poor perspective. Patience is needed; one cannot expect to see results overnight.

Stability is the first step. Of primary importance is to develop the political will not to use the Central Bank as a credit card. It is a simplistic analogy, but it serves the purpose. When you spend all that you have and then go to the Central Bank and use it as your credit card, the bill comes due with inflation. A country should spend as much as it has and not much more than that. It is easy to say, but hard to do. It was accomplished in Bolivia. Bolivia decreased its inflation rate from 24,000 percent in 1985, to 21.5 percent in 1988, and then to 10.5 percent in 1992. It was argued that this was imposed by the IMF, but how can it impose

something that is already a reality? Bolivia should have single digit inflation next year; probably not as low as the IMF wants, but it will be single digit for the first time in a long time. Bolivia is currently at a rate of 0.5 to 0.6 percent inflation per month, about 6 to 8 percent per year. There will not be a huge gasoline price increase for 1993, which is typically what drives inflation at the beginning of every year. The deficit has also been brought down from 6.5 percent of Gross Domestic Product (GDP) in 1988 to 3.0 percent in 1992. It is just a matter of being disciplined, trying to increase revenues, and not spending more than the country has.

Probably one of the biggest achievements of the previous government was the simplification of the tax system. People do not intrinsically dislike paying taxes. They dislike waiting in line for ten hours, filling out fifteen forms to pay a hundred different taxes. We have a very simple tax system now, which is even attractive to investors. Tax revenues went up roughly from 2 to 9 percent of GDP and are still rising. Part of that also included simplification of the customs system in Bolivia. In the past, customs has been a political issue, now it is a fiscal question. For example, we have eliminated *polizas de oficio*, which exempted imported merchandise from passing through controls if its value was under \$1,000. Last year, 65 percent of the imports registered in Bolivia were *polizas de oficio*. We are a small country, but not that small; we wiped out that practice. Further changes should be forthcoming in this area because I think the customs office should and will be a fiscal policy instrument and not a political mechanism.

As for debt management, suffice it to say that we never paid the commercial debt; we bought it back at eleven cents. Bolivia is finishing the buyback now and we should soon be commercial debt-free (there may be some bonds). We rescheduled bilateral debt through the Paris Club because we want to get more bilateral flows. We have had a couple of problems there with the Japanese, but they were resolved. Multilateral debt, of course, we pay duly and on time. In 1991 the debt was at \$3.628 billion. However, more important than the amount is the composition of Bolivia's debt. The Paz Zamora administration will reduce \$1.5 billion worth of debt and will add about \$1.3 to \$1.4 billion worth of debt, but it will drastically change the type of the nation's debt. Bolivia has eliminated its Argentine, Brazilian, and expensive debt to the United States, and replaced it with Inter-American Development Bank (IDB), World Bank, and soft loans geared not towards the old state capitalism, but towards infrastructure and the social sectors.

In Bolivia, the government used to control the price of everything-- goods and services, labor, foreign currency, and credit (or the price of money itself). For the sake of the poor there was subsidized credit, a low, artificial exchange rate, and fixed prices on goods and services. However, the people who profited and benefited from these measures were the people who had influence and money, and who did not need help to begin with. Therefore, in 1985 the government began to free prices and institute other reforms that are now covered under the investment law, which also provides for a low, uniform tariff, now 10 percent. If prices are freed but a tariff of 200 percent is maintained, nothing is accomplished. The same logic must be applied to labor: artificially high minimum wages cannot be

set and employers must be able to hire and fire workers. An exception must be made for the teachers' unions in Bolivia, which are protected by the educational law. One of the most important social projects we have for the future involves retaining teachers and ensuring that they do the right work.

GDP moved from negative growth at the beginning of the decade to last year's figure of 4.1 percent growth; this year we are hoping for even greater growth. I must admit that our GDP per capita just increased substantially due to the magic of mathematics. A census at the beginning of June showed that Bolivia has a smaller population than was thought; there are 6.3 million Bolivians as opposed to 7 million. Of course, this also meant that the debt per capita was higher, which could pose some difficulties when we negotiate with the IDB.

As for credit, the government did not dictate interest rates in the banking system, but it maintained subsidized windows. Bolivia had four state banks; state credit was at 6 percent on the average--however, to get it, one had to have friends in the government. Bolivia obtained refinance credit from multilateral institutions; the Central Bank got it and sold it at 9 percent. The commercial banks in turn loaned it at 14 percent, when the real market rates were about 25 percent. But to get 9 percent money, one had to own a bank. In Latin America, industrial groups often own banks. The owners of banks do not charge themselves the spread; they just loan it to themselves at 9 percent. Loans are made at 14 percent to some of their friends or to sectors that someone at the IDB or the World Bank deems

important. Everyone else has to go to the 25 percent window or to a loan shark (who provides it at more than 60 percent).

This is the way that it stood about a year and a half ago, and the amounts of money that came through state credit or refinance credit were not insignificant--they were more than half of the available money for lending. So, this created distortions: the rate of interest depended on what window one went to. I am not suggesting that we should have a single interest rate for the economy. I think, for example, that rates for a car loan or a credit card should be different. However, they should not depend on whom one knows or what window one taps on.

Bolivia closed down all of the four state banks and eliminated subsidized credit. There is now an auction system whereby the market dictates the rates, and the rates are decreasing. Bolivia does not have a stock market per se. This system killed the stock market because with the Central Bank issuing certificates of deposit (CDs) or treasury bonds at about 16 to 17 percent, any company that wanted to join the stock market and issue bonds had to pay a greater amount. But a company would never pay more if it could receive cheap state credit or cheap refinance credit. Thus, there has never been an opportunity for a true stock market to flourish in Bolivia.

There was a very small private sector in Bolivia which sold only to the government. The government could invest in hydrocarbons, mining, cyanic factories, textile factories, airlines, or banks. Besides, the private sector also got a subsidized credit line or government loan guarantees. For

example, the Bolivian government guaranteed loans for the private sector to invest in hotels. That was the best thing possible for private investors, because it meant that they did not have to repay the loans; they were able to leave and take the money with them to Miami, while the government was left with the hotel. We are now trying to sell some of those hotels.

Another vacuum existed in the social sector. We had neither the policy nor the operational arms to deliver health care and education in Bolivia, only a payroll for teachers and health care workers. That is what gave rise to the *fondos*--social investment funds, regional development funds, and so on.

Included in the current debate regarding privatization is the position that only those industries that lose money should be sold. I believe that all of them must be sold. People do not understand opportunity costs. We have several of what we call large monuments to white elephants. Every dollar that was invested in a tin smelter that cost \$180 million--but that never worked because it needed twice the Bolivian national production of tin to break even--is a dollar less spent on health and education. This also deters the private sector; nobody wants to compete with government industries that receive subsidized credit, hire low-wage employees, and benefit from laws that give them a distinct advantage.

The Bolivian government wants the private sector to be perfectly aligned with the productive sector--hydrocarbons, mining, and services. That is a three-stage process. The government is selling all the productive enterprises, although there are more than sixty, such as ceramics, textiles,

and small airlines. Joint ventures in hydrocarbons and mining are also being undertaken because, due to constitutional restrictions, the government cannot sell them. We are also moving into services, but regulatory frameworks must first be developed. Federal regulatory agencies, which we do not have, are good in certain instances. The government does not want to transform public monopolies into private monopolies over night, as has happened in some other countries in Latin America. Subsidized credit has been eliminated in Bolivia. This will allow for an increased flow of resources from the private sector. If the government sends a signal to the private sector -- 'This is your area, it is open to you, we will provide an investment law and the necessary regulatory framework, so come invest' -- then I think the private sector will react.

We must also work on such things as getting bilateral investment treaties signed, which we worked on in Europe. We will complete one with the United States, in which Bolivia will have investment protection on a bilateral basis. Bolivia has formed trade and investment councils with different countries. We have access to organizations such as the Organization of Petroleum Exporting Countries (OPEC) and the Export-Import Bank. We are becoming fairly active with the International Finance Corporation (IFC) and the Inter-American Investment Corporation (IIC). The IIC is the private sector arm of the Inter-American Development Bank. It works with Bolivia, but its definition of micro-entrepreneur applies to only about five people in Bolivia. Bolivia also works with organizations such as the Andean Development Corporation, for example, which is lending money to the private sector directly, with no

government guarantees. It just loaned \$50 million for a mining project in Bolivia that will be carried out with a U.S. company. Bolivia needs to do more of those types of projects, and we will.

From a government standpoint, we must help build up infrastructure. We need roads. Bolivia is located between immense mountains on one side and the Amazon Basin on the other. Probably one of the most expensive roads in the world will be built in Bolivia. It will be close to thirty miles long and will cost \$180 million. The vertical drop will be greater than its length. The road will link the Altiplano and La Paz to the Amazon Basin with all its rich, natural resources. These are the types of projects the government has to continue to undertake.

Nor are we finished with reforms in our financial sector. In addition to freeing prices, we need to increase access. In Bolivia it is truer than ever that you have to have money to borrow money; actually you have to have three times the money. We still have work to do with the financial sector, and the key element is to attract foreign banks. To do that we must finish the commercial debt buyback.

As for the public sector, a country like Bolivia does receive a lot of attention from the United Nations, the World Bank, the IDB, and so on. But worse than not having help is having too much help. I believe there are too many people who want to plant their own little flag in every project across Bolivia. The key is to have programs for an entire sector, not just little projects that ambassadors can visit, be famous for five minutes, and have their pictures taken. It is not that banks and lending agencies go

about their work wrong; they just need to change the manner in which they do business. The World Bank lends \$70 to \$80 million each year to Bolivia. Back in the days when we were building big dams and all they had to do was write checks, it was fine to have one person in Bolivia. But when you undertake health, education, and water projects, you need staff and centralized authority. We have chosen one lead agency to work with these organizations to channel cooperation. We are not suggesting that they give money to this agency but, rather, that they coordinate their efforts through the one agency. The Bolivian government is able to provide co-financing for different projects. We have the people, resources, and internal funds. What Bolivia needs is programs, not projects.

Educational reform is probably the single largest challenge ahead for Bolivia. The educational system as it currently exists simply does not work. We have too many teachers that do not teach what is needed. Revision of the system is a long-term project, and part of the political pact that was signed in Bolivia last week because this is where political consensus is needed. Nobody wants to bear the cost of doing this by themselves. A country has to have a consensus and we are trying to build one to provide educational reform, and innovative health, water and housing programs.

In the past we built a few roads in Bolivia but then never preserved them. Now, we have a massive, nationwide maintenance program that will produce good roads in Bolivia. It will include maintaining the roads, reforming institutions, passing the requisite legislation, implementing a salary scale, and hiring good people. We are trying to set up our civil

service to sustain all of these things. Bolivia has better developed environmental institutions than do other countries, thanks in part to our U.S. debt reduction, which triggered several of the mechanisms now in place.

To conclude, Bolivia probably has made advances on the political front, and is most likely at the same level in its political and economic transformation. However, we need to place greater emphasis on the social sector. The idea that the model we are applying has social costs is a misconception. I believe that it simply brings to the forefront the costs of the mistakes that were made for many years. The only way a country like Bolivia can truly have social programs is to implement the necessary political and, particularly, economic reforms.

FERNANDO CAMPERO

In the first part of the 1980s, Bolivia experienced negative Gross Domestic Product (GDP) growth. In 1988, we had 2.9 percent growth, 2.7 in 1989, 2.6 in 1990, and 4.1 percent in 1991. We expect about 3.5 percent growth for 1992, considering the problems that Bolivia had with the agricultural sector in the eastern part of the country, which has been affected by heavy rains. The inflation rate was over 31,000 percent in 1985. It fell to 21 percent in 1988 and then came slowly down. Last year, it was 14.5 percent and this year, we expect 10.5 percent. This means that for 1992, we probably will have the lowest inflation rate in South America.

Investment/GDP came down to around 8 percent in 1985 and then started rising. Last year, the figure was over 15 percent. This year it is expected to be greater than 17 percent. Private investments grew by more than 30 percent last year. We expect this year it will grow at around 25 percent again. This means that after only six years, since the beginning of the adjustment, the private sector has started, albeit slowly, to react. Total deposits in the financial sector were less than \$100 million in 1985. This year we have just crossed the barrier of \$1.3 billion in deposits in the financial system. Those deposits are reflected through loans to the private sector, which rose from just over \$600 million in 1988 to \$1.4 billion in February 1992.

Bolivia has been able to reduce part of its debt from \$4 billion to \$3.4 billion; we have reduced not only the size, but also the most expensive part of that debt. Most of the debt today comes from bilateral or multilateral

sources on concessional terms. That means that the burden of the debt is much smaller today than it was three years ago. The debt was almost 100 percent of our GDP in 1988 and it was reduced to 68 percent in 1991; we expect it to decrease again this year.

Exports almost doubled in the last five years, and non-traditional exports, which were only 12 to 13 percent six or seven years ago are now roughly one-third of total exports. Bolivia's exports grew from \$600 million to almost \$900 million in 1991, rising from 12 percent to 18.5 percent of GDP. The outlook for this year is similar. The ratio of debt service to exports came down from about 40 percent to 24 percent last year. Imports also grew from \$590 million in 1988 to \$941 million in 1991. These imports are part of the process of investment in Bolivia. We are not a capital goods producer. The majority of new investments require new imports, most of which are capital goods. In 1989, net international reserves fell to \$36 million. Last year, they were close to \$263 million (at the moment they are \$320 million) even though it was an election year.

A question I asked myself when I joined the government four months ago was this: If the economic model that we have adopted gives the private sector a chance to develop, why is the private sector not acting accordingly? One of the reasons, according to academics, is that the process takes some time. I agree that is part of the answer. The government has paid the most attention to structural reforms, to the stabilization program. This is extremely important, yet it is not enough for the private sector to start investing in the country.

At the macro-economic level, all of the variables are moving in the right direction. We have implemented the reforms that the country needs. But at the micro level there are many inefficiencies, most of which deal with regulation--sometimes excessive regulation and sometimes lack of regulation. Inefficiencies also exist in many of the public services that we still offer, which have inappropriate tariffs. The inefficiencies of those services--such as transportation or energy--still place an enormous burden on the private sector.

There was no government ministry or institution to address those small details that can be extremely important for the private sector. This is now the goal of my ministry, which has been renamed the Ministry of Exports and Competitiveness. Competitiveness is not something that the government can create, but it can receive signals from the private sector and try to make the necessary changes at more specific microeconomic levels.

In our country there is a large informal sector. One of the factors that prevents the informal sector from becoming formal is the actual process of becoming formal. For example, it would normally require between two to three weeks, and visiting a dozen different places, to get ready to export. Many exporters told me that in that length of time they would have already lost their contact and would no longer want to export. This is just an example of the kinds of things that we, as economists, usually do not examine; we tend to focus on the broader issues. So, the government of Bolivia is responding institutionally by giving my ministry the responsibility of being a counterpart to the private sector, to listen to

them and find out what their problems are and then, through the cabinet, through the entire government, take the steps that can improve life for all.

We believe that Bolivia's savings capacity is far too small, that it is structurally small not only for our growth expectations, but also for the investment opportunities that exist in our country. We are not a sub-Saharan country, although most of our indicators are very close to those of countries in that region. We believe that Bolivia has many economic investment opportunities. First of all, our country's private sector needs to begin investing in our country. That definitely will not be sufficient, so we need to promote Bolivia aggressively abroad and convince or try to encourage U.S. investors to look at investment opportunities in our country.

We realize that this will not immediately affect, for example, the lives of the campesinos in the north and Potosí. But we see reactivating the northern part of our economy as one of the most important tasks we face. In the long term, the only way we can develop the resources to start distributing income in a better way is for the government to at least have the chance to produce enough resources to promote these types of policies. So, although we know that this is only part of a long process of development--or a trend--we see it as an extremely important part.

STANLEY FISCHER

When you look at Bolivia from a comparative viewpoint and consider anywhere but East Asia, the numbers are very impressive. The government's promotion of "Bolivia's quiet economic miracle, from hyperinflation to a stable economy" is quite justified. In comparison with Mexico, a country that gets a lot of attention, the growth rates in GNP are quite similar over the last few years. Since 1987, following the stabilization, Bolivia has had consistent growth in excess of 2.5 percent per annum, which averages 3 percent per annum and increased to 4 percent per annum last year. So, Bolivia is growing at a rate which, while not East Asian, is really quite respectable. Given the change in the estimated rates of population growth, it has had positive per capita income growth since 1987, averaging over one 1 percent per annum.

Now, that is not great, but that is very different from the standard Latin American picture of the first half of the 1980s and in many Latin American countries in the second half of the 1980s. Income growth is really the main element of the miracle, and it is something well worth commenting on and something that is not generally recognized internationally. Bolivia is not stuck. It has, in fact, been coming out and it has been coming out at an increasing rate. That is the first element of the miracle. The second element of the miracle is the terrific achievement in the stabilization of high inflation and then the steady decrease in the inflation rate, first into the 20 to 30 percent range and now, perhaps, successfully into single digits. Perhaps, at some point, Bolivia's inflation will come down to world levels.

Moreover, there has been impressive export performance, particularly in the non-traditional sectors, achieved along with a significant real devaluation, which was accomplished even while inflation was being decelerated. That is a neat treat. While Chile succeeded in producing a huge devaluation in the second half of the 1980s, inflation remained throughout that period at a much higher range (in the 20s). Bolivia has devalued in real terms and succeeded in reducing inflation at the same time.

There have been continuing reductions in the public sector deficit, which is now in the range of 3.5 percent of GDP, having come down after the stabilization from around 6 percent. Public finances are looking quite respectable, and the quasi-fiscal deficit, which was not that big to begin with (under 1 percent of GNP), is apparently slated to disappear. Those subsidies, if there are any, will be put in the regular budget.

There is dispute over how to measure per capita income. The numbers in the World Bank's world tables are terrible, mainly GNP divided by the exchange rate. As far as I can tell, that is almost the only incentive countries have to avoid overvaluing their currencies. So, I am opposed to changing to a purchasing power parity or some other such measure of per-capita GNP. It is clear that Bolivia deserves the support that comes with international development assistance. I hope that ways will be found to continue to provide that support through the World Bank.

Now, there is a disappointment in this story. The disappointment is private investment. Government investment has risen from somewhere around 6.5 percent of GNP to somewhere around 9 percent of GNP in the period since 1987. It has no doubt played an important role in maintaining economic growth and in the recovery of economic growth. But private sector investment fell from just under 5 percent of GNP in 1987 to 3.3 percent of GNP in 1989. Although there has indeed been a recovery at an annual growth rate of 35 percent, private sector investment is still only 4.5 percent of the GNP at present. So, the private sector is making remarkably little investment in Bolivia. I do not know what the underlying share of capital stock is in Bolivia, but it is quite likely that private investment is not even maintaining the existing stock of private capital and that the private capital stock may be declining, which is a serious problem.

We like to discuss how to make investment more efficient because it can lead to growth. There comes a point at which growth continuation and an increase in growth requires investment by the private sector because the rate of investment in the public sector is nearly overextended. I think the key to turning the Bolivian story into one that moves up closer to a 5 percent growth rate and, perhaps, even a little above that is the recovery of either internally-led or externally-led private investment.

My tendency is to say it always takes time. In Chile, private investment stayed quite low until about 1987 or 1988. It was not until about five years after the stabilization that there was real recovery of private investment in Chile. In Mexico, it is much harder to date the start

of the stabilization program, but it again appears to have been four to five years later that private investment recovered. That is not terribly encouraging for Bolivia because there is not a tradition of massive private sector investment to begin with. We are not talking about the recovery of private sector investment but about initiating private sector investment. Those little inefficiencies that were mentioned--the inadequate infrastructure, the excessive regulation, the inadequacies of the banking system, high interest for real interest rates--are all important elements of the story, but while their amelioration is a necessary condition, it is not sufficient.

The Ministry of Exports and Competitiveness will contribute to growth by focusing on these issues, but it will probably take more than that: another year or two of continued macro stability, continued respectable growth, and continued public sector investment because the infrastructure problems are severe. In addition, hopefully, foreign investment, prior to the emergence of private investment, could increase from 4.5 percent of GNP to about 8 or 9 percent. Eventually, public sector investment can start to be reduced. Presumably, Bolivia will be growing well again when investment is around 20 percent of GNP instead of the current 13, 14, and 15 percent, and when the majority of that 20 percent of GNP is private investment.

Bolivia is aware of all the problems that outsiders like to point to in the poverty area, the social sectors, and so forth, and of the need to improve programs in those areas. Bolivia is aware that measured unemployment rates are still very high, up around 18 to 20 percent.

Bolivia is also aware that the mortality rates and so forth are closer to those of sub-Saharan Africa than to Latin America. Much social sector investment needs to take place in a country that is still 50 percent rural. Similarly, a lot of educational spending has to be undertaken. Those are issues the government understands. Its ability to undertake them is related to its ability to raise tax revenues. That is an issue that was not touched on, and I think an indication of the tax reforms that are being instituted should be given, as well as of the share of taxes in the GDP, and of the prospects for raising a bit more revenue out of this simplified tax system. These are probably going to be essential for improving performance in the social sectors, which is very much needed.

All of Latin America at the moment is experiencing a phenomenal capital inflow that is putting pressure on exchange rates and leading to appreciations; Bolivia, too, is experiencing it a bit. Incidentally, that is part of the reason why inflation has been coming down. It has been helped along by the exchange rate movements, but it has not yet led to an inflow of direct investment; the money being brought in now is basically financial and fairly short-term as far as anyone can tell. So, the longer-term capital still needs to be imported.

The stories that are being told here are impressive, particularly in the development of the non-traditional export areas. The story could be enhanced if you were to compare Bolivia now with Chile six or seven years ago, and to discuss how bleak Chile looked in 1987, as if its reforms had failed and growth was not returning. I hope the ministers will expand on their complaints about the World Bank and the other agencies. As they

began, I thought they were complaining about there being too many missions and too intrusive a presence, which is certainly one of the standard complaints. At the end, I thought that maybe what the ministers were calling for was an increase in people in the field and a model more like the U.S. Agency for International Development's (AID). Also, do they want the external agencies to improve their coordination outside the country and then divide their responsibilities for dealing with the country in different areas once they enter?

SHANE HUNT

Bolivia's experience in the first half of the 1980s was so grim both politically and economically that, as we sit here and contemplate what has happened in the country over the last six or seven years, it is indeed a miracle. It is an economic performance that in a number of respects confounded the experts and produced results better than might reasonably have been expected, first, in its success at arresting hyperinflation and, subsequently, in its success over the last couple of years in getting the economy going. There are some reservations to be made in terms of how well the economy is doing but, nevertheless, the economic story is really quite spectacular.

The political story, I think, is equally spectacular. The Bolivia of the early 1980s was profoundly polarized politically. It was a country in which the absence of political consensus greatly helps explain the several years of political chaos in the late 1970s and early 1980s, and the incapacity of any particular government to sustain itself and put together a viable administration.

With the advent of hyperinflation in Bolivia, as in other countries experiencing hyperinflation, such as Peru, it seemed that there was a coming-together politically. This has been described by some people as social exhaustion. The "Bolivia is dying" speech of President Paz Zamora was so dramatic and so powerful in its impact at the time because it was a widely perceived reality that the Bolivian people had to come together and stop the political fighting of the past in order to save their country. That

was something quite similar to what has occurred in the case of Peru in the last couple of years. Guerrilla insurgents are not included in that generalization, of course.

As we contemplate the political evolution of Bolivia in this recent successful period of economic stabilization and recovery, I think it is worth noting with a sense of surprise the extent to which there seems to be a middle-of-the-road political consensus that gives the government space to operate and that has set aside the more extreme polarization of the past.

Is this too good to last? That is a question which needs to be asked not just with respect to Bolivia, but to Latin America in general. Latin American countries over the last ten years have gone through a process of economic restructuring that was politically impossible in the 1960s, the 1970s, and the early 1980s. Indeed, one might say that the reason Latin America has fallen into the debt crisis and has found it so difficult to adjust in the way that East Asia was able to do comfortably was that political polarization made it impossible to make the necessary adjustments. Now, it may be that, since these adjustments have been accomplished and since payoff has been provided by a new set of economic policies, a political consensus has been created to continue this approach and, in the case of Bolivia, stop inflation and get the economy growing again. Indeed, one hopes that is the case.

One also thinks of rumblings in other Latin American countries much more than in Bolivia. In particular, I think that all but the most expert scholar must have been shocked at the abortive coup in Venezuela last

February, shocked to recognize the reaction of the Venezuelan people who supported not just the idea of the coup, but the idea of a bloody coup of retribution of the kind that was almost pulled off. So, one wonders to what extent one can see that the Bolivian political spectrum has been changed such that the Bolivian people recognize the benefits of a new economic model, so that, if there are rumblings in the military, those rumblings will not reflect the approval of civilian society as witnessed in Venezuela.

To get more specific, where is the *Confederación Obrero Boliviano* (COB) today? Is it a force still to be reckoned with in the future, prepared to reassert itself as an advocate of a very different set of economic policies if there is the slightest stumble on the part of the current economic policy package? What does this mean for wage policy? Is it necessary to have rising real wages in order to forestall any resurgence of interventionist economic policy spearheaded by the labor movement? Can the economic model by itself, with the growth that we have seen, provide that real wage increase? Indeed, has that real wage increase occurred in the last couple of years, so that there will not be pressures for an arbitrary increase in wages, with its inflationary effects, as a means of trying desperately to buy continuing political peace?

As for lower level inefficiencies, I agree with Stanley Fischer that their elimination is a necessary, but not sufficient, measure for attracting investment. Investment comes back when investors are more certain about the future. It takes a long time of staying the course with a particular set of economic policies before investors develop confidence. Removing the lower-level inefficiencies is helpful in making life easier for

investors. It also indicates where the government is headed and reminds investors what the new economic model really looks like with regard to making life more agreeable and less difficult for business. It strikes me again with a sense of amazement that the government is prepared to tackle these issues. This is something that I associate with the work of Hernando De Soto in Peru. The most dramatic element of his work was his simple recounting of the number of steps and the number of months it took to create and legalize a business in Peru as compared to the amount of time it took in South Florida. In South Florida, I believe, it was four hours, but it was a matter of months in Peru.

This kind of grappling with the bureaucracy is something that I think all Latin Americans and visitors to Latin America have come to learn to live with, with a shrug of the shoulders. Yet, for newly arriving investors, unaccustomed to either shrugging their shoulders or finding the right fix-it person to help them out, it can be outrageous and frustrating. Investors can be easily deterred. It takes a government that is really looking carefully at what is going on, rather than spinning its theories in the sky, to be prepared to make that kind of commitment, to remove those lower-level inefficiencies. They may be low-level, but one can also call them entrenched. It is not easy to change bureaucratic practice to remove the inefficiencies and make life easier, not just for the investor, but perhaps most of all for the citizen of the country who lacks access to power and influence. That is the person who is most victimized by these inefficiencies.

The standard line one heard about Bolivia a few years ago, was that it had stopped inflation--a terrific job--but now the economy was relatively stagnant because interest rates were awfully high, prohibiting investment. It might be added that this was a country that overcame not just hyperinflation, but tremendous adverse, exogenous shocks to its export sectors. The Bolivian tin market collapsed and the natural gas production of Bolivia, which was the second most important export, was increasingly rendered ineffectual by the refusal of the only buyer, Argentina, to pay. So, export development, in the case of Bolivia, has had to overcome not just the macroeconomic difficulties that are associated with stabilization, but the need to develop new export sectors. What particular new exports have been successful in spearheading the export recovery that has occurred?

I also would be most interested in hearing more about tax recovery. According to Minister Quiroga, tax collection as a percentage of GNP has recovered from 2 percent to 9 percent. In the case of Peru, the only other country that I know of in Latin America that has had a similar collapse of the tax system through a hyperinflationary experience, tax collections have recovered from about 4 percent to 9 percent. Now, in the case of the Peruvians, 9 percent is not good enough. Perhaps that is because they are accustomed to having a larger public sector as a percentage of GNP, but the public sector at a 9 percent tax collection level in Peru is still tremendously compressed and does not permit recovery in the health and education sectors, which the Peruvians consider to be essential not just to the pacification of the country, but to sustain development.

KEVIN HEALY

Bolivia has an extremely dynamic non-governmental organization (NGO) sector by any standards, Latin America's or anywhere else's. There are over six hundred NGOs now operating in the country. These organizations have been good at organizing the local population, identifying resources, channeling resources from the outside, developing local leadership skills, and focusing on environmental as well as developmental issues. They have fine-tuned planning down to the local level by getting populations involved in planning strategies, particularly for micro-regional kinds of development. We usually focus on the national and regional roles, but now we are seeing through the NGOs micro-regional strategies for development, which are built on a much broader and, I would argue, a much sounder base for long-range changes.

The NGOs have formed their own associations on a regional, national, and sectoral basis. More and more we are seeing that there is interface between NGOs and state agencies, and increased incorporation of NGOs in new and old arenas for decision-making.

Mediation has long been a problem in Bolivia, especially between the public and the state, between political party institutions and the ministries, and between the large masses of Native Americans in the countryside and in the cities, which have grown enormously over the last three decades, and non-Native Americans. The NGOs represent another form of mediation that is very hopeful for this decade and the future. We see a greater effort at coordination among themselves and with the state agencies. There are

interesting examples of coalition-building for undertaking local development with state agencies, with NGOs, with foreign funders, and with grassroots organizations, which are increasingly becoming a model of change in these areas.

What we have seen in recent years is that large donors also turn to the NGOs as an efficient and effective channel that reaches the grassroots level and involves it in this kind of developmental role. Estimates show that as much as 40 percent of the foreign aid going to Bolivia in areas such as agricultural credit for peasants and agricultural extension is going through NGO channels. The NGOs have basically taken over in many regions of the country. Recent World Bank and Bolivian government plans have called for strengthening the research organizations associated with the Bolivian state and having them work together closely with the NGOs that are implementing the agricultural extension and credit programs.

It is also estimated now that between 20 and 30 percent of the health services in Bolivia are provided by NGOs. AID helped create a network of two hundred fifty NGOs to channel resources for health services in both urban and rural areas. The World Bank and European governments channeled enormous resources toward NGOs for public works programs and for employment creation. The Social Emergency Fund was involved in these types of programs. Currently, these types of programs are being administered by *El Fondo de Inversiones Sociales*. The United Nations (UN) works with over forty NGOs in school reform and adult literacy programs. Other funds are being set aside within the government: FONAMA (*El Fondo Nacional del Medio Ambiente*) is a new environmental

program directed by the Ministry of Agriculture to work through NGOs with Native American organizations. *El Fondo* is a new fund for indigenous peoples to deal with their developmental needs and projects as defined by them, with a great deal of local control and planning involved.

Another very interesting development is the help the private sector has given to capitalize a large bank that will channel money toward the informal sector in Bolivia. There have been tremendous public funds put up for this bank, *El Banco Sol*, but the private sector has also put in funds to help in the area of social needs and to support entrepreneurship in the informal sector.

Bolivia is also developing some elements of a self-reliance strategy that perhaps have been missing, particularly in some of the rural development strategies of the last three or four decades. Past strategies have often been based upon the assumption that all of the solutions had to come from foreign sources, because all the know-how was outside the country. With the downturn in the mining economy, the need for foreign exchange, and the problem with coca production, there has been an increased interest in agriculture. We have seen some expression of that in the discussion of non-traditional agricultural export expansion. Within that sector greater attention has been given to agriculture in the highland areas because this was not seen as a region with agricultural growth potential in the 1970s and in the 1960s when so many colonization programs were set up to move people from the mountain areas into the lowlands. We know some of the consequences have been expanded coca/cocaine production and deforestation. There are tremendous

population density problems in some areas of the highlands, but there are other areas that, with the proper developmental support, can experience impressive agricultural development.

The NGOs and the grassroots organizations are identifying more ways to be self-reliant; they are identifying local resources, technologies, indigenous knowledge, and sociocultural values that can be used to solve modern problems, basic human needs, agricultural growth, and so on. For example, there has been an interesting tapping of Andean knowledge through projects that are rediscovering and recovering knowledge for managing agricultural areas, highland areas, and the Altiplano around Lake Titicaca. Water and solar energy are being utilized more effectively by the peasant farmers through a raised field agricultural system around Lake Titicaca. This system now covers 150 hectares in the Altiplano, and utilizes solar energy for keeping fields warm at night to protect against frost damage, which has always been a hazard to food security in this area. They have also shown a way to avoid reliance on imported chemical fertilizers for these soils by recycling nutrients through streams that are created around these fields. They are using terrace farming as a way of soil conservation and tapping indigenous knowledge through archeology, anthropology, and foreigners working with national scientists in Bolivia. It is a very exciting development.

One example of the identification of Native American resources that are now relevant to the way the world is thinking about its problems is the attention being given to native tree species that have been ignored, not in the Amazon Basin, but in the highland areas. In this area of Native

American resources pertaining to the Andes, I recommend for your reading a book called The Lost Crops of the Incas (Washington, D.C.: National Academy Press, 1989). It identifies crops, shrubs, and trees native to this part of the world that are a part of the world's patrimony. This area is the home of premier protein crops such as *tarhui* and *quinoa*, which have contributed to the world agricultural food supply and to the diet of humanity. Many of these crops, shrubs and trees have been ignored by development agencies for decades. Obviously, the environmental movement comes into play here. The botanists who wrote this book were working in the late 1970s and helped show the way. There are now foreigners involved in Bolivia helping to identify local resources that can be more effectively tapped. That is an interesting switch from the point of view of development aid programs during their early stages, that solutions and knowledge came from outside and that everything inside had to be changed.

Another area in which there is a recovery of sociocultural values is Native American resources and language. Recently, the Bolivian Congress passed a law to recognize officially fifteen Native American groups and languages. Bilingual programs have been instituted in different parts of the country with different ethnic groups. It has been found that this has caused a drop in the desertion rate from schools. People develop more self-esteem and self-confidence. These are the workers of the future; they need skills and motivation and drive. Schools where students are taught first in their mother tongue and then in Spanish can produce these results. These school curricula also contain material to create awareness of their own values, their own local histories, and the local environment.

The president of Bolivia has agreed with the indigenous groups' efforts in the Beni region to affirm territorial rights for these lowlands populations. These people have been working with international environmental organizations to preserve rain forest areas, to protect themselves for survival, and to establish sustainable development schemes. This is a real breakthrough. Again, a coalition-building effort among NGOs, grassroots organizations, ethnic groups, the state, and international actors, both political and developmental, has helped Bolivia preserve its rain forest, protect the world's lungs, and also give these ethnic groups a real development alternative.

DISCUSSION

Please note that questions from the floor were not responded to in turn but were addressed in the longer replies given by the ministers at the end of the question period. (Ed.)

GUY PFEFFERMAN, The World Bank:

I was for many years chief economist for Latin America at the World Bank and at the IFC. I went to Bolivia five or six times during the 1970s. I cannot tell you how wonderful it is to see how well Bolivia is doing today. When we look at private investment and the supply response, one has to bear in mind that, next to Cuba and Nicaragua, Bolivia started off with the smallest private and manufacturing sectors of any Latin American country. It is a very, very small base from which to start. The extent of nationalizations was enormous compared to the rest of Latin America.

The speakers invited comment on what other countries are doing. There are a couple of areas that might prove interesting. One is Mexico's systematic deregulation effort over the past four or five years. It extends to many of the issues discussed here. For example, trucks could transport only one product one way and another the opposite way, creating a micro-level obstacle to trade. It would be very interesting to find out how they went about it. In Chile they introduced a hotline for people to call when they encountered microeconomic and institutional obstacles. For example, taxi service from the airport used to be a monopoly. As a result of people calling in, now any cab can compete to pick up passengers at the airport.

I was surprised that nobody mentioned the emergency social fund. Kevin Healy mentioned the *Fondo de Inversiones*; maybe that is its successor. Was not one of the reasons why Bolivia managed with a very tough stabilization program the fact that at the same time there was a highly visible effort to address some of the poverty problems at the micro-level? I think that what President Carlos Salinas is doing in Mexico right now is similar. He has an investment program in poor areas; he goes out every week and talks to people and is highly visible. I think it certainly helps sweeten the bitter pill of stabilization. I believe that what caused a lot of the trouble in Venezuela was widespread corruption in the government; of course, in an oil economy it is particularly easy for this to occur. Conversely, in Mexico, Salinas rarely gives a speech in which he does not mention what he is doing to fight corruption. Now, my impression is that this is not a problem in Bolivia. I believe that this is one of the reasons why the country has been so successful.

ROSA GARIBALDI DE MENDOZA, Embassy of Peru:

I would like to ask you how Bolivia's access to the sea, through the free trade zone in Ilo, is influencing Bolivia's economic recovery?

MARGARET DALY HAYES, EBR Associates, Inc:

What kind of investment does Bolivia want? What kind of investors are you trying to attract? In which sectors are you looking to have people invest? When I did some research in the mid-to-late 1980s for the Council

of the Americas, American investors or manufacturers who had been in Latin America for a long time observed very strongly that they were not going to invest in the region until the natives invested; they were no longer going to take the lead in investing, particularly under any kind of special circumstances.

In that vein, the ministers said very little about their efforts to stimulate investment within their own national private sector. Michael Porter argues, for instance, that there must be a demanding consumer, workers who are able to adjust to change, and competitive suppliers for industry and competition, not collusion, among firms within a region. I would like the ministers to comment on how they see the national private sector supporting this effort to grow and link to a foreign investor community.

JOAN NELSON, Overseas Development Council:

Another element of encouraging investment, both domestic and foreign, presumably is confidence in the political situation. Minister Quiroga has mentioned a number of reforms in electoral and other political institutions. Shane Hunt raised a question about the role of unions. I would like to raise a question about the orientation of the probable candidates for the presidential elections in 1993 and their ties with established parties, and the state of established parties. I have the impression that some of the long-established parties are in a bit of disarray. The question in my mind is whether the probable front-runners, if elected, are likely to have a party base in the legislature which permits a

governing majority. One cannot help looking next door at the pattern in Peru of a non-party candidate taking office and then having serious problems. It seems to me that this whole range of issues bears on investor confidence as well as on the long-run consolidation of democratic institutions.

MARIA OTERO, Acción Internacional:

Acción Internacional is associated with the creation of *Banco Solidario*, which Kevin Healy mentioned. I would be interested in your comments on the supervisory structure that was established in Bolivia, in part because in most of the countries in Latin America such structures have generally been missing from the banking sector. The *superintendencia* and the supervisory structure that was created in Bolivia has become known as one of the most effective.

LARRY TRACY, formerly with the Embassy of Bolivia:

Three or four months ago an article in the Washington Post indicated that Max Fernández, Bolivia's version of Ross Perot, had a fairly comfortable lead over Gonzalo Sánchez de Lozada, with Hugo Banzer trailing a distant third. What is the current state of the polling? How reliable is polling in Bolivia and, if Max Fernández is elected, do you foresee any sort of change in the economic development that has evolved over the last seven years?

JORGE QUIROGA:

We have found from our recent census that, like most of Latin America, Bolivia is becoming very urbanized. The previous census in 1976 provided a breakdown of 40 percent in the cities and 60 percent in the countryside. Now it is 58 to 42 percent, respectively. There are also more women in the cities, because they cannot do as well economically in the countryside and so they migrate to the cities. So now the focus of the government's actions will be on attacking poverty in the cities. Traditionally, all of the poverty programs have been geared to rural areas. Now the government finds that it has to do something in the urban areas. We have to work with mayors who may not be willing to work with the government. We are trying to develop programs with the World Bank and with the IDB to try to coordinate municipal efforts through our Minister of Urban Affairs.

Professor Fischer commented that the quasi-fiscal deficit is on its way to disappearing. Actually, it is not going to disappear. The "quasi" is going away and it will just be a fiscal deficit. The Central Bank is not a money-making institution. The money they lose or make is my money and they have to give it back to me, or I have to cover it for them when they lose it. We have a law that requires that. Now, in the budget, all of the Central Bank losses from interest rate fluctuations or CDs, for example, are passed on to the treasury because they are rightly a treasury responsibility. The first time we put it in the budget it caused an uproar because people always thought the Central Bank was a money-maker, and now they are losing money.

I was in charge of public investment for a couple of years before I took on this job. I always said that I was on a self-destruct mission because the importance of the job had to diminish over time. Private investment had to take a larger, more active role and public investment had to wane. In 1991, we got a sign of the things to come in Bolivia. Total investment in Bolivia was roughly 12 percent of GDP, or about \$600 million, in 1990. Of that amount, \$360 million was public; \$240 was private. In 1991, the total increased to almost \$800 million, of which about \$440 million was public investment and slightly over \$360 million was private investment. So, the pie got bigger by almost \$200 million and also the share of the private sector went up substantially. In dollar figures, it went up over 50 percent. So, there has been a reaction from domestic private investment. That trend needs to continue, but eventually, Bolivia has to get more equity flows from overseas, because there is a limit to what Bolivia can do. We do not have a tradition of a buoyant private sector in Bolivia.

Clearly, the high real interest rates are still hindering us. The government is doing its share in getting out of the financial markets and not crowding out the private sector. The rates on CDs in Bolivia in January 1991 were 17.8 percent. That is what the government was paying to get CDs in dollars. Now, we pay 7 percent. In eighteen months the rate has moved down drastically. There has not been a commensurate reaction from the banking system in Bolivia. We are still not pleased with this situation. The system is still an oligopoly; they all collude and the spreads are still too high.

El Banco Sol is charging high interest rates, but it has given access to credit to people who never had it before. Lowering the spreads is a question of providing access in these cases as well as in the formal financial sector. But if we look at the numbers, the spread keeps going up. The banks have more money to handle and yet their spreads widen. Something is definitely wrong there. They are making too much money, but this issue is part of the argument that we will continue to have. The key is to bring in foreign banks. I would love to see an American or a European bank obtaining money at 4 or 5 percent in the money market and lending it in Bolivia at 9 percent. It would be great for our private sector. The rates to the private sector right now are 15 or 16 percent for preferred customers.

On tax reform, the key is to formalize all of our revenues as taxes. Close to 8.5 percent of our GDP is tax revenue within our simplified tax system, and about 5.5 percent is hydrocarbons revenue, the money that we take from the state oil company as a tax without calling it a tax. This "tax" is a transfer that the oil company passes on to the Ministry of Finance for budget support. At the end of the year, we will have a system whereby what is effectively a tax is called a tax. This allows us to be more aggressive about opening up the hydrocarbons sector to private investment. We have opened up both ends, exploration and exploitation. We have opened up the retail marketing of hydrocarbon products, and must go further, but to do so, we must develop a tax framework that allows us to bring in private investment. If private investment enters the hydrocarbon sector right now, without a formalized tax in place, that

revenue would be lost to the Ministry of Finance. So, the tax must be formalized.

We also have to do some work to replace the gas revenue. Professor Hunt mentioned that Argentina was not paying its bills. To our surprise they have recently been paying because prices have gone down. It is amazing how, when the price is lowered, payment is made promptly. Over the course of two years, our revenues from Argentina have fallen to about 3 percent of GDP; we have to replace that with bonafide tax revenues. We had to raise the VAT (value added tax) rate from 10 to 13 percent last year to do that. Now, we will continue to work to broaden the tax base and try to be creative in the tax office. For example, we are using private law firms to collect the tax revenues that we could not collect over the last five or six years. There is a common phenomena in Latin America that when a public sector employee with a low salary tries to collect a big chunk of money from the private sector, it just never happens. But if the government hires a private law firm to do it on a commission basis, it will be collected.

The change in the role of the state requires a change in multilateral institutions. The days are long gone when we were building two roads, three dams, and four big factories, and when officials could come down four times a year to write a check to the suppliers. Now, we are talking about labor-intensive health programs, education programs, water programs, and sanitation programs that require people to be on-site. A mission should conform to the government's priorities. Sometimes there were missions for projects we never asked for, solely because there was an

expert at a bank who had to do some work in Bolivia. Whether a country wants it or not, its gets that help. We have done a lot of good planning with the IDB and the World Bank by saying: 'This is what Bolivia wants to do and would you please help us do this, and no more.' We have made strides.

Bolivia is not looking for the AID type of model. AID has about one and three-quarter persons per million dollars that they give us. The World Bank has, I think, three for \$70 million. Those extremes are not necessarily the best. We have to look for a happy medium and have decentralized authority. I do like the way the IDB operates with decentralized authority, but it should come with the flexibility to shift more rapidly, which does not always happen in the case of AID. This is not just the case in Bolivia. This happens everywhere. When a country begins health or education programs, and has to send the proposals to Washington five times to get them approved, it spends more money on faxes than on the projects themselves. That is the key point.

When they shape up economically, big countries like Mexico or Brazil receive private investment. Countries like Bolivia need the IDB to be a catalytic element by lending directly to the private sector with guarantees from our government. We support this role strongly and it is something that we are constantly discussing with the IDB. Other countries do not need it; Bolivia definitely does. We have, for example, massive gas export projects to Brazil and Chile that require IDB involvement. It seems like the IIC, for example, is too small to do the large projects and too big for the

rest of Bolivia. So, it is caught in the middle from a Bolivian standpoint. Therefore, we need to do some creative work along those lines.

The IDB has two sources of money, soft FSO (Fund for Special Operations) money and ordinary capital. Ordinary capital is expensive for the government: 8 percent does not get us very far when we are building roads in Bolivia or doing health projects. It is great for the private sector as long as the loans do not need to be guaranteed. We can use the FSO funding to carry out essential programs. This is money provided at a 1 to 2 percent rate of interest over forty years and this is what Bolivia needs to negotiate with the IDB and the multilateral institutions.

There is consensus in Bolivia on two things. One is that, in order to govern, the president has to have the support of a majority coalition in Congress. We have seen what happens in other countries. I think their experiences demonstrate how coalitions need to develop to form a working government. Number two, in discussing the budget, all of Congress knows that when we say there is no more money it has to make cuts somewhere else. In the old days, when we said there was no more money, they said, 'Well, let's go to the Central Bank.'

As to military discontent, some overdramatized bits of news reach the United States because those are the events that make headlines. When there is military unrest the press publishes humongous headlines. Unfortunately, there are no headlines that say Bolivia is doing well. Military discontent is not a problem in Bolivia. I have been in meetings between the High Command and the president when they are requesting

outrageous amounts of money from the budget. We just tell them that we do not have it and they understand. They are even involved in our privatization program. They control many of the enterprises that we are selling and the military is working with us. I think they understand that it is better to have thirty planes that are working, rather than eighty that are not working and while complaining that they do not have enough money to buy the spare parts. They also realize that it is not good to have ten lots of land not being put to use. It is better to have one and build an engineering school on it, rather than have an idle ten. So, I think they have matured in that regard. Frankly, I have more problems with the police. They used to handle the customs offices on the frontier. We took that away from them and we are setting up a special customs office. They are suing me over that.

The strength of the workers' unions has diminished considerably. I spent nearly seventy hours over the course of a week in January arguing with them over the privatization program. They were on a hunger strike. We explained our policy, they voiced their disagreement, and we agreed on the procedures. So, that is the level they are at. They go on a strike and then have to look for a way to bail out. Our wage policy is applied in the public sector. Wages are increased once a year based on the inflation in the program for the year and the budget for the year.

As for the NGOs, they can be very helpful to Bolivia. But just like everything else in life, there are good NGOs and there are not-so-good NGOs. The key is for them to coordinate their actions and work with the government. Some of the European NGOs, in particular, used to provide

help in a country even when they did not agree with the fact that the country did not have a democratic government. I think that was how they used to work in Bolivia. Those days are gone. In Bolivia we now have democratic discipline, and aid should be channeled in view of government priorities. For example, the NGOs created problems in the rural credit programs in Bolivia. There were programs in which the cheaper the cost of money obtained through the agricultural bank, the less was paid back. We closed down the four state banks; they were \$100 million in the red. We are working with them and they now understand the programs that Bolivia is taking on and the fact that, when lending money, it should be at market interest rates. NGOs can offer technical assistance for infrastructure, etc., but they must try to help maintain the discipline that the government is trying to instill. All new loans are for the social sector and infrastructure. The key point is how to help the Ministry of Health and Education, and the Ministry of Urban Affairs, to absorb the resources that we are trying to mobilize.

Regarding the comments from the audience: Widespread corruption is definitely a problem that has not disappeared in Bolivia. We have passed what is probably the sternest public administration law. The Argentine president was frightened when he saw it; he said he would never have done that. What helps most is freedom of the press. The press does investigate in Bolivia. Of course, one minds when they go to your office and say things that are not totally true; but one does not mind the global perspective that they are taking in their investigation because it is and will continue to be healthy.

In which sectors are we trying to attract investment? I heard Michael Porter speak once in White Plains, New York, about competitive advantage. I thought it was a brilliant talk. I wrote everything down, went back to Bolivia, and I realized none of it applies to a country like Bolivia. It applies to Japan with respect to the U.S. With only 6.3 million Bolivians, it is hard to take the approach of developing a supplier network and to take seriously all those wonderful ideas Porter has about how to develop the economy. Regarding integration schemes, I would say our biggest problem is that they are way behind what Bolivia is trying to do. I remember one time when someone from the Foreign Ministry went to an Andean Pact meeting and came back very proud that he had managed to negotiate a common tariff at 22 percent--when ours was 10 percent.

The candidates are allied with established parties, which are alive and well in Bolivia. The political pact that was signed last week was definitely a sign of that. The difference between a non-party candidate like Fujimori in Peru, for example, and candidates in Bolivia is that, in Bolivia, unless a candidate receives 51 percent of the presidential vote (which is just not going to happen) he or she has to build a majority in Congress. By definition, a candidate has to have a guarantee that Congress will help carry out his or her programs. The Bolivian Congress has been very good to us by not enacting every law that the World Bank, the AID, and the IDB want. Recently, of fifteen laws, only four were enacted; four major laws per year is pretty good for a Congress and that is how we want it to stay.

The regulation of the banking system works. Of course, it must not make the banks less profitable; it must not force them to lower their interest rates. This is the government's duty to ensure, as is attracting foreign banks to Bolivia. The system of regulation certainly works very well. Our challenge now is to try to develop the same regulatory framework for the insurance industry, for the stock market, and for capital markets--bonds, stocks, etc. We are trying to do this so that the same type of framework will be applied to all sectors.

Finally, a comment was made on the reliability of polling. It is as reliable as it was in Denmark when they predicted incorrectly that Denmark would vote for entrance into the EC (European Community). It is as reliable as it is anywhere else in the world. It is certainly something that in Bolivia is and will continue to be increasingly used. Polling poses difficulties because the idiosyncrasies of Bolivians are such that they tend to distrust the people who are asking questions, particularly if they look different. In the year before elections polls are not too reliable. Someone mentioned that we have a local Ross Perot. It, in fact, is the other way around. We had ours first. But it is the same type of mentality, and the Bolivian polls right now are just as good as the U.S.'s were in November of last year and just as good as the U.S.'s are today.

FERNANDO CAMPERO:

There was a question as to whether local or foreign investors would initiate the investment process. Except for the hydrocarbon sector, we are definitely counting on the local business sector to start investments in our

country. I have found a certain dual attitude in the local private sector. Businesspeople tell you that they do not see the future as being very secure, yet recently they have been investing everywhere. Most likely the private sector in Bolivia still somewhat fears being the most important actor in our economy. About thirty-five private entrepreneurs came with us to Washington and they are going to be present at our meeting tomorrow. They also will be talking to foreign investors.

I agree that investors return when there is more confidence in the future. Private sector investments cannot come back in Bolivia because they were never there. Investments have traditionally been made by the public sector. So, Bolivia really needs to start building a private investment culture, and we are. As to what kind of investments, any investment would be good. We have selected five sectors--light industry, agro-industry, agriculture, non-traditional mining, and tourism--because we think that there is great potential in our country for these kinds of products and services. The private sector was exporting 10 percent of all exports six years ago; now, it is exporting 40 percent.

The most active sector is the agricultural sector, representing about 50 percent of non-traditional exports. These are soy beans, soy bean oil, some other products from the soy bean, and other new agricultural goods. We are also exporting leather. We are exporting textiles, many to the United States. Five years ago, Bolivia did not export one penny of textiles to the United States or anywhere. Today, we are exporting textiles for Giorgio Armani, for example, made in Bolivia for some European markets. That is something that one never would have thought of five years ago.

There is also potential for wood products. INPEX (*Instituto Nacional de Promoción de Exportaciones*) is a national export promotion unit. The government is restructuring it and we hope to do something similar to what Chile did to try to help exporters find new markets.

As you know, we are a member of the Andean Pact. The pact is very weak at this stage because of the positions of some of the member countries. But Bolivia will not leave it; we will remain a member. Bolivian exporters have developed very interesting markets in Peru and in Colombia. But in case the pact dies, we are prepared and we have already talked officially to countries like Peru and Columbia to establish bilateral agreements. We believe that in the long-term, for a small country like Bolivia, bilateral treatment from a commercial relationship is much more advantageous than from a trade bloc. For example, without belonging to MERCOSUR, we have a treaty with Brazil that exempts more than six hundred products from import taxes in Brazil. We are certain that we can increase that number, at least, without being part of a bloc like MERCOSUR.

If Bolivia does not start growing at rates of 6, 7, or 8 percent per year soon, then I would say the political situation could become quite unstable in the next five or six years. So it is extremely important for our country to start growing--not only in the modern part of the economy, but also in the poorer sectors. That is why we definitely need private investment and international cooperation, which are still important for the basic roles of the state--building infrastructure and providing basic services such as health or education. So, we desperately need both.

Ilo is a port in Peru that has been given to Bolivia by the Peruvian government for a period of 99 years. We expect to use that port as a corridor for exports and imports. The investments required to build the port are enormous. First of all, we need to build a good road to Ilo. Second, we need infrastructure at the port itself, which probably will have to be undertaken by the private sector. It is extremely important to our economic recovery.

Finally, the emergency social fund was a key institution during the first phase of the adjustment process. A lot of resources were channeled to a great number of people to help them enhance their temporary income. On the other hand, it helped maintain the image that the government was not only worried about adjusting the economy, but also had some social sensibilities. The emergency social fund has changed into a social investment fund, which has many more programs that are focused on impoverished groups and project improvement. Furthermore, the financial situation is now tighter; these are not "emergency" funds as they were at the beginning.