



**BOLIVIA, ECONOMIC PERFORMANCE AND SOCIAL ISSUES
FROM THE 80'S UP TO DATE.**

**DOCUMENT PRESENTED FOR THE TASK FORCE ON
NATIONAL STRATEGIES FOR SUSTAINABLE DEVELOPMENT**

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STRUCTURAL REFORMS

1. In the 1980's Bolivia suffered from major external shocks, including the rise in world interest rates in the early 1980's, the cutoff in lending from the international capital markets, and the decline in world prices of Bolivia's commodity exports. But the extent of economic collapse in the face of these shocks suggests that internal factors as well as the external shocks have been critical to Bolivia's economic performance. The Bolivian hyperinflation of 1984-85, running at the astounding rate of 24,000 percent per year, was one of the most dramatic inflations in world history, is the only 20th century hyperinflation that did not result from the dislocations of war or revolution.

2. The output grew by -1.7 percent, the fiscal deficit was nearly 11% and the official international net reserves could only buy two and half months of merchandise imports at the end of 1985.

3. Bolivia has made a major effort to maintain and develop its democracy, consolidate macroeconomic stability, and carry out structural reforms designed to open up the economy and raise economic growth and the well being of the population.

4. The structural reform process began in 1985 with the implementation of the new economic policy, which deregulated prices, interest rates, and the exchange rate, opened up the economy, introduced fiscal discipline, allowed free movement of capital, and pursued a monetary policy geared to price stability.

5. Major reforms included streamlining the tax system—by reducing the number of taxes, simplifying collection procedures, and broadening the tax base—and reforming the

financial sector with a view to increasing its efficiency and competitiveness. The Investment Law, together with the Mining Code and laws on Oil and Gas, Exports, Property and Popular Credit, Concessions, Bonds and Insurance, the “Heart” Law that will allow a greater integration among countries of the region, as well as laws on forestry, the environment, water use, and capitalization paved the way for a substantial flow of domestic and foreign investment as well as for privatization of public enterprises governed by the Sector Regulation System. The recently passed Customs Law is designed to support a broad reform of the customs department.

6. Social reforms were introduced at the same time, notably the education, health and pension reforms, the basic sanitation and social infrastructure programs, citizen participation, and decentralization of government administration. Political and administrative reforms were also implemented, which included the creation of the Constitutional Court, the Magistrates' Council, and the Office of the Ombudsman. A Civil Service Statute was adopted, aimed at improving the professional level of the Civil Service and establishing rights for public sector employees. A reform of the judicial system is under way, which will see the promulgation of new codes for Criminal Procedure and Civil Law Procedure.

7. Implementation of structural reforms has significantly altered the role of the main economic agents. The private sector has acquired a predominant position in economic activity, while the public sector is now focusing on its normative, supportive, and regulatory functions, as well as on road building, basic sanitation, education, and health as key ingredients in poverty reduction.

THE ECONOMIC PERFORMANCE

8. The reforms have boosted economic performance. In 1998, output grew by over 4.7 percent attaining the greater economic growth in South America, while domestic savings were equivalent to 12.1 percent of GDP and private investment to 14.1 percent of GDP. This performance was achieved thanks to higher levels of domestic and foreign investment, increased exports, and a rapid growth in agro-industry, mining, manufacturing, and services. The steadfast implementation of structural reforms contributed to a surge in foreign direct investment, reflecting in part the construction of the gas pipe line to Brazil and investments undertaken by the entities transferred to the private sector under the capitalization program.

9. Growth would have been even higher if Bolivia had not had to face various natural disasters and a significant deterioration in its terms of trade, estimated at 38 percent for the decade.

10. Gross official international reserves rose to the equivalent to nearly seven months of imports by year-end, and a competitive exchange rate was maintained. However, preliminary indicators of economic activity in 1999 signal growth of 1%, reflecting the effects of the recent international crisis, in addition to inflation of 3% and a fiscal deficit of 4.1%, due almost exclusively to the pensions reform. Regarding the external sector, it is expected that the deficit in the current account will represent 6.4% of GDP financed entirely with direct external investment. These statistics reveal that the domestic economy continues to be highly vulnerable to international economic shocks resulting from the high degree of dependence on raw material exports from primary sectors (agriculture, mining and hydrocarbons).

11. Gross official international reserves have risen steadily in recent years, from five and half months of merchandise imports at end-1994 to seven and half months at end – 1998. At end-1998, gross official reserves were equivalent to about 95 percent of the domestic and foreign short-term liabilities of the central bank..

12. Even though the improved macroeconomic performance, a large part of the population still depends on precarious jobs, bad health conditions, low levels of education, low levels of labor productivity, in both urban and rural areas. This partly explains why approximately 70 percent of the population are poor and 38 percent live in extreme poverty.

NATIONAL DIALOGUE 1997

13. To tackle this situation, in October 1997 the Government convened a national dialogue to agree on the objectives and state policies that would be pursued over its administration. Representatives of the business community, the Church, labor and civil society organizations, universities, NGOs and the government and opposition parties took part in this event. Despite some shortcomings, this dialogue produced various positive outcomes, principally an agreement to foster a program to reduce poverty and boost economic growth. Those agreements led to the Operational Plan of Action 1997-2002 (OPA) based on four pillars: opportunity, equity, dignity, and institutional reform.

THE PILLARS OF THE OPERATIVE PLAN OF ACTION 1997-2000 (OPA)

14. The OPA reach a level of growth to set the foundations for an effective reduction of poverty, through a more egalitarian distribution of its benefits, by the following pillars:

Opportunity

15. Focuses on fostering economic development and improving the distribution of income within a framework of stability, increasing domestic savings, and improving economic infrastructure in order to increase competitiveness.

Equity

16. Entails focusing actions on poverty reduction through policies and programs directed at education, health, housing, the provision of basic services, and projects aimed at raising productivity in rural areas.

Institutional reform

17. Seeks to generate the conditions required for transparent relations between the government and civil society in order to ensure that policies are sustainable. This pillar also includes government efforts to modernize the State and fight corruption.

Dignity

18. Refers to the effort to free Bolivia once and for all from the coca-cocaine circuit and the stigma attached to it.

Environmental Policy

19. The objective of the Bolivian environmental policy is to preserve the physical base of the natural resources, and the environmental quality.

20. The actions forthcoming from this objectives are designed within the framework of the improvement of quality of living through a healthier environment, the fight against poverty and improvement of the Human Development Index of the population, the reduction of threats to human health and to the productivity of the ecosystems, the respect

to socio cultural elements of all the human groups in our country and the combined use of instruments based on the market as well as instruments of command and control.

21. The specific objectives of environmental management in the area of Basins and Land are: the integral and sustainable use of resources water and land; in Biologic Diversity the integral, participative and sustainable use of the resources and the ecosystems of the country; in Management of Environmental Quality, impact evaluation, control and monitoring of environmental quality throughout the country; finally, in Management of Forest Resources the specific objectives are the implementation of the national forest regime and of the technical instruments for the sustainable use of forest resources.

22. This objectives are searched on a consensus of cross sector application of environmental variables, citizen participation and decentralization. In the area of environmental quality the Institutional Network of Environmental Quality is underway.

UDAPE AND THE SUSTAINABLE DEVELOPMENT STRATEGY

23. The Unit of Social and Policy Analysis (UDAPE) due to its transversal and multi sector role, performs an important labor of evaluation and monitoring of rules and policies designed for the Strategy of Sustainable Development, as well as its expected impacts. This is done through the evaluation of indicators and the participation of its analysts specialized in social and economic areas.

CITIZENS' PARTICIPATION AND ADMINISTRATIVE DECENTRALIZATION

24. The Citizens' Participation law and the law on Administrative Decentralization of the Executive Branch, which have special provisions promoting citizens' participation as

well as improvements in the distribution of income at the local level. The Citizens' Participation law transfers powers and resources to the municipalities and grants legal status to all the regional organizations. The Administrative Decentralization law also transfers and delegates technical and administrative powers to the departmental Prefectures.

25. In the five years since these two laws have been implemented, measured in terms of the objectives set forth it has been possible to correct a large part of the skew which was present in the allocation of public co-participation resources by distributing on a per capita basis. Civil participation has also become much more significant as approximately 14,000 Technical Organizations of Base (OTBs) and 311 Vigilance Committees have been formed.

26. Several mayors have been removed for discretionary handling of public funds which shows the advances on social control mechanisms. With respect to resource allocation, municipal investment in basic social services has increased in recent years.

27. Although this system of decentralized public administration has achieved improvements in participation, resource allocation, the provision of services and improved control of public spending, it is necessary to step forward in this process in terms of equity, municipal administration and the provision of basic social services.

28. **Improving equity.** The horizontal equity needs to be complemented with a compensational allocation of resources to regions characterized by high levels of poverty and low population density. In that context, the co-financing policy becomes an important factor through which the national government intends to introduce equitable vertical distribution (allocation of funds based on regional needs) in health, education, basic sanitation, and roads. To that end, a Unified Fund Directory will establish how the Investment and Development Funds can offer co-financing facilities in an orderly manner with the priority of reducing poverty in the country.

29. **Efficiency in the provision of social services.** In order to guarantee that supply meets local demand, the processes of participatory planning will be strengthened and implemented through Municipal Development Plans (PDMs), Annual Operative Plans (POAs) and Municipal Institutional Development Plans (DIM) under the responsibility of the Viceministry of Strategic Planning and Popular Participation. These plans and their results will be subject to monitoring and evaluation to increase the efficiency of their administration.

ACTIONS TO REDUCE POVERTY

30. The government prioritized **social spending** and began implementing programs aimed at alleviating poverty and improving the living conditions of the population. The share of public investment outlays directed at poverty reduction rose from 18.5 percent of all public investment in 1990 to 60 percent in 1999. This was made possible by the transfer of productive activities from the State to the private sector, thus freeing resources which could be redirected principally to social sectors and transportation infrastructure.

31. Also, Bolivia is part of the **Debt Initiative for Heavily Indebted Countries** (HIPC), whose purpose is to provide a final reduction in foreign fiscal debt, to promote growth and substantially reduce poverty, freeing resources initially programmed for debt service and directing them towards social programs targeted to the most vulnerable groups. For a country to be eligible, must have a good performance on programs of structural reforms and adjustment supported by the IMF and the WB, and a high level of external debt according to the debt sustainability analysis. Also, the beneficiary must fulfill certain performance criterion that include macroeconomic, social and structural reform progress indicators.

NATIONAL DIALOGUE 2000

32. The National Dialogue of 1997 has enabled government policies to become State policies, generating positive expectations in organizations involved in international cooperation given that these organizations are working under a new scheme of social conditionality for access to resources such the Heavily Indebted Poor Countries (HIPC) initiative, and the Consultative Group. It is expected that his will create a favorable international context for relaunching the National Dialogue 2000.

33. Based on this important experience and with the aim of constructing a Strategy for the Reduction of Poverty with full participation of the principal social and political actors, including the political opposition, a National Dialogue 2000 will be convened with the following objectives:

- to transform initiatives into State policies aimed at promoting growth and reducing poverty, on the basis of agreements reached between the government, the opposition, and civil society;
- to strengthen civil society trust in this instrument;
- to prioritize the use of resources for poverty reduction; and
- to institute a participatory body in charge of following up on and monitoring commitments made in the course of the National Dialogue.

34. At the present time, the participation of NGOs and private entrepreneurs has been assured and discussions are underway to include the Church and political parties of the opposition. International cooperation in conjunction with the public sector will prepare financial funding for the principal programs of social development.

FOLLOW-UP AND MONITORING PROCESS

35. Follow-up and monitoring of the structural reforms and the Strategy for the Reduction of Poverty will take the form of **tracking social and poverty indicators**, as well as others measuring the impact of programs and efficiency in the use of resources. This information will be made available in the framework of the next National Dialogue and international cooperation in order that the political class, civil society, and foreign donors and creditors are fully informed on progress being made and bring in their suggestions.

36. In order to attain those objectives, the following activities are being studied:

- nationwide, on-going surveys will be conducted on the quality of life and specific surveys will be performed to monitor poverty and its causes;
- a regional information system will be strengthened at the departmental and municipal levels;
- in the social sector, existing information systems in the Ministries of Education (SIE) and Health (SNIS) will be strengthened, and a new information system will be created in the Ministry of Housing;
- an attempt will be made to improve the information available in the Departments and Municipalities regarding budgets, social expenditure, and social sector indicators;
- data on the national budget, social expenditure and public investment, which are currently kept by the Ministry of Finance, will also form part of the information system, and
- follow-up will continue using indicators agreed upon at the Consultative Group.

37. The institution responsible for coordinating, revising, and disseminating the information will be the National Institute of Statistics (INE). Analysis of social data and evaluation of how well the strategy performs will be coordinated by the Social and Economic Policy Analysis Unit (UDAPE), with the participation of INE and the economic and social sector ministries. The results of the follow-up analysis will be made widely available to civil society in order to encourage it to continue participating in the operative phase of the poverty reduction strategy.