BOLIVIA

"The laboratory mouse of international institutions"

This is a country with a long history of signing international agreements that have been presented as solutions to the economic and social crisis that has devastated much of the developing world. Unfortunately, the policies it has introduced to implement these agreements efforts have not led to the structural changes necessary to improve living conditions for the impoverished majority.

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In March 2005, ministers from developed countries gathered with directors and officials from aid organizations to reaffirm the commitment they had made in Rome in 2003 to harmonize and align their development aid. The delegates established five principles for assistance: ownership, alignment, harmonization, management geared to results and mutual responsibility.

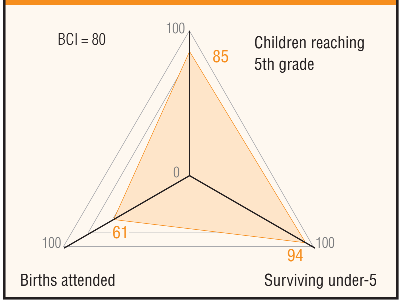
This initiative is part of a broader strategy promoted by international lending institutions and creditor nations in response to widespread discontent with policies they had promoted in indebted countries and the economic crisis these countries are mired in. Two earlier iterations – the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief – have produced very controversial results in the countries that have 'benefited' from them. Rather than bring the prosperity the creditors had promised, the policies they imposed have renewed the cycle of debt and dependency. Bolivia, a country that implemented these policies and was bailed out, is an extreme case, but a similar process has unfolded in many other developing countries – Latin American and Caribbean countries in particular.

Brief overview of aid to developing countries

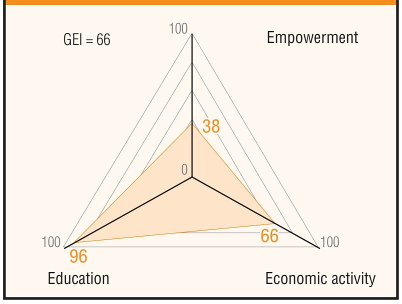
In the 1970s, private money poured into developing countries (Chart 1) far faster than foreign government and institutional lending.[1] Most of the private loans went to oil exporting countries. The gap between net private and official flows narrowed during the global recession and external debt crisis of the 1980s. In the 1990s the net official flow dwindled once again while net private funding flooded in, averaging USD 125 billion a year between 1990 and 1994. This was 40% faster than the official flow and 220% more than the net private money that streamed in annually during the last five years of the 1980s.

Between 2000 and 2005, the disparity yawned larger than ever. On average, net private flow reached almost USD 297 billion per year, around ten times greater that the net official flow during the same period.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Latin America and the Caribbean

Net private and official flows to Latin America and the Caribbean (LAC) followed a similar pattern, with some differences: structural reforms in LAC countries that reduced barriers to free flow of goods, services and financial transactions and privatized state companies, attracted heavy foreign direct investment. This accounted for much of the net private capital coming in.[2]

In contrast, capital flows from governments and international institutions tailed off during the same years, from an average of USD 4 billion annually in the early 1990s to little more than USD 1.5 billion between 2000 and 2005. This was far less than the sums they pumped into other developing countries, particularly in Africa. In 2004 and 2005 net official flows were actually negative (USD -5.5 billion and USD -33.3 billion, respectively) – which meant their financial contribution to development in the LAC countries was negative as well.

These patterns suggest two issues in Official Development Assistance (ODA) that merit debate and reflection. First, if its purpose is to improve living conditions in developing countries, the harmonization and alignment initiative is attempting to level a mountain by removing a few stones. It does nothing to regulate private capital, which weakens economies more than any other factor. Whether invested in the financial, commercial or industrial sectors, it takes advantage of the poverty of developing countries to extract their economic surplus and at the same time makes them vulnerable to external shocks.

Secondly, if we consider the legitimacy crisis enveloping institutions like the International Monetary Fund (IMF) and the World Bank and the liquidity squeeze among multilateral banking and bilateral organizations, the major role these lenders have been awarded by the Declaration of Paris seems questionable at best.

In the current environment, alignment of external resources does not seem so necessary. LAC countries would benefit far more from national strategies that help them manage resources more efficiently than from policies that encourage them to increase their debt.

The case of Bolivia

Bolivia has a long history of following alignment and ownership policies that have not included the kind of structural changes necessary to improve the living conditions of the overwhelming majority of its population.

In response to the political, economic and social crisis of the 1980s, the State introduced a variety of economic initiatives. To deal with a crushing foreign debt, it suspended payments to 127 creditor banks and asked the IMF for a standby agreement that would provide access to new external funding to support stabilization policies, primarily multilateral and bilateral financing.[3] The IMF laid down a series of conditions that would have to be met before international organizations opened their check books. Bolivia agreed to them.

1 This considers the debt flow of private creditors, Foreign Direct Investment and the stock investment portfolio, all of them in net values.

2 Figures from *Global Development Finance 2006* show that in the 1980s on average Foreign Direct Investment to LAC was USD 6 billion, while in the 1990s and early years of the 21st century, it was USD 38 billion and USD 60 million respectively (all net figures).

3 *La Intencionalidad del Ajuste en Bolivia*, CEDLA, 1992.

CHART 1. Net external financing. Annual average during the period, USD billions

	Towards developing countries						
	1970-1974	1975-1979	1980-1984	1985-1989	1990-1994	1998-2000	2000-2005e
Net private flow	11.98	44.97	54.02	38.97	124.81	195.1	296.98
Net official flow	7.67	17.72	31.59	33.6	51.67	42.2	25.44
	Towards Latin America and the Caribbean						
Net private flow	-	-	-	-	49.98	93.3	58.26
Net official flow	-	-	-	-	4.05	3.3	1.66

Source: Based on information produced by the Latin American Economic System (SELA) and the *Global Development Finance 2006* (GDF) Report, World Bank.
Note: The data registered between 1970 and 1974 is by SELA; figures between 1998 and 2005 are from the GDF Report.

The standby agreement and others that complemented it could be considered the country's first alignment experience, since they helped establish parameters for multilateral and bilateral financing. The State agreed that the new capital would be spent primarily to support the stabilization policies and secondarily to promote structural reforms. One example was the introduction of macroeconomic policies designed to eliminate the balance of payments deficit. Toward the end of 1986, Bolivia signed a Structural Adjustment Facility, followed a few months later by an Enhanced Structural Adjustment Facility. These agreements gave Bolivia access to credits for investments in road construction, telecommunications, trains and electric energy, as well as for financial sector reforms.[4]

These measures and similar ones in other developing countries failed to alleviate the profound social crisis. In response, the wealthy nations developed the Structural Adjustment and Poverty Alleviation Facility of 1999, once again billed as a way for developing countries to generate sustained economic growth and reduce poverty. Other initiatives have followed, including the Millennium Summit, which established the Millennium Development Goals, the High Level Forum on Harmonization in Rome and the Paris High Level Forum.

Bolivia has subscribed to all of them. By now it has vast experience in policies meant to harmonize aid for development. As an official of the Sub-Ministry of Public Investment and External Financing put it, Bolivia is the "laboratory mouse of international institutions that try out new modalities for combating poverty".[5] So far, none of the modalities have achieved their goal. Poverty remains pervasive. ■

4 *Ibid.*

5 De Grave, Jennie (2007). *Estado Boliviano y cooperación internacional: malestar, responsabilidades, aperturas.* Available from: <www.revistadesarrollohumano.org/noticias-0150.asp>.