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Summary:

This paper discusses the implementation of the Heavily Indebted Poor Country (HIPC) initiative in Bolivia. It has been agreed in principle that the debt relief funds should be channeled to municipal governments in order to strengthen the ongoing decentralization process and to secure maximum poverty reduction effect. If everything goes according to plan, the HIPC initiative could have a substantial effect on poverty in Bolivia.

However, the entire project builds on some very optimistic assumptions regarding the performance of the Bolivian economy during the next 18 years. If these optimistic assumptions do not hold Bolivia will not reach the target debt/export ratio of 150. Even worse, if economic performance does not live up to expectations, there may be half-finished investment projects (roads, schools, hospitals, etc.), which cannot be completed and maintained, because the central government won't be able to deliver the funds that the donors have committed them to deliver to the municipalities.

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1. Introduction

Recognizing that the external debt situation for a number of low-income countries, mostly in Africa, has become extremely difficult or outright impossible, the International Monetary Fund (IMF) and the World Bank have designed a framework to provide special assistance for heavily indebted poor countries (HIPC) that pursue supported adjustment and reform programs. Bolivia qualifies for this program in all three of the benchmark criteria. First, Bolivia's debt/export ratio in 1997 was about twice as high as the target ratio of 150 percent. Second, about 63 percent of the population is considered poor and 38 percent extremely poor. Third, Bolivia has been pursuing structural reforms guided by the IMF and the World Bank for the last 15 years.

The main objective of the HIPC initiative is to reduce Bolivia's debt/export ratio from around 300 percent to 150 percent in order to make the debt burden sustainable. The goal is that the initiative will provide additional resources to pay for structural reforms to reduce poverty.

The main objective of this paper is to discuss the HIPC initiative and the way in which it is being implemented in Bolivia.

The remainder of the paper is organized as follows. Section two discusses the three issues that make Bolivia eligible for debt relief, i.e. structural reforms, debt, and poverty. Section three discusses the HIPC initiatives in Bolivia, including the experience from the initial HIPC initiative, and the magnitude of relief. Section four discusses the conditions for debt relief, and how these conditions are perceived in Bolivia. Section five analyses the potential impacts of debt relief. This includes a municipality level analysis of the expected costs of poverty reduction. Section six concludes.

2. Conditions for qualifying for debt relief under the HIPC initiatives

Of the 49 countries that have so far been found eligible for debt relief under the Initial or Enhanced HIPC initiative, Bolivia is clearly among the richest. With per capita GDP of US$ 1010 in 1999 it is more than twice as rich as the average of the other 48 countries. This section will discuss why Bolivia still qualifies for debt relief under this mechanism.

2.1 Structural reforms

In 1985, Bolivia started IMF style structural reforms, with the main elements being: 1) the elimination of barriers to trade, 2) economic stabilization through fiscal austerity, and 3) the development of efficient financial markets. These reforms successfully reduced inflation (from 8,171 percent in 1985 to 66 percent in 1986 and 11 percent in 1987) and fiscal deficits (from more than 20 percent of GDP in previous years to less than 3 percent of GDP in 1985).

The reforms came with large costs to the population, however. Open unemployment increased from 6.0 percent in 1985 to 10.4 percent in 1989 in response to a dramatic contraction of the public sector. The public sector share of total employment decreased from 26.0 percent in 1985 to 17.6 percent in 1989, with the informal sector absorbing most of the surplus (Jemio 2000).

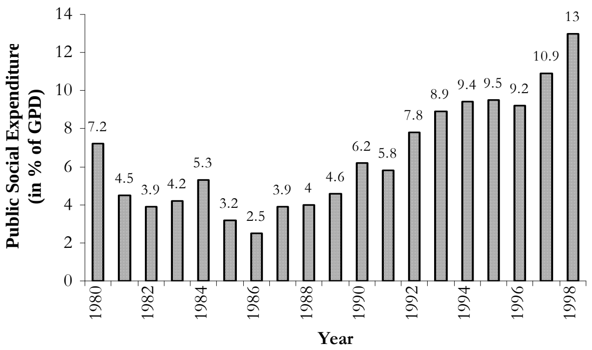
The policy of eliminating direct and indirect subsidies also implied large changes in relative prices. Most importantly, gasoline prices increased by 833 percent immediately, creating large transfers from households to the public petroleum company (Antelo 2000).

Due to tight fiscal policies, there were no resources available to help the people who got hurt by the reforms, and public social expenditure reached an all time low in 1986. See Figure 1.

The second generation of reforms was targeted at reducing poverty and increasing efficiency. Main elements were: 1) privatization of state enterprises, 2) investment in human capital, 3) decentralization, and 4) pension reform.

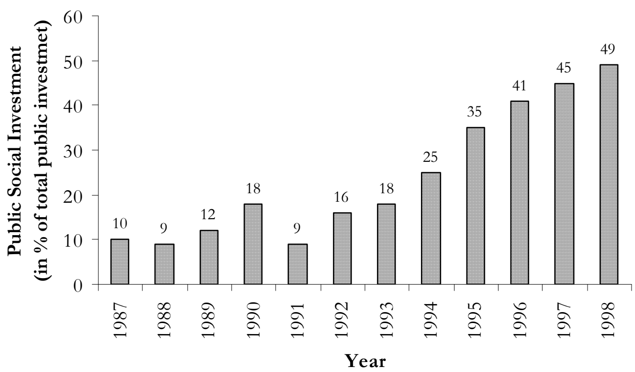
Figure 2 shows clearly the changing priorities given to social investments. In the late eighties social investment only amounted to about 10 percent of total public investment, while this share reached almost 50 percent by the late nineties.

Figure 1: Public social expenditure (% of GDP), 1980 – 1998



Source: UDAPE (1998).

Figure 2: Public social investment (% of total public investment), 1987-1998



Source: UDAPE (1998).

The data generally show reductions in poverty and improvements in living standards during the 1990s. Open unemployment fell from 10.4 percent in 1989 to 3.5 percent in 1996 (Jemio 2000) and several studies show that urban poverty fell during the same period (e.g. Jimenez & Yáñez 1997, Gray-Molina *et al* 1999, and Hernani 1999. See also Table 1 below.) Given the substantial migration from smaller towns and rural areas to the cities, the decrease in poverty in the main cities probably indicates a nationwide decrease in poverty.

The cost of these second generation reforms runs to about 5 percent of GDP (IMF 1998). The government has raised about half of the necessary funds through fiscal measures.

The remaining funds are expected to arrive in the form of external assistance (including the HIPC initiative).

2.2 *Poverty*

According to the Human Development Report 1998, published by UNDP, Bolivia ranks 113th in human development, out of 175 countries analyzed. Poverty in Bolivia is among the highest in Latin America, with 63% of the population unable to satisfy their basic needs in terms of education, health, and housing. In 1997, 77.3% of the rural population was considered poor, and 58.2% extremely poor (see Table 1).

Table 1: Poverty indicators by area

Indicators	Overall	Urban		Rural	
	1997	1989	1997	1989	1997
Poor Population (%)	63.2	57	50.7	n.d.	77.3
Extremely Poor Population (%)	37.8	29.6	21.6	n.d.	58.2
Poverty Gap	33.4	27.8	24.4	n.d.	48.7

Source: National Employment Survey 1997.
Note: The Poverty Gap measures the average distance to the poverty line.

Since poverty measures are highly dependent on the chosen national poverty line, it is difficult to compare poverty across countries. We suspect that poverty in Bolivia is not as severe as it is in other highly indebted poor countries, although the official poverty figures are very high. To illustrate what the aggregate poverty numbers reflect we give more detailed statistics on living standards in the Bolivian municipalities in Table 2. We have divided the 311 municipalities in Bolivia in 1997 into three groups. The first group contains the 9 department capitals and El Alto (which is a satellite city of La Paz and clearly a main city). The second group contains the 150 least poor municipalities (as measured by the Unsatisfied Basic Needs (UBN) index). And the third group contains the 151 poorest municipalities in Bolivia. For each of the three groups we have calculated averages for a range of basic services indicators.

Table 2 shows that poverty (in the sense of unsatisfied basic needs) is almost universal in the poorest 151 municipalities. Less than a third of the population in these municipalities has running water, and less than a fifth has electricity. Sewage and trash collection is extremely rare.

Table 2: Basic services indicators (1992), by municipality group

Municipality group	% of pop with unsatisfied basic needs	% of pop with piped water	% of pop with electricity	% of pop with sanitation	% of pop with trash collection
10 major cities	53.7	83.8	95.2	51.4	58.7
Richest 150 municipalities	84.9	52.4	52.5	14.9	15.1
Poorest 151 municipalities	98.1	31.3	17.5	3.3	0.7
Average (over municips)	**90.3**	**43.2**	**36.9**	**10.5**	**9.6**

Source: Authors' calculations based on data from the Ministerio de Desarrollo Sostenible y Planificación, MDSP (2000).

In the ten largest cities, on the other hand, almost everyone has electricity, more than 80 percent have running water, and more than half have sanitary installations and trash collection. This is actually quite impressive, considering the rapid rural-urban migration in Bolivia. Still, more than half of the population in the main cities has unsatisfied basic needs.

Table 3 shows that geographical conditions are very important for the level of poverty. All the poorest municipalities are almost completely rural with an average population density of only 19 persons per square kilometer. With an average of less than 9000 people per municipality, they have not reached the critical mass needed to generate enough opportunities and income to provide basic infrastructure. Indeed, the fact that the Bolivian population is thinly spread across a national territory spanning more than 1 million square kilometers of mountainous or forested terrain, is one of the main reasons why poverty remains so high in Bolivia. It is also one of the main obstacles to development.

Since it is substantially cheaper to satisfy people's basic needs when they are concentrated in urban centers, rural-urban migration can have some advantages in the fight against poverty. In Bolivia, we are fortunate to have three urban magnets of approximately equal attraction (El Alto, Cochabamba, and Santa Cruz). This means that Bolivia does not have the mega-city slum problems of the degree experienced in many other Latin American countries.

Table 3: Population densities and urbanization rates 1992, by municipality group

Municipality group	**Population per municipality (persons)**	**Population density (persons/km^2)**	**Urbanization rates**
10 major cities	289,841	276	0.93
Richest 150 municipalities	14,586	28	0.27
Poorest 151 municipalities	8,823	19	0.01
Average	**20,659**	**32**	**0.16**

Source: Authors' calculations based on data from the Ministerio de Desarrollo Sostenible y Planificación, MDSP (2000).
Note: Population density is not available at municipality level (municipality borders are simply not clear, and each municipality do not know how much area they cover), so population density was assumed to be the same for each municipality within the same province.

The inequality across municipalities is important to have in mind because due to recent decentralization efforts in Bolivia, the local municipal governments have to raise a good part of their tax revenue locally. That is obviously difficult for the poor, rural municipalities. In 1997, the three departments on the Central Axis (La Paz, Cochabamba, and Santa Cruz) collected 83.2 percent of all municipal taxes, leaving only 16.2 percent to the remaining six departments. Within the three rich departments about three quarters of tax income was raised in the four municipalities containing the main cities (MDSP 2000). Thus, four municipalities collected about 63 percent of all municipal taxes, while the remaining 307 municipalities together collected only 37 percent.

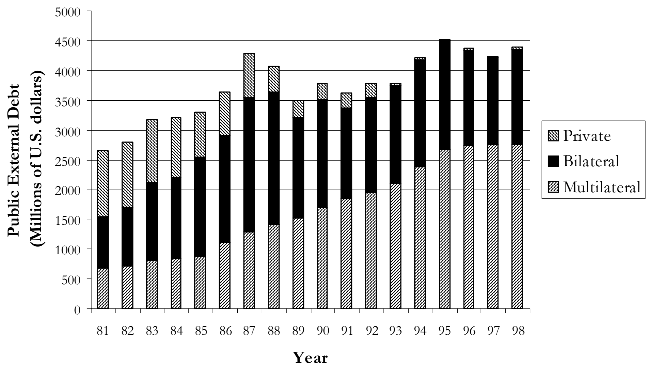
To compensate for the lack of a local tax base, the debt relief funds from the HIPC initiatives are expected to be directed especially to the poorest and least developed municipalities in order to help them catch up with the wealthier municipalities.

2.3 External debt

Bolivia's external public debt[2] amounted to USD 4.4 billion in 1998. This is equivalent to 319 percent of exports or 51.4 percent of GDP that year.

Figure 3 shows the evolution of Bolivia's debt from 1981 to 1998 just before the debt relief that followed from the Initial HIPC initiative. External debt grew by an average of 3 percent annually. At the same time the composition of debt changed dramatically. In the early eighties bank loans were more important than multilateral loans, but in the late eighties, Bolivia was able to buy back a lot of the private loans at 11 cents per dollar using international donations (Delgadillo Cortéz, 1992). At the same time successful negotiations with the Paris Club creditors resulted in rescheduling and reduction of a large part of the bilateral debt. This temporarily reduced the debt burden by almost 20 percent. The debt burden increased again, however, due to expensive second generation structural reforms in education, health, and pension systems.

Figure 3: Bolivia's public external debt from 1981 to 1998



Source: Banco Central de Bolivia. *Note:* This debt only includes medium and long-term debt. Short term debt with the IMF is not included.

The increase in the stock of debt shown in Figure 1 actually hides a steady decrease of debt as a percentage of GDP. In 1985 the public external debt amounted to 106 percent of GDP, while in 1998 it only amounted to 51 percent (Antelo 2000). This is obviously part of the benefits from the structural reforms that Bolivia has gone through.

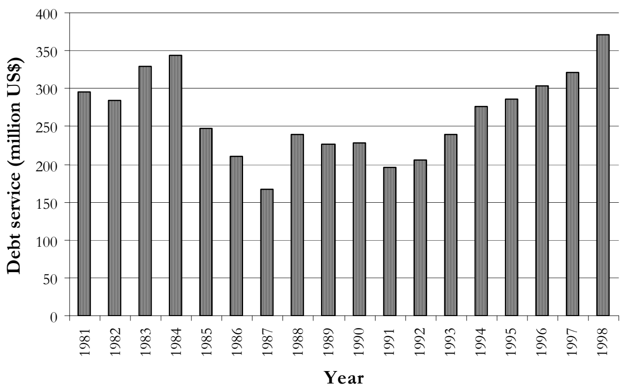
Bolivia's public external debt is held mostly by the central government. Public enterprises held less than 9 percent of the total debt in 1999 (Banco Central de Bolivia). This is partly because there are few public enterprises left in Bolivia after the privatization processes in the 1990s, but even in 1990 public enterprises only held 11 percent of total public external debt.

The fact that the central government holds most of the debt is important, because the sources of repayment are much harder to identify for investments carried out by the central government, than for projects carried out by companies.

With interest rates typically ranging between 4 and 6 percent, the service of the total debt amounts to about US$ 265 million per year (average over the period 1981 – 1998). See Figure 4. This corresponds to an average of 28 percent of exports or 4.4 percent of GDP.

2 Short term debt not included.

Figure 4: Total debt service



Source: Banco Central de Bolivia.

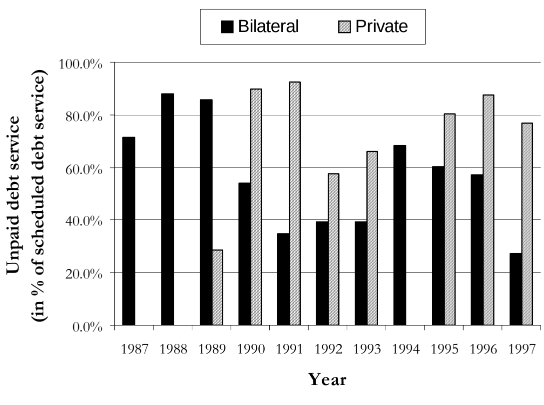
In order to maintain a good credit reputation at the World Bank and the IMF, Bolivia is paying back virtually all its multilateral debt on schedule (see Table 11 in Appendix A). The bilateral creditors and the private banks are not treated with the same priority, however. In the late eighties, Bolivia only managed to pay around 20 percent of the scheduled payments on bilateral loans. This situation improved in the nineties together with the economy in general. During the period 1990-1997, Bolivia paid around half the scheduled payments on bilateral loans (see Figure 5).

Non-payment rates for loans in private banks vary greatly from year to year, but frequently went above 80 percent during the last decade. The amount of debt to private banks is very small, however, so it is not large amounts we are talking about.

We do not have data on debt service after 1997, because Bolivia is holding back service payments until the exact conditions for debt relief has been fully negotiated.

Some of the registered non-payments during the 1990s may be explained by the fact that Bolivia was involved in many rounds of Paris Club negotiations during the period (see Table 6 below). Bolivia may have been withholding debt service payments in the expectation of upcoming debt cancellation.

Figure 5: Unpaid scheduled debt service on bilateral and private debt (1987-1997)

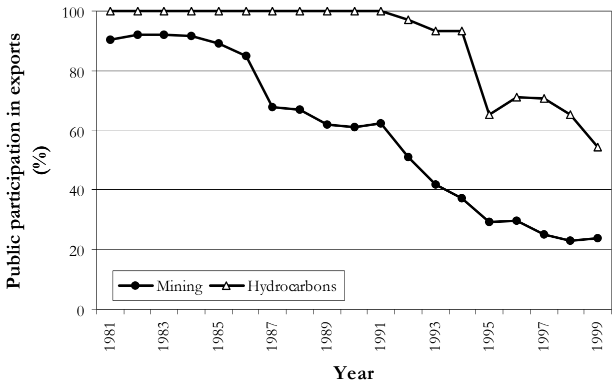


Source: Banco Central de Bolivia.

Whether the public external debt is sustainable or not, obviously depends on the structure of the economy. Bolivia's exports are highly dependent on metals and natural gas, whose prices fluctuate a lot. This makes Bolivia very vulnerable to external shocks, and unfavorable developments in international prices could easily push Bolivia into a much more worrisome position.

In addition, it is important to bear in mind that most of Bolivia's public-sector export companies have been privatized or capitalized and are now controlled by foreign companies. This means that public sector participation in exports has been dramatically reduced. Less than 20 percent of the revenue from mineral exports goes to the public sector now, as opposed to more than 80 percent 20 years ago. Only half of hydrocarbon revenues go to the public sector as opposed to 100 percent just 10 years ago. See Figure 6.

Figure 6: Public sector participation in exports, 1981 - 1999



Source: Banco Central de Bolivia

Instead of relying on direct export revenues from public enterprises, the Bolivian government has to increase its tax revenues in order to get funds to pay debt with. With very high poverty levels and a large informal sector it is difficult to rely on income taxes. Instead there is a high reliance on the hydrocarbon sector, which contributed an average of 40 percent of fiscal revenues in the period 1996 – 1998 (Ayala 2000).

This reliance on the hydrocarbon sector makes government revenues very vulnerable to external shocks and it makes the fiscal deficit very volatile. This vulnerability is one of the main reasons why Bolivia needs debt relief, even though the debt as a percentage of GDP was going steadily in the right direction even before the HIPC initiatives.

3 The HIPC Initiatives in Bolivia

3.1 The Initial HIPC Initiative

The Initial HIPC initiative had as its common goal across HIP countries to bring the debt/export ratio down in the 215-235 range. Creditors decided that a target of 225 would be suitable for Bolivia, and the IMF projected that a debt relief of US$ 448 million (in net present value terms) would be needed to reach the target.

In September 1997, the IMF decided that Bolivia was eligible for relief under the Initial HIPC initiative, if they satisfactorily could prove that they were capable of using the relief wisely. By September 1998, in view of Bolivia's strong policy record, the IMF decided that Bolivia had reached its completion point, and Bolivia received debt relief with a net present value of US$ 448 million. This corresponded to a reduction in outstanding debt of 13% (IMF 1999).

Table 4: Bolivia's performance relative to the 1997-1998 social development targets

INDICATOR			Target		Observed Value	
		Base	1997	1998	1997	1998
	Education					
1.	Total expenditure in primary and secondary education/GDP	3.1	3.3	3.5	3.3	3.3
2.	Rural coverage-boys	66	67	69	68	81
3.	Rural coverage- girls	54	56	60	56.7	77
4.	Number of girls and boys who finish 5th grade in urban areas	96,000	88,000	91,000	87,000	92,000
5.	Number of girls and boys who finish 5th grade in rural areas	60,000	63,000	66,000	63,000	68,000
6.	Number of girls who finish 5th grade in urban areas	41,000	43,000	46,000	43,000	46,000
7.	Number of girls who finish 5th grade in rural areas	29,000	30,000	32,000	30,000	31,000
8.	Number of children 6 years or younger in child development programs	43,667	50,000	80,000	43,013	47,051
9.	Number of beneficiary schools implementing quality improvement programs	NA	NA	NA	NA	NA
	Health					
10.	Percentage of children 5 years old or younger treated for Acute Respiratory Infections within the Maternal and Child Insurance Program.	25	43	50	69	69
11.	Percentage of children 5 years old or younger treated for severe diarrhea within the Maternal and Child Insurance Program.	25	25	36	26.2	29
12.	Percentage of births attended by professionals within the Maternal and Child Insurance Program.	30	45	56	43.8	49
13.	Percentage of children who have completed the vaccination cycle appropriate for their age.	78	80	82	86.5	80
14.	Share of annual parasite index in endemic malaria areas (*1000)	20.7	35.2	20	15.3	21.7
15.	Percentage of houses fumigated against Chagas in endemic areas	8	14	25	13.4	16
16.	Percentage of pregnant women in endemic areas under going Chagas tests	NA	NA	NA	NA	NA
	Rural Development					
17.	Number of beneficiaries of water and sanitation projects in rural areas.	132,000	132,000	132,000	186,052	216,662
18.	Investment in improvement/rehabilitation of rural roads (US$ million).	32	32	42	44.8	40.4
19.	Number of hectares subject to official land registry and sanitation (millions)	0.33	1.6	3.5	1.6	3.5

Source: IMF (2000).

The reduction of poverty was one the main goals of the Initial HIPC. It required the government to continue social reforms in key areas, including education and health and the development of rural areas. Overall, Bolivia met almost all the targets set by the Initial HIPC initiative, and in the few areas that failed to reach target substantial progress was made. For example, the “Percentage of births attended by professionals within the Maternal and Child Insurance Program” called for an increase of 26 percentage points in just 2 years. Bolivia experienced an increase of 19 percentage points, which was below target, but higher than in any of the other 18 countries for which data was available (IMF 2000).

The indicators, the targets, and Bolivia’s performance are summarized in Table 4. In education, coverage and completion rates for primary education have increased in line with targets; new textbooks incorporating indigenous languages have been produced and distributed and a national assessment system has been successfully implemented.

In health, the percentage of births attended by trained staff increased from 30 percent to 45 percent; 80 percent of children are completing the vaccination cycle; the share of children treated for respiratory or stomach diseases has increased noticeably; and the share of families receiving protection against the Chagas disease has almost doubled. In June 1998 the authorities published a comprehensive national health strategy which proposed basic health insurance, an integrated childhood illness program, improved maternal and neonatal care, extensive immunization programs and better control of endemic diseases.

In rural development, there is now a clear strategy for the use of social and rural development funds and a program to survey living standards regularly. Water and sanitation projects reached more than 180,000 households, compared with a target of 132,000.

It thus appears that Bolivia has a good record of linking debt relief with poverty reduction. However, many of these targets would have been reached anyway, as a result of the extensive second generation reforms in education and health. For the Initial HIPC Initiative, the government had no specific poverty reduction plan, and no mechanisms to link debt reduction to poverty reduction. These weaknesses are addressed in the implementation of the Enhanced HIPC Initiative, which will be discussed below.

3.2 The Enhanced HIPC Initiative

In the face of worsening terms of trade for most developing countries, creditor countries realized that a debt/export ratio around 225 would not be sustainable. The Enhanced HIPC Initiative therefore calls for a uniform reduction in debt/export ratios to a target value of 150. It also seeks to strengthen the link between debt relief and poverty reduction by requiring eligible countries to develop a locally owned Poverty Reduction Strategy Paper (PRSP).

The IMF projected that to reach this target, Bolivia would need further debt relief of US$ 854 million in NPV terms. The key assumptions used for the calculation of debt relief for Bolivia are the following (IMF 2000):

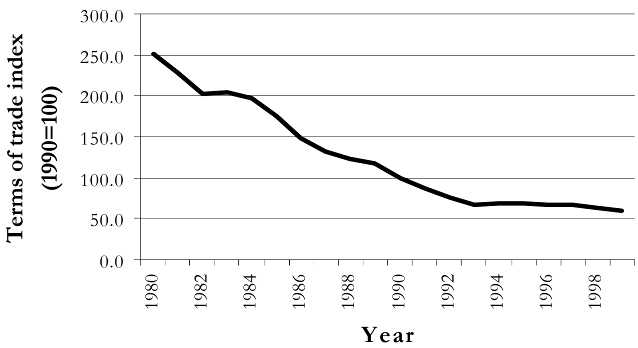
- Bolivia is expected to continue its structural reforms and strong macroeconomic policies
- The GDP growth rate is expected to increase to 5 - 6 percent
- Inflation is expected to stay around 4 percent
- Gross domestic investment is expected to increase from 19.7 percent of GDP to 21 percent of GDP
- Foreign direct investment is expected to fall from 9 percent of GDP in 2000 to 4 percent by 2018
- National savings are expected to rise from 13 percent of GDP to 16.5 percent of GDP
- Export volumes are expected to grow at 10 percent per year in the beginning (mainly due to natural gas) slowing to 5 percent from 2007 onwards

- Imports are expected to grow faster than real GDP until 2006, and a little slower thereafter
- The terms of trade are expected to improve slightly through 2006
- The combined public sector deficit is expected to move in line with net external financing, which is projected to decline from 2.4 percent of GDP in 2000 to 1.3 percent on average during 2008-2018.

These are clearly optimistic assumptions. While GDP projections just look optimistic, terms of trade projections and fiscal deficit projections look outright unrealistic.

Annual GDP growth rates of 5 to 6 percent are high by historical comparison, since the average over the last 50 years is only 2.3 percent. It is not unprecedented, however. During the 15 year period 1962-1977, Bolivia experienced an average annual GDP growth rate of 5.7 percent. After 15 years of structural reforms, including liberalization and privatization, Bolivia is hoping desperately to see such growth rates again.

Figure 7: Terms of trade index for Bolivia, 1980-1999



Source: Authors' calculations based on price indices from UDAPE. See Table 12 in Appendix A.

An even more unrealistic assumption is that the terms of trade should improve over the next 6 years. Figure 7 show that the terms-of-trade for Bolivia have shown a clear and dramatic downward trend over the last 20 years. This is due both to falling mineral prices and falling natural gas prices. These two components make up the majority of Bolivian exports and there are no signs that the prices are going to improve. The price of natural gas is contractually linked to crude oil, and with the current high oil prices, it is reasonable to expect that the price will fall in the future. See Table 12 in the Appendix for further details on price indices.

Since the government's fiscal revenues are highly dependent on the hydrocarbon sector and thus the development of oil prices, it also seems overly optimistic to expect the public sector fiscal deficit to decline from 2.4 percent of GDP in 2000 to 1.3 percent during the most of the forecast period. In fact, the fiscal deficit for 2000 is now likely to reach 4.0 percent of GDP (La Prensa, 15/08/2000).

These very optimistic assumptions of course lead to a lower debt reduction amount than more realistic assumptions would have implied. The Bolivian authorities have agreed on these assumptions, however. This may be because they were unable to negotiate more favorable terms, but it could also reflect the opinion that it is more important to present a positive outlook in order to attract direct foreign investment than it is to present a pessimistic scenario to increase the amount of debt reduction.

3.3 The aid equivalence of debt relief under the HIPC initiatives

Having accepted the IMF calculations of necessary debt relief, Bolivia expects to be granted enhanced debt relief with a net present value of US$ 854 in the first half of 2001. The details of scheduling have not yet been negotiated, but the IMF has developed a likely scenario, which is given in Table 5 together with the time profile of the relief agreed under the Initial HIPC initiative.

Bolivia's GDP was 8.63 billion US$ by the end of 1999 (UDAPE) and is expected by the government and the IMF to grow by approximately 5 percent per year during the next 20 years. The evolution of GDP under this assumption is shown in Column 5 of Table 5. We use the relief information and the projected GDP to calculate the aid equivalence of debt relief over time. The result is given in column 6 of Table 5 and presented in Figure 8.

Table 5: Scheduled debt relief from Initial HIPC and Enhanced HIPC

Year	**Scheduled relief** (Million US$)			**GDP** (Million US$)	**Scheduled debt service** (Million US$)	**Debt relief** (% of GDP)	**Debt relief** (% of scheduled debt service)
	Initial HIPC	**Enhanced HIPC**	**Total**				
1999	77	0	77	8,631	363	0.89	21.2
2000	85	0	85	9,062	372	0.94	22.8
2001	70	112	182	9,515	383	1.91	47.5
2002	55	119	174	9,991	394	1.74	44.2
2003	41	119	160	10,491	407	1.53	39.3
2004	36	109	145	11,015	437	1.32	33.2
2005	33	100	133	11,566	460	1.15	28.9
2006	23	92	115	12,144	487	0.95	23.6
2007	21	85	107	12,751	512	0.83	20.7
2008	20	80	100	13,389	558	0.75	17.9
2009	19	77	96	14,058	595	0.68	16.1
2010	19	76	95	14,761	634	0.64	15.0
2011	18	71	89	15,499	665	0.57	13.4
2012	18	66	84	16,274	705	0.52	11.9
2013	18	62	80	17,088	749	0.47	10.7
2014	16	60	76	17,942	802	0.42	9.5
2015	16	58	74	18,839	861	0.39	8.6
2016	17	22	39	19,781	920	0.20	4.2
2017	17	0	17	20,771	981	0.08	1.7
2018	18	0	18	21,809	-	0.08	-
2019	0	0	0	22,900	-	0.00	-

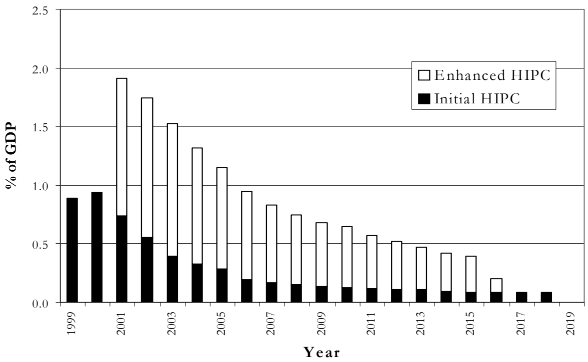
Source: Authors' calculations based on data from IMF (2000), UDAPE, and assumptions in text.

If all remaining negotiations regarding the Enhanced HIPC fall in place, the aid equivalent of the relief could reach almost 2 percent of GDP in 2001. Because of growing GDP and because of the front-loaded nature of the relief, the importance of the relief would fall to just under one percent of GDP in 2006 and 0.2 percent in 2016. Thereafter, it will have almost no effect.

The last column of Table 5 shows total debt relief each year in percent of scheduled debt service that year. This share reaches a maximum of 47.5 percent in 2001, but already by 2008 it has fallen below 20 percent, implying that Bolivia then has to pay more than 80 percent of scheduled debt service before relief.

Total debt relief through the Initial and Enhance HIPC Initiatives is smaller than the relief Bolivia has negotiated with Paris Club creditors. Bolivia has received debt relief through 7 rounds of Paris Club negotiations during the period 1986 to 1998. During the first two rounds Bolivia obtained temporary relief through rescheduling of debt service with grace periods of 4 to 5 years. During the third round, in 1990, Bolivia received real debt reduction under Toronto terms (1/3 of debt older than 1985 forgiven). Bolivia was the first country outside sub-Saharan Africa to receive this favorable treatment. In later rounds this reduction has been topped up so that by 1998 Bolivia had been forgiven bilateral debt for US$ 1,354 million. Table 6 shows the results of Paris Club negotiations in summary form.

Figure 8: Aid equivalence of debt relief (1999 – 2019)



Source: Authors' calculations based on information in IMF (2000).

Table 6: Summary of Paris Club negotiations

Paris Club Round	Debt rescheduled	Debt reduction
1 (July 1986)	510	-
2 (November 1988)	261	-
3 (March 1990)	127	76
4 (January 1992)	49	121
5 (March 1995)	32	130
6 (December 1995)	-	576
7 (October 1998)	-	451
Total	**979**	**1354**

Source: Banco Central de Bolivia.

3.4 The National Dialogue

The Enhanced HIPC was conditioned on the elaboration of a Poverty Reduction Strategy Paper (PRSP) with the participation of government, private sector, and civil society. The Bolivian government decided to do this through a National Dialogue.

Figure 9 shows the structure of the National Dialogue. It is a stepwise process that starts at the municipal level, continues to the department level, and ends at the national level. The output from the national level roundtable will be an integrated development agenda, the proposed use of resources from the HIPC, and a political agenda (e.g. changes in constitution).

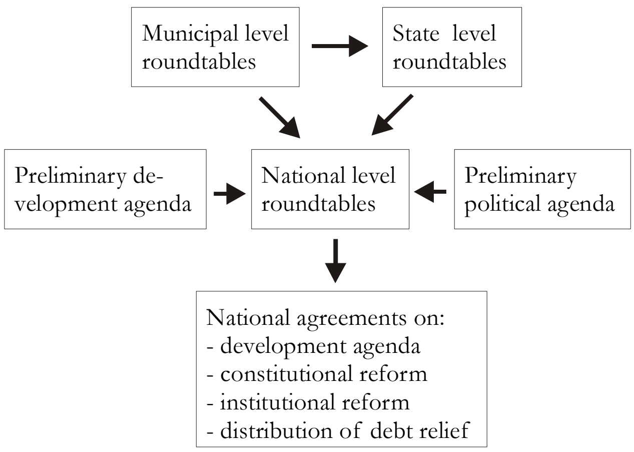
Municipal level roundtables and state level round tables were carried out between June 6 and July 19, 2000 with the participation of more than 3000 citizens. Summarized results from these rounds are available in the form of an Executive Summary from the Secretaría Técnica del Diálogo Nacional (STDN 2000).

First, problems in various areas were ranked according to severity. In economic development the top concerns were a) weak support to micro-enterprises and lack of access to credit, and b) insufficient productive infrastructure (roads, irrigation, energy). In education the concerns were c) insufficient infrastructure, equipment, and materials, d) insufficient training and education of the teachers, and e) high incidence of analphabetism. In health it was f) insufficient infrastructure, equipment, and medicinal supplies.

The main obstacles to fighting poverty were believed to be bureaucracy at the national and state levels and lack of funds at the municipal levels. The most urgently needed actions were considered to be the improvement of infrastructure (especially roads, but some also proposed to promote air transportation of high value cargo, since it requires less initial investment, and would be faster to implement).

The national level roundtable was carried out on August 28 and 29, 2000. The results of these meetings are still being processed. The government initially thought that they could finish the PRSP by October 2000, but due to extensive civil unrest during September and October 2000, the government decided that it was better to postpone the deadline until next year and secure stronger civil support.

Figure 9: Schematic representation of the National Dialogue



The PRSP, when finished, will contain the proposed distribution of the debt relief, the methods of monitoring the distribution of debt relief, and the methods of evaluating the effect of debt relief. Furthermore, it will provide the basic components of the Development Agenda.

The National Statistical Institute (INE) will be in charge of coordinating, revising, and disseminating information. The Economic Policy Analysis Unit (UDAPE) of the government, the ministries of the social sector, and INE will be responsible for analyzing and evaluating the PRSP.

4. Conditionality

The main requirement for reaching completion point for the Enhanced HIPC initiative is the elaboration of a locally owned Poverty Reduction Strategy Paper (PRSP). The Bolivian government has decided to develop this paper through the National Dialogue, which basically sums up the demands from the individual municipalities in an attempt to make supply match demand.

While the construction of such a paper is a very mild and widely accepted condition, there are some concerns about the validity and efficiency of the National Dialogue. The opposition claims that it is unconstitutional, because Bolivia has a congress with 162 elected representatives, who are supposed to make this kind of decisions. They fear that the Dialogue will create a parallel forum for decision making and potentially create social instability. Others say it creates unrealistic expectations in the municipalities, with the government implicitly promising to meet any and all demands.

To thoroughly assess the local views on the HIPC initiatives and the National Dialogue, this paper uses the results of two local opinion polls. The first opinion poll was carried out by Datos, Estadísticas e Información Srl. (DEI) on July 1 and July 2, 2000 (i.e. during the department level round tables) in the cities of La Paz and El Alto. The poll included 400 persons representative of the populations in La Paz and El Alto. The second poll was carried out by IISEC on August 21, 2000. It covered 46 government officials, 25 persons from the private sector, and 34 persons from civil society[3]. Since there are marked differences between the opinions of government, the private sector, and civil society, we will treat them separately below.

4.1 Government opinions on the HIPC initiative

Almost all government officials polled believe that Bolivia's external debt is a large problem, and 75 percent of them find that it is a good idea to link debt relief with poverty reduction. When asked whether the government would maintain the same high level of public social investment if it was not a condition for debt relief, 42 percent of them answered "no" and only 29 percent "yes". Thus, the government appears to be happy to have funds ear-marked for social investment, because they would not otherwise be able to make these investments, although they are considered highly necessary.

57 percent of government officials believe that debt relief will have or maybe will have a negative effect on other aid flows. This is an important concern, since Bolivia relies on foreign aid amounting to 7-8 percent of GDP (OECD database).

At the Ministry of Economic Development and at the Directorio Unico de Fondos, they thought that the HIPC funds not only should be used for social investment, but also for investment in the productive sector in order to generate economic growth. In addition, the former commented that the opening of North-American textile markets is very important. A

[3] The following institutions were visited: CIDES, MpD, Cuerpo de Paz-Bolivia, INECIP, Conferencia Episcopal Boliviana, CEPAS, Periódico Presencia, Asamblea Permanente de Derechos Humanos, Cámara Nacional de Industria, Alcaldía de la Ciudad de La Paz, Estudios Jurídicos Privados, Cámara Nacional de Comercio, PNUD, ILDIS, Ministerio de Desarrollo Económico, Directorio Unico de Fondos, Ministerio de Hacienda, Viceministerio de Presupuesto y Contaduría, Viceministerio de Política Tributaria, UDAPE, Banco Central de Bolivia, CEDLA, GTZ, International Mining, Confederación de Empresas Privados e Bolivia, Superintendencia de Telecomunicaciones, Camara Nacional de Exportadores, ENTEL, UPF, Banco Mercantil-Bolsa, Price Waterhouse & Coopers, Viceministerio de Industria y Comercio, Corporación Minera de Bolivia, and Superintendencia de Electricidad.

Bolivian government task force has estimated that the lifting of U.S. duties on textiles (currently at 18-24 percent) would bring in US$ 400 million annually to the Bolivian economy and create at least 30,000 jobs (Bolivian TIMES, 24/08/2000).

At the Ministry of Finance several people found it unfortunate and embarrassing to have a label of Poor, Highly Indebted, and Bad Payer put on Bolivia, when we are desperately trying to attract and provide good conditions for foreign direct investment.

4.2 Private sector views on the HIPC initiative

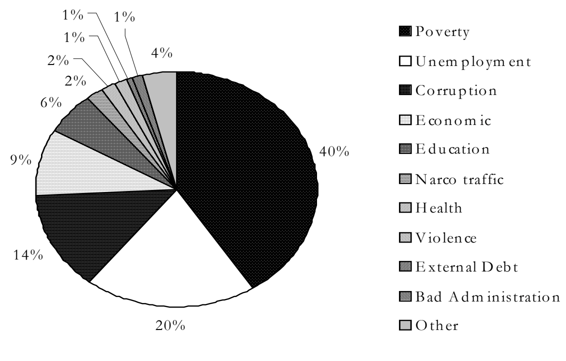
The private sector[4] generally shares the views of the government, except that they are not as content with the link between debt relief and poverty reduction. 42 percent of the people from the private sector say that they do not think it is a good idea to link debt relief with poverty reduction. Only 18 percent of government officials answered "no" to the same question. This was to be expected, since formal businesses will get very little direct benefit from debt relief if it is all spent on social investment.

Some business people at the National Dialogue also found the opening of North American markets to textile exports much more important for development, and would be happy to return all debt relief if export barriers were removed instead (STDN 2000, p. 63).

4.3 Civil Society views on the HIPC initiative and the National Dialogue

Here we will distinguish between civil organizations and private persons, because they were interviewed in two different types of polls. The first group (people from the church, academia, and NGOs) also think that external debt is a large problem. Many (45 percent) do not agree, however, that debt relief should be linked to poverty reduction. Instead they think Bolivia deserves unconditional debt relief. 56 percent of them are sure, however, that the government would not be able to spend as much on social investment if it were not linked with debt reduction.

Figure 10: The relative importance of Bolivia's problems (according to opinion poll)



Source: DEI (2000).

Private persons are generally less concerned about external debt than all of the previously discussed groups. When asked to rank Bolivia's problems, external debt comes far

[4] The poll of the private sector only includes persons from large or organized business - none from micro-enterprises.

down the list after poverty, unemployment, corruption, education, drug traffic, health, and violence (see figure 10).

Most private persons were not aware of the whole process of debt relief and the National Dialogue. Figure 11 shows that only 12% of the persons interviewed knew about the National Dialogue, and these were mostly individuals with high income. The rest had either not heard about the Dialogue at all or had only a vague idea regarding it.

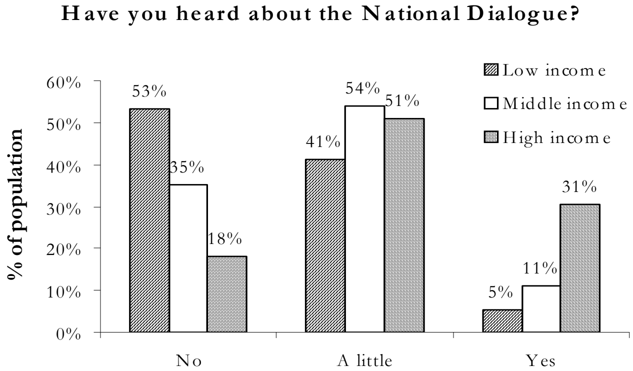
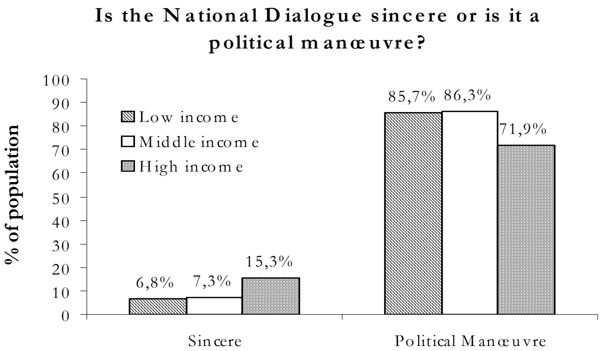


Figure 11: Knowledge about the National Dialogue
Source: DEI (2000).

Figure 12 shows that most private people think that the National Dialogue is just a political manœuvre organized to satisfy the World Bank and other donors[5]. High income people are more likely to believe that the Dialogue is sincere than low income people. Low income and middle income people are very skeptical indeed, with around 86 percent writing the whole thing off as just a political manœuvre.

Figure 12: Opinions about the National Dialogue



Source: DEI (2000).

Opinions were more severe when it comes to the representativeness of the National Dialogue. More than 90 percent of the people interviewed do not feel that they are represented at the Dialogue. These include those that have not heard about the Dialogue.

5 The questions in this poll are independent, which implies that people who have not heard about the National Dialogue can still have an opinion about it.

People are also obviously worried that the money obtained through debt relief may not be used properly due to corruption and bad government. 76 percent of the people interviewed clearly agree that the church should monitor the use of funds obtained through debt relief. This was also one of the official results from the municipal and departmental roundtables of the National Dialogue. Almost all agree that there should be a monitoring mechanism at both department and municipal level, and most suggested the Catholic Church (STDN 2000).

The Church, however, says that it does not have the institutional capacity to do carry out this task, but that it would support and participate in the formation of a group of monitoring institutions.

In any case, the responses indicate the need for the creation of some institution that can help guarantee that funds are used appropriately, because people do not trust the government alone to do this. Only 29 percent of government officials though it was a good idea to have the church monitor them.

Overall the opinion poll among private persons show little local confidence in the National Dialogue. People do not feel represented and a large majority believes it is a political manœuvre, which is tolerated because it will bring about more than a billion dollars of debt relief.

Two weeks after the official National Dialogue ended, widespread strikes and blockades broke out all over the country. These were led by farmers, coca-growers, teachers, and others that didn’t feel that they were sufficiently represented or taken into account at the National Dialogue. For three weeks almost all productive activity in Bolivia stopped as supplies could not reach their destinations. In the same period all school children in public schools got an extra vacation, because the teachers were on strike. This is the worst disruption experienced in Bolivia for decades.

The Finance Minister at the time, Ronald MacLean, denoted these three weeks of chaos “part two of the National Dialogue”. If the official National Dialogue was somewhat superficial and less than perfectly participatory due to the haste with which Bolivia wanted to qualify for relief, some large overlooked groups violently made sure that they were heard in the unofficial part of the Dialogue.

The postponing of the deadline for the PRSP that the civil unrest caused, is likely to imply that the final PRSP will be of higher quality and will have a higher degree of civil participation.

5. Analysis of the potential effects of debt relief on poverty in Bolivia

This section attempts to analyze how far the debt relief money may go towards reducing poverty in Bolivia. We do that by using municipality level data, because Bolivia has decided to fight poverty in a decentralized manner.

In order to find out how much poverty reduction we can expect from increased social spending and investment, we would like to regress the change in poverty levels in each municipality over the last five years on average public social investment, average public social expenditure, population density, and urbanization rate. However, such data will not be available until 2001 when a new census will provide us with new data on poverty levels in each municipality. Right now we only have the change in poverty levels between 1976 and 1992, whereas all municipal spending and investment data is only available after 1994, when the decentralization process started in Bolivia.

We therefore have to settle for another method of analyzing the potential impacts of debt reduction funds. We have chosen to do that with the Municipal Development Plans as a starting point.

5.1 *Poverty reduction strategies and cost at the municipal level*

The current 314 municipal governments of Bolivia are in the process of making Municipal Development Plans with the help of the Viceministerio de Planificación Estratégica y Participación Popular and various NGOs. So far we only have data with cost estimates for 107 municipalities, so we will focus on these and compare their investment requirements with the funds that will become available through debt relief. These 107 municipalities represent only 20 percent of the population, but they are reasonably representative of the poor, rural municipalities that the debt relief is targeting. The average share of people with unsatisfied basic needs in these 107 municipalities is 93.7 percent (compared to the average across all municipalities, which is 90.3 percent).

Table 7 shows the aggregate demands from these 107 municipalities. They have a total of 15,728 investment projects that would require US$ 716 million to carry out. The data does not include information about the time frame envisioned for these projects, but we can assume that they are for the five year period 2001-2005. This implies average annual investment demand of US$ 143 million from these 107 municipalities.

Table 7: Social investment demand from 107 municipalities

Department	No. of municipalities	No. of investment projects	Demand (US$)
Beni	9	652	47,017,553
Chuquisaca	14	1,755	88,670,819
Cochabamba	12	1,744	81,514,888
La Paz	16	3,696	83,800,355
Oruro	10	1,094	71,753,189
Pando	8	673	27,118,880
Potosí	12	1,588	59,933,094
Santa Cruz	21	2,910	152,927,151
Tarija	5	1,616	103,114,485
Total (107 municip.)	**107**	**15,728**	**715,850,414**

Source: MDSP (2000)

The ambitiousness of the Municipal Development Plans vary greatly from municipality to municipality. On average their plans require annual public municipal investments to increase by a factor of 11 (compared to 1997 levels), but one ambitious municipality in Chuquisaca has developed 223 projects that would require annual investments to increase by a factor of 144. Five municipalities have set forth investments in their Municipal Development Plans that are actually smaller than what they invested in 1997. The vast majority of plans, however, require reasonably realistic investment increases between 100 percent and 1,000 percent compared to 1997 levels.

Table 8 shows a sector decomposition of investment demand. Transportation is the single most important component, which corresponds well to the concerns expressed at the National Dialogue. Agricultural projects and irrigation are also considered very important in these mainly rural municipalities. Then follow education projects and sanitation projects.

The sector decomposition of investment demands show that the municipalities think that investment in productive infrastructure is more important than investment in the social sector. This opinion contradicts the priorities of the central government and the second generation structural reforms recommended by the World Bank, since they require a much higher percentage of investments directed at the social sector.

Table 8: Social investment demand by sector

Sector	**Demand (%)**
Production	**61.9**
Agriculture	15.0
Communications	0.3
Energy	4.1
Industry and tourism	2.5
Water and irrigation	13.8
Transportation	26.2
Social	**28.8**
Education and culture	13.8
Health and social security	5.5
Sanitation	8.8
Urbanization and housing	**6.5**
Natural Resources	**1.0**
Multisectoral	**2.4**
Others	**0.1**
Total (107 municip.)	**100**

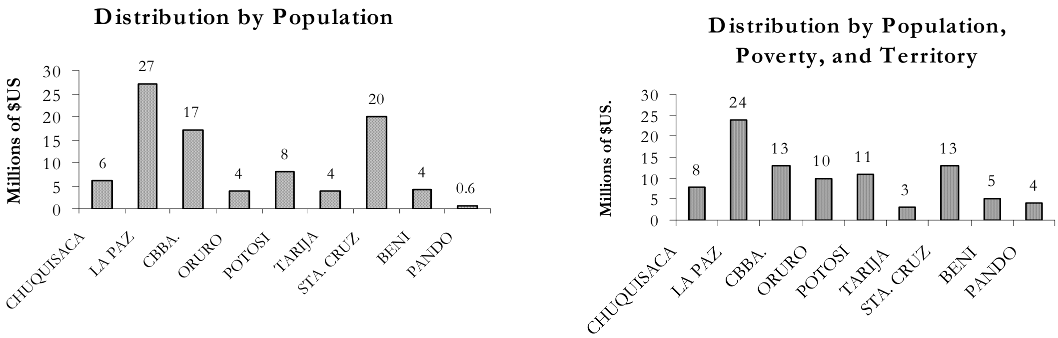
Source: MDSP (2000)

This suggests that social investments had too little priority in the first generation reforms but too high priority in second generation reform. People seem to want a compromise of about 30 percent of total public investments directed towards the social sector.

5.2 <u>The distribution of debt relief funds</u>

The preliminary results of the National Dialogue show overwhelming agreement that municipal governments, rather than the central government, should administrate the resources to fight poverty. Consensus has not been reached, however, on how these funds should be distributed across municipalities. The three rich departments (La Paz, Cochabamba, and Santa Cruz) want to distribute the money using population weights, while the poor departments want to distribute the money using poverty weights. As a compromise, it has been proposed that the funds from debt relief should be distributed among municipalities according to a combination of three criteria: population size, poverty, and territory. This is in contrast to Popular Participation funds, which are distributed according to population only. The latter distribution is considered highly unfair by the thinly populated, poor, rural municipalities. The new proposition is an attempt to reach a compromise that all municipalities can accept. The difference between the two approaches is illustrated in Figure 13, which shows the distribution, by department, of US$ 95 million under the two alternative approaches.

Figure 13: The distribution of US$ 95 million debt relief under different assumptions



Source: Author's calculations and Secretaría Técnica del Diálogo.

The proposed distribution involves quite large redistributions from La Paz, Santa Cruz, and Cochabamba (the three departments on the central axis of Bolivia) towards Oruro, Potosí, Chuquisaca, and Pando, which are all among the poorer departments. Santa Cruz looses 35 percent compared to the population based distribution, but it is the richest department, and it enjoys the most rapid growth rates, and it is the department with the second largest natural gas reserves, so it seems reasonable. The funds for Pando increase by a factor of 7, but it is also the least developed and most sparsely populated of the nine Bolivian departments (INE 1999), and it would certainly need extra funds to catch up. The proposed distribution has yet to be agreed upon.

If the US$ 95 million is distributed to the municipalities (using simple population weights) and the additional resources are compared with their public investment, we see that on average, the debt relief funds would allow an increase in public investment of 136 percent (compared to 1997 investment levels). This shows that most of the municipal development plans are realistic.

5.3 The poverty reduction deficit

In this section we will try to make a rough estimate of the poverty reduction deficit for the period 2001-2005. We define this deficit as the total amount of investment and social spending the local municipalities would need according to their Municipal Development Plans minus the total amount of funds available from debt relief. We assume that their investment plans are for the period 2001-2005, although the exact period may vary from municipality to municipality, or is not specified at all.

Since we only have detailed development plans for 107 municipalities, some extrapolations are needed in order to arrive at the national poverty reduction deficit. The average demand from the 107 municipalities was US$ 6.7 million per municipality. If we extrapolate that number to all 314 municipalities, we get a total investment demand of US$ 2,101 million, or US$ 420 million per year over the five year period considered.

In 1997, the total public municipal investment amounted to US$ 162 million (MDSP 2000). The desired annual investments during the next 5 years are therefore 2.6 times higher. Higher investments are likely to lead to higher current expenses, since two schools cost about twice as much to run as one school. Municipal governments' current expenditures (not including interest payments) amounted to US$ 83 million in 1997. Let us assume that current expenditures will increase by a factor of 2.6 as well, which implies that current expenditures during the next 5 years will amount to US$ 216 million per year.

Jointly, municipal governments would need US$ 636 million per year to finance their Municipal Development Plans over the next 5 years. The HIPC relief will give them about US$ 159 million per year during the period 2001-2005 (see Table 2), implying a poverty reduction deficit of US$ 477 million per year, or 75 percent of poverty reduction costs.

5.4 *Other sources of debt reduction funds*

In this section we will consider what options the local governments have for obtaining funds to finance the poverty reduction deficit.

First, the municipalities can generate their own income through taxation (mainly property and vehicle taxes) and user payments (for trash collection, entrance fees to parks, etc). Table 9 shows that historically they have been able to collect an average of US$ 94 million per year in local income. In addition, the municipal governments can receive transfers from the central government. At July 28, 1995 a Law of Administrative Decentralization was passed that dictates the level and distribution of these transfers. We will therefore assume that the levels observed in 1996 and 1997 represents the “normal” level of regular transfers from the central government, i.e. about US$ 246 million per year. After the decentralization law was passed total municipal income stabilized at a level of approximately US$ 350 million per year.

Table 9: Income to municipal governments, 1994-1997

Year	Own income	Transfers	Total income
1994	65,122,210	111,655,119	176,777,328
1995	106,308,251	163,158,052	269,466,303
1996	95,906,016	253,709,309	349,615,325
1997	108,422,257	238,720,059	347,142,317

Source: MDSP (2000).

We could assume that transfers will remain at the 1996-1997 level during the period 2001-2005, but that would actually be an optimistic assumption. It may be more realistic to expect that the regular transfers will be reduced, because the central government will be more cash constrained after debt relief. Before debt relief the highest amount of debt service that the government managed to pay was US$ 370 million in 1998. In the first five years after debt relief (2001-2005) they have to pay debt service of approximately US$ 253 million annually (IMF 2000) plus debt relief of US$ 159 million (see Table 4) to the municipalities. This adds up to US$ 412 million, or 11 percent more than the maximum amount they paid before debt relief. Let us assume that the central government must reduce general transfers by US$ 42 million per year, so that their total costs remain at the 1998 level. This implies transfers from the central government to municipal governments of US$ 204 annually.

Municipal income including transfers can therefore be expected to average US$ 204 million + US$ 94 million = US$ 298 million annually. This leaves a funding deficit of US$ 179 million per year after regular income and debt relief.

The recent large discoveries of natural gas in Bolivia and the scheduled sales of natural gas to Brazil, implies that royalties amounting to about US$ 70 million per year will become available over the next 20 years (VEH 1999). This may cover some of the missing US$ 179 million in the Municipal Development Plans. The royalties will be very unevenly distributed, however, since the department of Tarija holds the vast majority of natural gas reserves and consequently will receive the vast majority of royalties. The central government will therefore have to provide some redistribution mechanisms.

Totally, regular tax income, regular transfers from the central government, debt relief, and natural gas windfalls is calculated to cover 83 percent of the costs of the Municipal Development Plans, leaving 17 percent without any obvious sources of funding (See Table 10).

We cannot suggest that these plans are going to reduce poverty by half. To date it is unknown how great their effects will be and it is impossible to make close estimates with the present data. However, these are the projects that the local governments believe will help their local populations the most. If corruption is lower in the municipal governments than in the central government, we are likely to see a relatively high impact on poverty per dollar spent.

Table 10: Aggregate budget for Municipal Development Plans (MPDs), 2001-2005

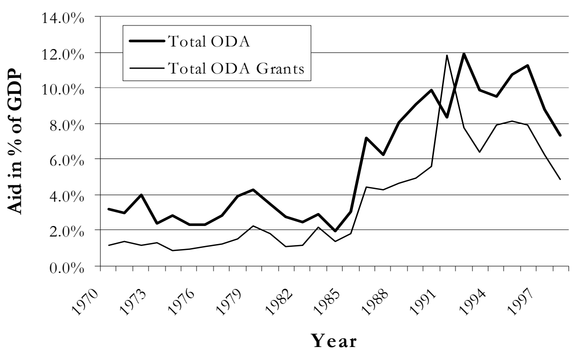
	Million US$	Percent
Annual costs of MDPs (2001-2005)	**636**	**100**
Funding	159	25
Debt relief	94	15
Municipalities' own income		
Regular transfers from the central government	204	32
(not including debt relief)	70	11
Natural gas royalties	**527**	**83**
Total funding for MDPs		

Note: Numbers are extrapolated to cover all municipalities.

5.5 *Debt relief versus traditional foreign aid*

During the period of structural reforms, Bolivia has been highly dependent on foreign aid. Official Development Assistance (ODA) net flows averaged 9.1 percent of GDP during the period 1986-1998 (See Figure 14).

Figure 14: Official Development Assistance (ODA) to Bolivia, 1970-1998



Source: OECD.

Although greatly appreciated, such large amounts of aid have a distorting effect on the economy. Food aid tends to displace the supply from local farmers (e.g. Prudencio & Franqueville 1995), and financial aid tends to crowd out national savings (e.g. Orellana 1995). Technical cooperation drives up the salaries of professionals, which makes it expensive for the local government and universities to attract the best staff to run the country and educate its people. Finally, the various aid inflows increase the probability of corruption.

Aid in the form of debt relief appears to have fewer negative side effects and more positive side effects than traditional foreign aid. First, since there is no inflow of cash, the probability of the aid being diverted away from its intended destination is smaller. Second, the debt relief will strengthen the decentralization process in Bolivia, and bring the funds out in the municipalities, where it is easier to determine how the money should be invested in order to improve living standards the most. Third, the debt relief is likely to improve rural productivity by eliminating local bottlenecks.

The debt relief is expected to substitute, to some degree, traditional aid flows, and thus strengthen the recent downward trend in ODA flows, and make Bolivia less dependent on aid.

6. Conclusions

This paper has shown that the Initial HIPC and the Enhanced HIPC initiatives together will provide debt relief amounting to an average of slightly less than one percent of Bolivia's GDP over the next fifteen years. The funds are to be distributed to municipal governments to help reduce poverty locally through investments in infrastructure, education, and health. If all goes well, the HIPC initiatives will provide funds to cover about 25 percent of the costs of the Municipal Development Plans during the next five years. It is estimated that tax income, regular transfers from the central government, and natural gas royalties can cover an additional 58 percent, leaving 17 percent without any obvious sources of funding.

The HIPC initiative will strengthen the decentralization process in Bolivia, and given adequate monitoring of the use of funds the resulting improvements in living standards could be substantial. If the optimistic projections for the Bolivian economy holds, most municipalities will have funds to carry out a majority of the investment projects they have identified as critical to improve local productive capacity and local living standards.

The authors of this paper hold relatively positive opinions about the HIPC initiative and the way it is being implemented in Bolivia, but these opinions are not shared by everyone in Bolivia. A very large share of the population is skeptical about the National Dialogue, considering it a show put up for the benefit of the donors. They worry that the funds will not reach the poor, even though that was clearly the agreement reached at the National Dialogue. Indeed, if the positive projections for the Bolivian economy do not hold, it is very likely that the central government will have too few funds to be able to make the promised transfers to the municipalities. They may cut both regular transfers and debt relief funds, making the municipalities severely cash constrained, and perhaps place them in a situation where they do not have funds to maintain their new investments. It is imaginable that the municipalities will invest in schools and health centers and start building roads in the first few years after debt relief, and then an external shock will hit Bolivia and the roads will be left half finished, the schools won't have teachers and equipment and the new health clinics won't have doctors and medical supplies. Vulnerability to external shocks is still one of Bolivia's main problems, and debt relief does little to solve that problem.

Hard liners in the government and in the private sector consider debt relief relatively unimportant compared to the opening of export markets, which would help put Bolivia on a sustainable growth path with much less dependence on foreign aid. A seaport is also considered high priority, and the Bolivian president is currently negotiating with the president of Chile on this issue (La Prensa, 02/09/2000).

Finally, there are concerns that the debt relief initiatives will reduce other types of foreign aid. Bolivia is receiving foreign aid amounting to between 7 and 10 percent of GDP each year, and the much debated one percent debt relief might conceivably reduce other types of foreign aid by more than one percentage point, leaving Bolivia worse off than before the HIPC initiatives.

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Appendix A

Table 11: Debt service and non-service, by type of creditor

	Debt service (million US$)				Unpaid debt service (million US$)			
	Multi-lateral	Bilateral	Private	Total	Multi-lateral	Bilateral	Private	Total
1981	41.4	62.8	190.8	295				
1982	46.9	90.1	147.8	284.8				
1983	60.3	82.5	187.1	329.9				
1984	89.8	180.4	73.1	343.3				
1985	116.8	115.9	15.4	248.1				
1986	135.6	50	24.4	210				
1987	114.1	45	8.1	167.2	3.2	113.4	0	116.6
1988	191.5	41.2	6.2	238.9	0.1	300.5	0	300.6
1989	193.4	26.4	6.7	226.5	1.1	156.8	2.7	160.6
1990	202.7	24.8	0.8	228.3	0	29.1	7	36.1
1991	163.8	30.6	0.8	195.2	0	16.2	9.7	25.9
1992	176.2	21.8	8.4	206.4	0	14	11.4	25.4
1993	194.9	38.4	6.8	240.1	0	24.8	13.2	38
1994	209.3	57.9	8.7	275.9	0	124.5	0	124.5
1995	228.9	53.5	4.2	286.6	0.1	81.2	17.1	98.4
1996	251.2	49.2	2.5	302.9	0	65.8	17.4	83.2
1997	259.7	58.3	2.8	320.8	0	21.7	9.3	31
1998	307.9	58.7	3.8	370.4				

Source: Banco Central de Bolivia.

Table 12: Price indices for export commodities and imports

Year	Minerals	Tin	Hydro-carbons	Natural gas	Traditional	Non-traditional	Total exports	Total imports	Terms of trade
1980	209.6	257.1	98.2	96.5	164.2	70.9	148.4	59.2	250.5
1981	174.2	215.9	134.6	132.2	158.3	69.5	143.9	63.2	227.7
1982	150.9	195.4	150.3	147.7	151.2	61.7	136.5	67.7	201.7
1983	153.0	197.9	152.3	151.5	153.7	51.1	136.5	66.9	203.9
1984	148.8	187.7	153.2	151.5	152.1	57.4	136.5	69.0	197.8
1985	138.4	179.9	151.3	149.6	146.1	58.9	130.6	74.9	174.4
1986	88.1	97.7	133.6	132.2	114.3	82.3	106.8	71.7	149.0
1987	96.4	108.0	107.1	106.2	105.1	88.7	100.9	76.4	132.0
1988	104.8	113.1	93.3	93.6	101.0	97.2	99.4	80.4	123.7
1989	113.4	137.5	93.0	93.1	105.4	97.9	103.4	88.6	116.7
1990	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991	83.4	91.8	103.2	103.2	90.6	94.8	91.9	105.5	87.1
1992	88.6	101.2	58.7	58.1	78.3	93.3	82.9	108.5	76.3
1993	77.3	86.6	42.6	42.1	65.4	97.1	74.5	110.7	67.3
1994	84.0	90.2	41.8	41.1	69.6	101.2	78.6	114.1	68.9
1995	88.5	102.5	44.6	43.8	73.4	103.4	81.6	118.2	69.0
1996	88.4	102.7	44.9	44.0	73.6	103.6	81.8	121.1	67.5
1997	86.8	94.0	42.5	41.6	71.4	104.3	81.0	120.0	67.5
1998	78.6	93.0	32.9	33.0	62.9	102.1	75.5	118.4	63.7
1999	75.9	88.7	33.0	29.2	61.3	90.3	69.9	117.1	59.7

Source: UDAPE