



ANNUAL MEETING OF THE BOARDS OF GOVERNORS

FORTALEZA, BRAZIL

AB-2170
CII/AB-809
11 March 2002
Original: Spanish

**ADDRESS BY THE GOVERNOR FOR BOLIVIA
AT THE SECOND PLENARY SESSION**

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1. I have the honor of speaking on behalf of Bolivia, a country that in the mid-1980s successfully stabilized its economy and adopted a series of structural reforms to strengthen the social component of its market economy, modernize the State, and in particular reduce extreme poverty and narrow the widening economic and social gaps in order to pave the way for development of a sound democracy.
2. From the early 1990s to 1998, the economy grew on average in excess of 4 percent thanks to these reforms. In the last three years, however, the Bolivian economy has slowed and unemployment has risen on the heels of a sharp decline in the terms of trade, economic downturns in neighboring countries, the destruction of the illegal coca crops, and the fight against smuggling. In addition, campesino movements organized a highway blockade and generated a climate of social upheaval that could have degenerated into a serious crisis for the future of my country.
3. The adverse climatic conditions produced by the El Niño and La Niña phenomena caused heavy agricultural losses and damaged road infrastructure. Earlier this year, the country's most productive departments, particularly the city of La Paz, were ravaged by natural disasters.
4. At this time, I would like to reiterate the Bolivian government's firm resolve to move forward with the fight against the drug trafficking despite the high economic and social costs it entails. Drug enforcement and the destruction of illegal coca crops represent a reduction in annual GDP of at least three percent, the impact of which has had to be absorbed by broad segments of the population, and is reflected in chronic political and social instability. To offset these adverse effects, the government is implementing a program for alternative development, the scope of which is limited by insufficient resources and thus cannot meet the expectations of small farmers.
5. These factors have caused internal demand to contract sharply and sales in the private sector to fall, thus limiting the sector's ability to service its debt with the financial system.

6. Although the structural reforms will indisputably generate long-term benefits, they will entail a high fiscal cost over the next ten years that could undermine macroeconomic stability. Such is the case of pension reform, which will guarantee future pensioners a decent life and stimulate capital markets. The annual budgetary cost of implementing this reform, though, will amount to roughly 4.5% of GDP.

7. Against this complex economic, political, and social tapestry, in August 2001, President Hugo Banzer Suárez was compelled to step down for health reasons. His successor, current President Jorge Quiroga Ramírez, introduced a 12-month plan to reverse the country's difficult situation and lay the groundwork for a comprehensive social strategy for poverty reduction. The main features of the emergency program are the following:

- Promote public investment as a means of stimulating aggregate demand and meeting social needs. This measure has resulted in record costs exceeding the amount initially budgeted.
- Carry out a national emergency employment plan, which is generating 10,000 jobs each month, in an effort to reduce unemployment.
- Pay an annual pension to citizens over 65 years of age, with the proceeds from the capitalization and refund of contributions to the Housing Fund in order to raise personal income.
- Implement financial restructuring programs for municipalities and support universities and departmental governments so that they can meet the terms of their investment and private-sector debt repayment programs.
- Reschedule private-sector bank debt through the creation of a Special Economic Reactivation Fund with a contribution of US\$500 million. At the same time, a financial sector capital strengthening fund was set up.

This injection of resources has helped mitigate the crisis for those sectors, regions, and vulnerable groups that have been hardest hit.

8. The central pillar of President Quiroga's plan for the medium and long terms is the Bolivian Poverty Reduction Strategy, the result of a broad-based participatory process with civil society known as the National Dialogue. The strategy stresses actions to raise income for the poor, improve their skills, reduce their vulnerability, and broaden their participation in the context of administrative decentralization.

9. The relief provided under the HIPC Initiative will be used to allocate additional funding to the poorest municipalities and expand benefits and coverage of health and education services.

10. Another component of the 12-month plan is institutional strengthening and the fight against corruption. To this end, strengthening the National Road Service and the Internal Revenue Service as institutions was promoted and Customs reform continues. In addition, regulations were established for government procurement and sworn statements on the assets and income of government officials.

11. Opening up markets and attracting foreign direct investment are priorities for the government. Trade agreements were entered into with the Andean Community to consolidate soya and oil-seed markets. Arrangements are also being made to review and expand preferential tariffs for Bolivian exports to the United States.
12. In the area of hydrocarbons, a sector in which Bolivia has Latin America's second largest proven gas reserves, energy integration with Brazil was consolidated, increasing sales of natural gas. Also under negotiation is a project to export liquefied gas to the United States market.
13. These measures, together with international economic recovery starting in the second half of the year, make it possible to project economic growth of around three percent this year and continue the structural reforms already under way.
14. All of the objectives attained were possible thanks to effective action by the Inter-American Development Bank (IDB), reflecting the fine performance of priority social and road infrastructure projects. It is also important to note that my country supports the regional policy dialogue and cooperation advanced by the IDB, since the exchange of experiences between regions and governments and the inclusion of civil society in the dialogue are vital.
15. The IDB also stood ready to deliver resources for immediate relief for the natural disaster that recently struck La Paz, and we are grateful for its assistance. We are also considering channeling resources for strengthening the Bolivian private sector through the Multilateral Investment Fund and the Inter-American Investment Corporation.
16. External shocks have altered the parameters and assumptions used by the countries to make projections on the sustainability of their debt, jeopardizing their chances of graduating and the sustainability of poverty reduction programs. This process should be reevaluated in light of the most recent world events such as the 11 September attacks, the growing social and political tensions besetting certain countries in the region, capital market instability, and debt problems that have led to macroeconomic problems.
17. In this context, I think this is a good time to reflect briefly on the IDB's policies for the low-income countries and its linkage to the future graduation of these nations.
18. Access to FSO resources should be a stimulus for countries with clear anti-poverty strategies. Accordingly, consideration should be given not only to per-capita income as a means of determining the distribution of FSO resources but other factors as well, such as macroeconomic performance, institutional performance, and primarily the progress made with social programs and efficient use of resources to fight poverty.
19. To ensure that ongoing programs are not adversely affected, the richest countries in the world that are members of the Bank must substantially increase the concessional resources. If this cannot be done immediately, a policy of intermediate graduation should be introduced combining a gradual phaseout of access to concessional FSO resources and additional resources from the Intermediate Financing Facility (IFF).
20. Multilateral financing needs to be broadened to include the private sector, which, in the less developed countries, finds it hard to gain access to international capital markets on regular terms and conditions. In this regard, the IDB could grant partial guarantees, back

contingency lines of credit, and act as a catalyst in the financing of infrastructure projects with the private sector.

21. To conclude, Bolivia is making great strides to consolidate democracy and structural reform. However, as we still have some way to go in bringing about poverty reduction, we continue to need the support of multilateral organizations, particularly the IDB.

22. I would like to end by commending and thanking the Government of Brazil and the authorities of the state of Ceará for their excellent organization of this meeting and the warm welcome extended to the participants in this Annual Meeting of the Inter-American Development Bank.