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TRANSNATIONAL BANKS, THE STATE AND EXTERNAL
INDEBTEDNESS IN BOLIVIA */

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Summary

This study on the Bolivian experience with heightened foreign indebtedness, based on commercial loans from transnational banks, as a means of accelerating growth is based on a careful examination of the phenomenon from the perspective of the agents of development involved, that is, the transnational banks and the Bolivian State. The first part of the study focusses on the role and behavior of the transnational banks, using the information from their sovereign loan contracts with the Bolivian authorities as the empirical foundation for that analysis. In this section, the analysis revolves around the magnitude, form and cost of Bolivia's externally-contracted private credits and the influence and strategies of particular transnational banks in respect of those variables. The second part concentrates on the Bolivian State and how its internal contradictions led to excessive and, to a certain extent, careless borrowing from transnational banks and provoked new and more difficult dependency relations with those foreign participants. The analysis of the efficiency of the planning and debt control systems as well as the detailed examination of the experience of various of the dominant state enterprises and banks lays the basis for a complete understanding of the multidimensional character of the Bolivian State and its influence in the perceived result of the external indebtedness strategy. The final section summarizes the findings according to developmental agents and presents the corresponding conclusions relevant for the Bolivian experience.

Preface

The present study was made possible by way of the generous effort and collaboration offered by many people, especially Bolivian professionals who contributed their considerable knowledge and information and functionaries of the ECLAC who assisted in this long labor. Of the first group, a special mention for Flavio Machicado, Juan Villarroel and Tania de Villarroel is in order. Flavio Machicado greatly assisted the project by orienting the initial data collection exercises with respect to the transnational banks' participation in Bolivia's external public debt. Juan and Tania Villarroel undertook the notable task of gathering data on the transnational bank credits and assisted in the preparation of the second part of the study by the submission of this analysis entitled "Institutional Control of the External Debt in Bolivia", which served as the basis for Chapter VI. Similarly, a large number of public employees of State enterprises, such as YPFB, COMIBOL, ENAF and CBF, and Central Government institutions, such as the Ministry of Planning and Coordination and the Central Bank, gave freely of their time and knowledge.

In the ECLAC, a host of professionals made direct contributions by way of the internal seminar held previous to the publication of the original Spanish version of the study. That assistance is much appreciated.

Finally, it is worthwhile mentioning that this complex study was motivated in large part by the sincere desire to assist in the comprehension of the underlying causes of the crisis being experienced in Bolivia so that the proper correctives may be implemented. The authors hope, in this fashion, to make a minor contribution to the progress of the Bolivian people and nation.

Robert Devlin and Michael Mortimore
Santiago, March 1985

Chapter I

AN INTRODUCTION TO THE BOLIVIAN STUDY

Why study the case of Bolivia?

Bolivia was chosen as the subject of this study for three reasons. The first, and perhaps the most important, was that data were available with which to conduct the research. The full co-operation of the Central Bank of Bolivia and the access to external financing contracts which this provided were decisive.

In the second place, the case of Bolivia is a very interesting one because this country's commercial bank debt is very large with respect to the size of its economy. Among the group of non-oil-exporting developing countries, Bolivia was, in 1980, one of the twelve largest customers of the commercial banks. 1/

Finally, because the country's economic and social situation is a product of severe under-development, its experience may be representative of the special tasks and difficulties involved in channeling financial resources for development for this category of country through private commercial banks. Bolivia has all the features of a relatively less developed developing country. Despite its mineral wealth and its agricultural potential, its per capita income in 1980 was one of the lowest in Latin America in 1980 2/ and the country is among the poorest 40% of the developing countries. 3/ The data in table 1 show various aspects of its social situation.

In addition, there are other factors which show the extent of its under-development. Most of the indigenous population (representing around two-thirds of the total population) do not participate in the modern part of the economy; their standard of living is so low that the peasant's average life expectancy

Table 1
BOLIVIA: SOCIAL INDICATORS

<u>Demographic characteristics (1970)</u>		<u>Food (1970)</u>	
Gross natality (per 1 000 inhabitants)	47	Calorie consumption as a percentage of needs	76.0
Gross mortality (per 1 000 inhabitants)	19	Per capita protein consumption	48.5
Infant mortality (per 1 000 live births)	154		
<u>Distribution of income (1970)</u>		<u>Health (1970)</u>	
Percentage of national income, upper quintile	59	Number of inhabitants per physician	2 300
lower quintile	4	Number of inhabitants per hospital bed	510
<u>Access to drinking water supply (1970)</u>		<u>Access to electricity (1970)</u>	
Percentage of population - urban	35	Percentage of population	
- rural	1	- urban, approximate	90
		- rural, approximate	8
		<u>Education (1970)</u>	
		Percentage of literate adults	40
		Percentage of enrolment in primary schools	68

Source: World Bank, World Tables, second edition, Washington D.C., 1980.

is only 35 years. 4/ The country's external vulnerability is evident in the fact that it has traditionally been a mono-exporter (tin). Its political instability is reflected in the serious inconsistency of the national leadership; a Bolivian author, Eduardo Arze Cuadros, has remarked that in Bolivia the national state has been in a permanent state of crisis almost since its inception in 1825. 5/ Because it is a landlocked country with a very irregular and diversified topography, it is very difficult to ensure economic and social articulation between the regions. 6/

It is evident from this brief description of the Bolivian situation that the case is worth studying. The fact that the commercial banks --supposedly cautious institutions which grant their loans on the basis of very strict criteria of creditworthiness-- should have been so willing to do business with Bolivia during the 1970s also makes the country very interesting as the subject of a study on transnational banks and external financing.

An Economy in Crisis

The period covered by this study, 1972-1980, began with a new government which was the product of an alliance between the armed forces and two political parties, i.e., the National Revolutionary Movement (MNR) and the Bolivian Socialist Phalange (FSB). The new government tried to re-orient economic policy, which up to then had been decidedly of a nationalist and populist type (with the State being dominant in economic activity) and seemed to follow very closely the principles of the Bolivian revolution of the 1950s and the military regimes of the period between 1969 and 1971 (Ovando/Torres), which built upon that revolution. By contrast with the previous government, the new government assigned fundamental importance to private activity, both national and foreign. One of the key elements of its policy was a strict

stabilization programme, begun in 1971-1973, which, among other things, provided for a 68% devaluation (October 1972) and a stand-by loan of US\$ 33 million from the International Monetary Fund (January 1973), as a result of which typical monetary and fiscal restrictions were imposed. 7/

During the early years of the new national project, there were some encouraging signs: between 1972 and 1976, fixed investment increased significantly and the economy reached relatively high growth rates; fiscal revenues grew substantially, thus reducing the fiscal deficit, and an export boom strengthened the balance of payments and significantly reduced the burden of servicing the debt (see tables 2 and 3). The apparent success of the economic policy might have been, for some, a sign of the beginning of economic "takeoff" for Bolivia.

As is well known, the prosperity of those years did not last. The data show that after 1976, there was a gradual decline in economic growth; in 1980, the real growth rate fell to almost zero (and was, of course, negative in per capita terms). The export coefficient fell to a little under half its 1974 level; the import coefficient, on the other hand, was much more resistant to decline and this affected the deficit on the balance-of-payments current account, which, in fact, would have been much worse had the terms of trade been unfavourable. Domestic prices and fiscal revenues also deteriorated sharply. Even more important, however, is the fact that during the late 1970s, there was a marked decline in real salaries and wages (see table 4), with the resulting erosion of overall well-being. In fact, in one way or another, all indicators reflect the serious economic crisis which has afflicted the country since 1978.

External financing in general and the transnational banks in particular have played an impressive role in both the boom and the decline of the economy. In nominal terms, the external public debt grew rapidly throughout the 1970s. In real

Table 2

BOLIVIA: SELECTED ECONOMIC INDICATORS, 1970-1980

	Annual growth rate				Percentage of GDP						
	Gross domestic product	Money supply (M ₁)	Consumer prices	Public consumption	Private consumption	Fixed gross investment	Exports	Imports	Fiscal revenues	Fiscal deficit	Current account
1970	5.3	12.6	3.9	10.7	72.4	14.5	20.2	20.3	7.6	1.4	-2.2
1971	4.9	15.3	3.6	11.2	74.4	14.4	17.2	20.0	7.4	2.2	-3.9
1972	5.8	25.1	6.5	11.1	71.7	15.2	17.2	19.9	8.3	4.3	-4.1
1973	6.8	34.3	31.6	10.8	69.4	17.3	22.6	23.5	10.5	1.6	-2.4
1974	5.2	43.4	67.7	10.3	66.8	15.1	28.7	22.2	13.1	1.0	5.0
1975	6.6	11.7	8.0	11.6	69.6	18.4	21.3	26.9	11.8	1.4	-6.7
1976	6.1	36.5	4.5	11.9	69.2	18.9	22.5	24.7	11.3	2.4	-3.9
1977	4.2	20.9	8.1	13.1	68.9	19.0	22.3	25.1	11.8	5.0	-5.3
1978	3.4	12.4	10.4	14.1	72.6	20.1	18.6	25.3	11.1	3.7	-10.1
1979	1.8	16.7	19.7	13.3	74.9	16.6	19.3	25.2	11.0	4.9	-12.1
1980	0.8	42.6	47.2	13.6	70.4	15.6	13.1	14.2	7.9	5.4	-2.9

Source: GDP and national accounts; Banco Central de Bolivia, Cuentas nacionales, 1970-1979 and Memoria Anual, 1980; money supply and consumer prices; International Monetary Fund, International Financial Statistics; fiscal statistics: calculated on the basis of data from ECLAC, Economic Survey of Latin America, 1978-1980; figures on balance-of-payments current account: ECLAC, Economic Survey of Latin America, 1978-1980.

Table 3

BOLIVIA: SELECTED EXTERNAL SECTOR INDICATORS, 1970-1980

	Exchange rate		Terms of trade (1970=100)	Growth rates				Service of the debt <u>c/</u>
	<u>a/</u>	Parity <u>b/</u>		Unit value of exports	Volume of exports	Unit value of imports	Volume of imports	
1970	11.88	...	100.0	9.5	-8.8	3.8	-7.1	20.0
1971	11.88	...	82.1	-7.1	11.2	1.8	7.2	21.7
1972	13.23	...	79.9	11.7	7.8	6.1	1.7	25.9
1973	20.0	20.0	87.6	32.8	4.7	16.2	3.6	15.5
1974	20.0	26.6	139.7	114.1	7.9	24.3	24.3	11.1
1975	20.0	26.1	111.0	-10.2	-10.6	13.7	24.3	14.6
1976	20.0	27.2	113.4	6.3	16.9	4.0	5.0	16.2
1977	20.0	29.1	119.8	17.4	-3.6	11.5	2.7	20.8
1978	20.0	29.8	121.3	11.4	-11.7	10.8	10.8	48.5
1979	20.8	31.7	120.7	18.8	2.2	20.8	-2.5	31.0
1980	24.5	41.7	143.0	32.7	-8.6	12.9	-35.3	26.5

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Source: ECLAC, Economic Survey of Latin America, 1978 and 1980, for terms of trade and value and volume of exports and imports; ECLAC, on the basis of official data, for parity exchange rate; and Inter-American Development Bank, La deuda pública externa de los países de América Latina (1980), table 52, for the debt service coefficient.

a/ Bolivian pesos per dollar.

b/ 1973 = 100. The deflators for the Bolivian gross domestic product and United States wholesale prices are the indicators of domestic and external inflation, respectively.

c/ Service of the public debt as a percentage of exports of goods and services. In 1979 and 1980, amortization payments were in arrears.

Table 4

BOLIVIA: EVOLUTION OF MONTHLY WAGES AND SALARIES

	1977	1978	1979	1980 _{a/}	Growth rates		
					1978	1979	1980 _{a/}
<u>Nominal wages (in current pesos)</u>							
Mining	2 562	2 597	2 824	3 532	1.4	8.7	25.1
Petroleum industry	6 425	8 911	9 360	10 393	38.7	5.0	11.0
Manufacturing industry	2 895	3 178	3 464	4 279	9.8	9.0	23.5
Construction	2 676	2 943	3 200	4 377	10.0	8.7	36.8
Commerce	3 976	4 699	5 170	5 752	18.2	10.0	11.3
Banks, insurance & finance	5 350	6 699	7 025	8 204	25.2	4.9	16.8
Average wages	3 042	3 371	3 979	4 380	10.8	18.0	10.1
<u>Real wages (in 1976 pesos)</u>							
Mining	2 370	2 177	1 977	1 594	-8.1	-9.2	-19.4
Petroleum industry	5 944	7 469	6 553	4 942	25.6	-12.2	-24.6
Manufacturing industry	2 678	2 664	2 425	2 035	-0.5	-9.0	-16.1
Construction	2 476	2 467	2 240	2 081	-0.4	-9.2	-7.1
Commerce	3 678	3 939	3 620	2 735	7.1	-9.1	-24.4
Banks, insurance & finance	4 949	5 615	4 918	3 901	13.5	-12.4	-20.7
Average wages	2 814	2 826	2 786	2 083	0.4	-1.4	-25.2

Source: ECLAC, Economic Survey of Latin America, 1980.

a/ Estimated.

terms, however, most of the debt accumulated during the peak period of the cyclical boom and the first few years of the decline. As is shown in table 5, the transnational banks accounted for most of the increase in credit received, and their share in the external debt rose from practically nil in 1970 to over one-third in 1980.

The emergence of this new source of financing probably contributed towards intensifying and prolonging the economic boom which had begun with the favourable export price situation in 1974. Nevertheless, the banks' interest in Bolivia proved to be a passing phenomenon. After 1977, the growth of the country's external debt fell ostensibly, mainly because of the sharp decline in net disbursements by the transnational banks, as will be seen later on in this study. Indeed, the banks lost confidence in Bolivia; in its 1979 and 1980 credit ratings for developing countries, the Institutional Investor placed Bolivia towards the bottom of the list (see table 6).

Although the banks lost confidence in Bolivia, they were not able to sever all their ties with the country and its economic policy, since they had granted loans having medium-term maturities. They did exercise greater caution in granting new loans and thus gradually reduced their portfolio in the country. This made it difficult for Bolivia to service its public debt and had a very negative impact on its balance of payments and economic growth. In fact, Bolivia was left at the mercy of the transnational banks and their decisions whether or not to grant loans to the country. It had no defence against the bankers' unilateral assessment, as may be seen from the following quotation from the Institutional Investor: "... when Bolivia does negotiate a plan with its creditors, the country will be forced to accept almost any refinancing terms that are offered." 8/

Table 5

BOLIVIA: PUBLIC EXTERNAL DEBT, BY SOURCE a/
(Percentages)

	Suppliers	Banks	Bonds	National- lizations	Official multilateral debt	Official bilateral debt	Total
1970	10.2	3.3	12.2	14.4	9.8	50.1	100
1971	7.1	5.0	10.6	14.4	12.7	50.1	100
1972	10.6	7.1	8.5	11.6	12.3	50.3	100
1973	9.0	7.7	8.1	10.2	13.0	52.1	100
1974	8.0	13.7	6.6	6.9	15.4	49.5	100
1975	8.4	17.4	4.7	4.0	21.1	44.3	100
1976	7.9	26.0	3.5	2.4	24.0	36.1	100
1977	6.8	30.3	3.5	1.1	23.2	35.2	100
1978	6.9	30.5	2.8	0.2	26.1	33.4	100
1979	5.8	31.1	2.3	-	27.9	32.9	100
1980	4.7	37.1	2.8	-	27.2	28.2	100

Breakdown

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total debt <u>b/</u>	549	624	742	768	904	1 222	1 603	1 994	2 377	2 759	...
Nominal growth rate	17.8	13.5	19.1	3.5	17.7	35.2	31.2	24.4	19.2	16.0	14.0
Real growth rate <u>c/</u>	...	9.8	14.1	-8.5	-1.0	23.6	25.4	17.3	10.5	3.1	0.4

Source: IDB, *Deuda pública externa de los países de América Latina*, 1980 and 1982.

a/ Medium- and long-term State debt and State-guaranteed debt.

b/ Millions of United States dollars.

c/ Debt deflated by United States wholesale price index.

Table 6

LATIN AMERICA: CREDIT RATINGS, 1979-1980.

Regional rating		Country	World rating 1980	Points <u>a/</u>
1980	1979			
1	2	Mexico	25	71.9
2	1	Venezuela	27	71.2
3	4	Argentina	31	62.6
4	5	Colombia	37	59.6
5	6	Trinidad and Tobago	41	58.5
6	3	Brazil	43	58.0
7	7	Chile	52	52.9
8	8	Ecuador	54	52.3
9	9	Panama	61	45.2
10	11	Paraguay	63	44.6
11	12	Uruguay	66	42.2
12	10	Costa Rica	68	41.1
13	15	Peru	72	35.2
14	13	Dominican Republic	75	32.5
15	-	Cuba	76	32.2
16	14	Bolivia	78	27.8
17	16	Jamaica	84	19.9
18	17	Nicaragua	94	9.8

Source: Institutional Investor, New York, July 1980.

a/ These are the credit ratings published by the Institutional Investor, which indicate the banks assessment of each country's creditworthiness in March 1980.

Because of this, many might think that the bankers' decision to reduce the volume of their loans to the country played a very significant part in the Bolivian crisis. On the other hand, others may argue --as have the bankers themselves-- that the banks were only responding to a crisis that had been brought about by internal factors, one of the most important of which was the way in which economic policy had been managed. In this study we put forward the hypothesis that both viewpoints are excessively simplistic; that the Bolivian crisis has in fact been caused by a series of complex factors, both internal and external, and that, both the decisions of the bankers and those of the Bolivian economic team played a part in the situation.

Methodology of the Study

As is well known, there are very few sources of information on the behaviour of commercial banks, since the banks themselves keep the details of their operations strictly confidential. Even the governments of their countries of origin often find it very difficult to monitor the activities of international banks.

Since the banks are reluctant to provide details concerning their loans, and current theory and practice do not allow for an adequate understanding of how transnational financial operations are carried out, an inductive research methodology seems to be in order; in other words, we must go to the borrowing countries, whose loan agreements are a source of abundant data on the commercial banks.

As was shown in the aforementioned ECLAC study on Peru, a systematic analysis of the data contained in the loan agreements can be very revealing as regards the behaviour of the transnational banks. Certain country studies can provide information on the banks' strategies and their impact on economic development.

As more studies are made, the cumulative findings can be used as a basis for well-grounded generalizations on the phenomenon of indebtedness with private commercial institutions.

Thus, the study of transnational banks presented herein is based on the data available in Bolivia regarding medium and long-term bank loans to the public sector during the 1970s. 9/ This period was chosen because during the 1960s, bank loans to Bolivia were not significant. It was decided to analyse loans to the public sector because the State dominates the economy 10/ and is the recipient (or guarantor) of almost all bank loans of this type. However, in order to place the period studied in suitable context, the analysis covers a broader scope and deals, in different degrees of depth, with the country's post-war experience in so far as this affects its economic policies.

An effort was made, within the time frame and the approach described above, to compile detailed data on each of the bank loans granted to Bolivia, as well as more general data concerning loans from other types of creditors. The methodological annex to this study provides further information on specific aspects of the compilation and processing of figures pertaining to loans from the transnational banks. We suggest that readers having a special interest in the subject should consult the annex in order to avoid erroneous interpretations of the scope and limitations of the data on this aspect of the study.

To get an idea of what these bank resources mean to the local economy, we had to make a careful study of the internal dynamics of the Bolivian State. This analysis of the State and of the various roles it assumes in the course of the development process adds a further dimension to this study as compared with the one done previously by ECLAC on Peru. In the case Bolivia, we have analysed both the recipient and the grantors of commercial loans, in order to bring out certain essential aspects of the negotiating relation between the two. 11/

This aspect of the study gives rise to a conceptual analysis of the State, the orientation of its development strategies and, specifically, its attitude towards foreign participation in national development. This helps bring to light the factors that limit a country's capacity for taking decisions independently, as well as the complications or contradictions of the State apparatus that have made it difficult to use bank resources effectively, particularly in the case of public enterprises. In studying both the transnational banks and the State, we tried to trace the actual flow of resources from their source in the international financial centres to their destination, i.e., their allocation to specific activities in the country. With this accomplished, the resulting analysis provides a more thorough knowledge of Bolivia's experience with the transnational banks.

Structure of the Study

As is evident from the above comments, this study takes two complementary approaches, i.e., it includes both an analysis of the transnational banks and an analysis of the Bolivian State. It thus covers the two major protagonists of the massive indebtedness experience of the 1970s. The study is divided into three parts. One refers to the transnational banks and another to the State, and in the third part, an effort is made to combine the first two in a synthesis leading to well founded conclusions and recommendations.

The first part refers to the unidimensional nature of foreign participation in the Bolivian economy, i.e., to the predominance of the transnational banks in the financing obtained by the country. A general description is made of the factors which led the transnational banks to Bolivia. A study is then made of the terms and conditions of the loans granted to the country by the banks; it is shown that Bolivia was never a very popular

client on the international capital markets and that it contracted the bulk of its debts at a time when credit terms were harsh. Next, taking the position that the transnational banks are not homogeneous, an effort is made to outline the various loan strategies of the different credit institutions, both from the overall viewpoint and from that of the behaviour of individual banks.

In the second part of this study, an analysis is made of the so-called multidimensional State. It is shown that the State is not a homogenous entity, but rather a heterogenous, multidimensional one whose many different interests must be managed very carefully and coherently in order to prevent contradictions from arising within the State apparatus which might weaken its bargaining position. In the next chapter, a review is made of the planning system and the institutional mechanisms for controlling external indebtedness and it is shown that the pressures of national groups (who wanted loans) and of the transnational banks (who wanted to increase the supply of resources to the country) created conditions which undermined both the spirit and the letter of the control systems, thus making it difficult to implement a suitable policy for contracting and allocating resources in foreign currencies. Finally, an analysis is made of the use which the public sector, and particularly the public enterprises, made of the bank loans. Through a review of the indebtedness experiences of certain large public enterprises and of the review of their principal projects, an effort is made to show that the utilization of resources fell way short of the goals of optimum use. Finally, in Part III, an effort is made to synthesize and bring together the two approaches set forth in parts I and II. Some recommendations concerning policies on financing are made which may help both the banks and the country avoid repeating their past mistakes.

Other Considerations

It is important that the reader bear in mind the many limitations of a monograph such as this. The findings of the study on the banks are limited specifically to the case Bolivia; however, they are very useful for purposes of evaluating their past performance and interpreting their future action in the context of this country's economy. As regards the behaviour of commercial banks as a source of transnational credit for developing countries in general, however, the conclusions of this study are strictly of a tentative nature and must be considered as presenting a "well-informed" hypothesis. More definitive conclusions can only be reached after a greater number of research studies on the phenomenon of transnational banks are completed.

As for as the analysis of the State is concerned, the attempt to study what is generally called the "public sector", although useful in studying the Bolivian case, may not be equally pertinent for every other country and should therefore be discussed in greater depth and detail in other monographs. This is difficult because access to detailed data on the countries' decision-making processes, as well as on the operations of certain public enterprises, is still restricted.

Finally, this study must be viewed as one more step in the effort to gain more knowledge about the transnationalization of world finance and its impact on the developing countries.

Notes

1/ See Morgan Guaranty Trust Co., World Financial Markets, September 1980, table 1.

2/ See OAS, Statistical Bulletin of the OAS (3, 1-2), January-June 1981, table AE-2.

3/ See World Bank, World Tables, p. 432.

4/ See Nash, p. xiii.

5/ See Arze Cuadros, p. 458. There is probably no better evidence of this than the frequent political upheavals the country has gone through and the fact that within the last 160 years, it has had 190 governments. Between 1978 and 1980 alone, there were seven different governments (see Asheshov, p. 1).

6/ Moreover, the economy must absorb transport costs that are often three times higher than those of its neighbours. For example, land transport between La Paz and Antofagasta and between Santa Cruz and Buenos Aires costs US\$65 and US\$85 per ton, respectively; in Chile, land transport between Santiago and Valparaiso costs US\$ 10 per ton and in Argentina, transport between Rosario and Buenos Aires costs US\$ 25 per ton. These data are for 1979 and were provided by the Transport and Communications Division of ECLAC.

7/ For further information on stabilization policies, see the note on Bolivia in ECLAC, Economic Survey of Latin America, 1972.

8/ Institutional Investor, New York, July 1980, p. 163.

9/ Short-term loans are very important, but different in nature from medium- and long-term loans; moreover, they are very difficult to quantify, because of their volume and their short maturities. The only part of the study that includes information on short-term loans is to be found in connection with the analyses of public enterprises presented in chapter 7.

10/ The estimates suggest that the main public enterprises generate around 25% of GDP and around 90% of the total value of exports (see Irvin, p. 9).

11/ As regards Peru, a significant number of studies have already been made on the Peruvian State and its economic policies during the 1960s; therefore, the ECLAC study placed greater emphasis on analysing the behaviour of the transnational banks vis-à-vis the country. Because of the very few studies have been made on the Bolivian State after 1955, the situation was not the same in the case of this country. In this study, therefore, a special effort was made to deal in greater depth with the State and its economic policies vis-à-vis the transnational banks during the 1970s.

PART I - THE ONE-DIMENSIONAL NATURE OF FOREIGN
PARTICIPATION IN BOLIVIA

Chapter II

THE EXTERNAL FINANCING OF CONTEMPORARY BOLIVIAN DEVELOPMENT

1. Bolivia: Its Image as a Borrowing Country

In considering bank loans to Bolivia during the 1970s, one must bear in mind the traditional image which the country projected on the foreign capital markets, both private and official. There seems to be general agreement that it was not a favourable one. To understand why this is so, we must look at some background information. As mentioned in the Chapter I, creditors, especially private ones, are quite naturally concerned with the prospects for repayment, particularly as regards the borrower's creditworthiness. Each type of credit institution has its own criteria of creditworthiness (those of the transnational banks will be discussed later on in this study); essentially, however, the common denominator is the borrower's capacity to pay. The antithesis of creditworthiness is perhaps crisis, since this is something which seriously affects the service of external obligations. And, as mentioned in the Introduction, Bolivia's political instability has produced a considerably higher number of economic crises than is usual in the rest of the Latin American countries. Contrary to what one might think, Bolivia's economic and social weaknesses have not always deprived it entirely of external credit. Notably, there were times when the central countries' desire to export capital was even greater than the cautiousness that usually characterizes the major international financial centres, and thus Bolivia was still able to incur large debts. Unfortunately, the periodical opening up of external credit seems to have hindered rather than helped economic development, since it led the country to embark upon a long and

tragic journey on which it encountered many obstacles that prevented it from meeting the requirements of its foreign creditors as regards reliability and payment of obligations, thus damaging its image on the foreign capital markets. As will be seen later on, the country's poor image, as well as its constant external debt problems, also affected the behaviour of the private banks during the 1970s. It is worthwhile, therefore, to begin this chapter with an appraisal of the behaviour of Bolivia as a borrowing country.

a) The first round of indebtedness

Before 1908, Bolivia's external debt was not significantly large. As mentioned above, however, during the first three decades of this century, there was a general trend towards exporting capital to the developing regions; this trend was only temporarily interrupted by the World War I. Although because of its lack of solvency, Bolivia was never an attractive customer for the private creditors of the North, the exportation of capital was so great that it also became involved in the process. More than 20 years ago, ECLAC published a widely acclaimed research study on the Bolivian economy which included an analysis of the country's foreign credit transactions during that period. It is worthwhile to reproduce here a few paragraphs from that study, in as much as they provide a very good description of Bolivia experience at that time; moreover, the implications of these developments are still valid.

"In 1908, in an effort to stabilize the exchange rate and establish the gold standard, a loan for 500 000 pounds sterling, at 6% interest was obtained from J.P. Morgan and Company. In 1910, a French loan in the amount of 1.5 million pounds, at 5%, was used to found the Banco de la Nación. In 1913, Crédit Mobilier de Paris granted another 1 -million-pound loan, at 5%, to build the Atocha-La Quiaca railway. In 1917, another loan for US\$2.4 million, at 6%, was obtained from Chandler & Co. and the Equitable Trust Company of New York, for the construction of the Los Yungas railway. In 1920, a new loan, for US\$ 2 253 000, at 6%, was floated in the United States for the

construction, by Ulen Contracting Corporation, of the La Paz and Cochabamba sewer systems. In 1922, a 25-year loan for US\$ 33 million, at 8%, was negotiated with Stifel-Nicolaus Investment Company of Saint Louis, Equitable Trust Company and Spencer Trust Company of New York. Of this amount, US\$ 19 million were used to pay or convert pending State obligations and the rest for the construction or completion of the Potosí-Sucre, Cochabamba-Santa Cruz, Atocha-Villazón and Los Yungas railways and the Villazón-Tarija highway. To guarantee payment of these obligations, a mortgage or lien was placed on the Government's shares in the Banco de la Nación and on most public revenues and the aforementioned Comisión Fiscal Permanente (Permanent Oversight Committee) was set up. As one author on the period has said, 'this was the largest loan operation in the history of Bolivia and, although it placed the public debt on more just and systematic foundation, it left the country with a great and costly burden and without the necessary funds to carry out the public works that were essential to the nation's development'... Less than three years later, the Government contracted a new loan for 600 000 pounds with Glyn, Mills and Company of London, at 8% interest and a maturity of five years, in order to continue work on the Potosí-Sucre railway. In addition offering as collateral the revenues from the tax on mining profits paid by Patiño Mines and Enterprises Consolidated Inc., the Government undertook to refrain, over a period of five years, from increasing the existing taxes on the mining industry and its products and from levying any further taxes on the mining industry. In 1927, a new loan was negotiated with Dillon, Read & Co., of New York, for the construction of the Potosí-Sucre and Cochabamba-Santa Cruz railways; this loan was for US\$ 14 million, at 7% interest, and was guaranteed by a first lien on various taxes not committed under previous loans, and by a second lien on rents pledged for the 1922 8% loan. In 1928, a new loan was obtained from the same firm for the amount of US\$ 23 million, at 7%, in order to pay off the loan from Glyn, Mills and Company, the Erlanger bonds, the floating debt and the obligations with Vickers. In 1930, yet another loan was obtained from Unión Allumetiére in the amount of US\$ 2 million at 7% interest."

"In addition to taking these direct loans, the Bolivian Government guaranteed loans to private entities which over the long run became State obligations. The first and largest one was the guarantee on the first-mortgage bonds issued by The Bolivian Railway Company for construction of the railway after the United States firms Speyer & Co., and National City Bank of New York transferred to it the concession granted by the Government in 1906. These bonds, which amounted to 3.75 million pounds, at 5%, were taken by the original concessionaires and were to be paid with the product of the railways. The Government also took second-mortgage bonds amounting to 2.5 million pounds. In 1908, the Bolivian Railway transferred construction of the works and leased the rail lines to The Antofagasta (Chile) and Bolivian Railway, which has administered them since then without any participation

of the Bolivian Government. The Government, for its part, not only received no payment, either for capital or interest, on the second-mortgage bonds, but it had to pay most of the interest on the first-mortgage bonds (2 215 240 pounds on total interest due of 2 945 889 pounds up to 1927, the maturity date on the bonds), since the liquid income of the railways was not sufficient to meet these commitments.

"The other guarantee was for the so-called Erlanger bonds, issued in 1910 for a total of 300 000 pounds, at 6%, by the Cochabamba Light and Electric Power Company for the construction of railways and electric power plants in Cochabamba. The Government had to take over the service of these bonds and pay them afterwards with part of the second Dillon Read loan in 1928". 1/

By around 1930, the Bolivian Government had contracted an external debt of over US\$ 100 million, usually on very harsh financial terms. 2/ The fiscal burden was enormous, as the country's foreign obligations sometimes exceeded income by 50%; on many occasions, the Government had to delay its domestic payments in order to meet the service of the foreign debt. 3/ What was probably even more important was the creditors' zeal for protecting their loans, which led them to explicitly demand the right to retain a significant part of the nation's revenues and assets, leaving the country, as Arze Cuadros has observed, in a position where it was 'almost a colony of the foreign lenders'. 4/

The gap between the willingness of the creditors in the centre to grant loans to Bolivia and the country's repayment capacity became extreme as a result of the Great Depression of 1929 and the disastrous war with Paraguay shortly after that; in 1932, Bolivia suspended the service of its debt. 5/

b) The second round of indebtedness

Bolivia's failure to meet its external obligations meant that it no longer had access to the private credit market. It thus had to depend on bilateral loans from friendly governments and on direct foreign investment. As is well known, after the World War II, the Latin American countries were able gradually

to resume the service of their debt; this was not the case with Bolivia, however, and its image vis-à-vis private creditors and even official ones was seriously damaged.

The root of Bolivia's problems lies in the fact that it is perpetually in a state of political uncertainty. The MNR revolution of 1952 --along with the nationalization of the assets of the three great tin barons-- did not augur well for the major international capital centres. Indeed, the main political propositions of the so-called national revolution and the frictions within the coalition formed by the MNR and the Bolivian Workers' Central (COB) made for an extremely cautious behaviour on the part of foreign capital. If, in addition, one bears in mind that the political process changed and upset the basic relations of production, distribution and accumulation, making it difficult to conceive an economic development strategy, one may clearly see the dichotomy between the political and the economic rationales. As is shown in many publications on the subject, 6/ the Bolivian economy was extremely weak throughout almost the entire decade of the 1950s; it only began to show signs of recovery between 1962 and 1963, and this recovery was followed, in 1964, by the fall of the national revolutionary régime and the takeover by the armed forces.

During this period, Bolivia was barely able to meet its own domestic needs; it was certainly not in a position to meet its obligations abroad. The situation was such that the only types of loans which Bolivia could hope to obtain were those provided through official bilateral sources. The United States Government --clearly motivated by a desire to soften the political content of the revolution--became the main official source of credit; in addition, in view of Bolivia's economic situation, it granted resources on the most favourable terms possible, i.e., in the form of donations. 7/ Bolivia's

dependence on North American aid reached such a point that in 1957 around 32% of the Bolivian Government's income came from the United States. 8/

It is important to add that, even though the nominal cost of United States aid was very low, it entailed a high political cost to the Government, since it was tied to many conditions, not all of which were in keeping with the interests of the principal governing groups (MNR/COB). Perhaps the best-known example of this was the orthodox stabilization programme implemented, in 1957, at the suggestion of the United States and under the official supervision of the IMF. This programme gave rise to serious disagreements within the MNR/COB which probably contributed to the downfall of the coalition. Indeed, as noted by Blasier, the MNR seems to have been obliged to pay an unnecessarily high price, as far as the nature and direction of the revolution were concerned, for United States financial assistance.9/ Moreover, the conditionality of official credit would, in the next few years, continue to be a constant source of irritation for the Bolivian authorities.

One important goal of the aforementioned stabilization programme was to improve the country's creditworthiness. To this end, the Government decided to resume the service of its external debt and reached an agreement with the Foreign Bondholders' Protective Council of New York to begin payments on certain old obligations mentioned above to wit: i) the Chandler loan of 1917, on which there was an outstanding balance of US\$ 1.3 million; ii) the Nicolaus loan of 1922, with an outstanding balance of US\$ 21.8 million; iii) the Dillon Read loan of 1927, with an outstanding balance of US\$ 12.5 million; and iv) the Dillon Read loan of 1928, with an outstanding balance of US\$ 20.7 million. 10/ However, the attempt to restore the country's creditworthiness failed, since the Government again suspended its payments in 1960, thus reinforcing its image as a high-risk borrower.

During the first half of the 1960s, the United States substantially increased the flow of capital to Bolivia, 11/ but there was a significant change in the composition of the resources provided: instead of being donated, they were loaned. 12/ In addition, the United States tried to spread the burden of providing aid to Bolivia by seeking other sources of credit; during the 1960s, the German Government, the IDB and other international financial agencies granted large loans. This type of credit also had two important implications. In the first place, the international agencies tended to condition disbursement on the fulfillment of certain technical and, sometimes, political requirements which often went beyond the capacity of the Bolivian authorities, thus hindering the flow of capital to the country. 13/ In the second place, the change from donations to loans had serious implications with regard to foreign capital, since loans, even when granted on soft terms, entailed a service obligation; obviously, donations do not involve reverse flows of capital.

When the new President, General René Barrientos, took over, Bolivia's prospects for improving its creditworthiness brightened for several reasons: i) his takeover represented a break with the political forces which had been in power during the MNR period; ii) during his administration, the country experienced a period of relative economic growth; iii) oil production by Bolivian Gulf Oil Company came to represent 15% of the country's total exports; 14/ iv) the government was very much in favour of private investment; 15/ and v) one of the first steps taken by the Government was the resumption of payments on the four old foreign-currency obligations mentioned above. This relatively stable atmosphere and the positive attitude towards foreign capital came to a sudden end in 1969, when Barrientos died in an accident. There then followed a series of changes of government and eventually two generals (Ovando and Torres) came to

power who once again raised the banner of revolution. This development represented a direct threat to foreign capital interests as the Bolivian Gulf Oil Company and the Matilde mine (belonging to United States Steel and Engelhard Minerals) were nationalized. These events, along with certain failures in the political organization of the country, further deteriorated Bolivia's image on the international capital markets.

c) The third round of indebtedness

As has been noted in many studies, 1970 marked the beginning of a period of radical improvement in the creditworthiness of most Latin American countries; this, along with other structural supply-side factors, put underway a strong cycle of indebtedness with private banks. During this first cycle of growth of the private banks (1970-1974), Bolivia (which had a poor image in banking circles) was virtually left out of the whole process. The perceived risk of lending to Bolivia is exemplified by the fact that this country had the dubious distinction of having accumulated a per capita external debt that was even higher than its per capita national income. ^{16/} Its position as a borrower was so weak that the Eximbank, a relatively concessionary source of export loans, continued to give Bolivia the very low credit rating of D (on a scale of A to D) and showed no interest in granting the Government credit during the first part of the decade (see table 7). The country was not able to meet IBRD requirements and therefore had little access to credit from that institution (see table 8). The IDB, which did loan to Bolivia in large amounts, reserved most of these transactions for its "soft window"; only in 1971 did it begin to grant loans from its regular capital. ^{17/} Thus, Bolivia was left out of the international capital market, despite the virtual overflowing of external credit to its Latin American neighbours, such as Brazil, Peru, Ecuador, Colombia, etc.

Table 7

BOLIVIA: LOANS GRANTED BY THE UNITED STATES EXPORT-IMPORT BANK, 1965-1979

(Millions of dollars)

Year	Borrower	Amount
1966	Corporación Boliviana de Fomento	41.9
1968	Lloyd Aéreo Boliviano	5.1
1968	Lloyd Aéreo Boliviano	3.2
1975	Lloyd Aéreo Boliviano	4.8
1977	Corporación Regional de Desarrollo	2.5
1977	Lloyd Aéreo Boliviano	13.2
1979 <u>a/</u>		

Source: United States Treasury, Foreign Credit, several issues, and data compiled by the authors.

a/ During this year, Eximbank stopped granting new loans to Bolivia.

Table 8

BOLIVIA: ANNUAL CREDIT AUTHORIZED BY IBRD, 1966-1978 a/

(Millions of dollars)

Year	Amount
1969	23.2
1975	32.0
1976	68.0
1977	92.0
1978	34.0

Source: IBRD, Statement of Loans, 31 December 1980.

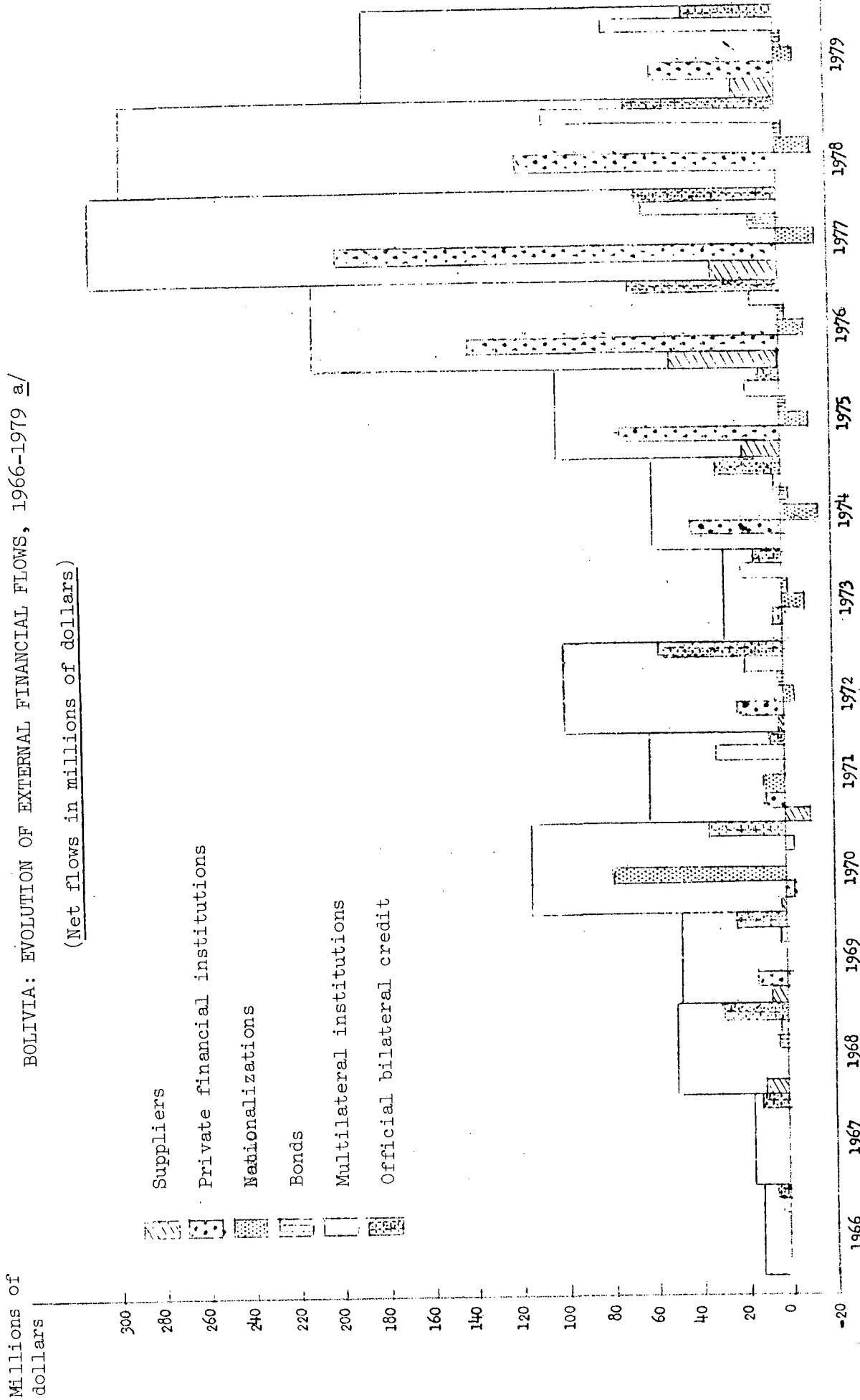
a/ Regular loans (not including International Development Association (IDA) loans).

Despite all this, Bolivia did contract heavy debts with the transnational banks. Figure 1 shows the sources of net annual credit to the country for the period 1965-1979; with "private financial institutions" appearing as the main indicator of bank credit, it is clear that Bolivia's indebtedness with the transnational banks only began to grow to considerable proportions in 1974 and actually took off in 1975. In the next few years, the flow of capital to the country increased enormously; the transnational banks, which accounted for more than 50% of the capital flow for the period 1976-1978, were in the vanguard of the process (see figure 1).

For the reasons already mentioned, the international banks did not grant medium- and long-term loans to Bolivia before 1970 . 18/ The banks were still not very active in the developing countries and Bolivia (with its poor credit rating) had no access to the few funds that were available from this source. In 1970-1973, some longer-term loans trickled in from the international banks, but this was not a steady trend; these loans were instead associated with certain special circumstances, to be discussed later on in this report. What is important is that between 1970 and 1973, access to foreign credit followed the pattern of the 1960s, i.e., there was an extreme dependency of official credit from the United States and the IDB and, to a lesser extent, from the Government of the Federal Republic of Germany and the International Monetary Fund (see table 9).

There are some interesting aspects to the change in Bolivia's standing vis-a-vis the international market in 1974-1975. Bolivia gained access to the market precisely at a time when credit was generally being held back, when the banks were supposedly reassessing their strategies of the pre-Herstatt period. Indeed, it might seem rather surprising that Bolivia should be rated as a solvent borrower by the international banks when countries such as Peru, Jamaica and Zaire were about to lose this rating and others, such as Brazil and Mexico, were facing very difficult credit conditions.

Figure 1
 BOLIVIA: EVOLUTION OF EXTERNAL FINANCIAL FLOWS, 1966-1979 a/
 (Net flows in millions of dollars)



Source: World Bank and IMF, International Financial Statistics.

a/ Medium- and long-term flows to the public sector.

Table 9

BOLIVIA: LOANS APPROVED BY DIFFERENT SOURCES OF FINANCING, 1966-1980
(Millions of dollars)

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
<u>Official bilateral credit</u>	<u>32.6</u>	<u>13.1</u>	<u>32.1</u>	<u>12.3</u>	<u>1.4</u>	<u>30.7</u>	<u>55.7</u>	<u>39.9</u>	<u>75.6</u>	<u>38.5</u>	<u>19.5</u>	<u>81.5</u>	<u>60.6</u>	<u>153.4</u>	<u>24.6</u>
Western Europe	5.1	-	4.1	4.1	1.4	-	6.8	-	28.6	5.4	5.2	13.3	11.5	64.2	2.7
Germany, Federal Republic of	5.1	-	-	1.7	1.4	-	-	-	28.6	-	5.2	5.2	-	56.8	2.7
Others	-	-	4.1	2.4	-	-	6.8	-	-	5.4	-	8.1	11.5	7.4	-
United States	27.5	11.6	28.0	8.2	-	25.1	30.0	35.7	47.0	17.2	8.5	47.2	49.1	36.0	17.3
AID	22.0	11.0	10.8	-	-	20.0	30.0	26.3	40.6	12.4	8.5	31.5	38.3	24.0	-
Eximbank	-	-	9.8	-	-	-	-	-	-	4.8	-	15.7	-	-	-
Others	5.5	0.6	7.4	8.2	-	5.1	-	9.4	6.4	-	-	-	10.8	12.0	17.3
Japan	-	-	-	-	-	-	-	-	-	12.4	-	-	-	49.5	-
Socialist countries	-	-	-	-	-	3.9	18.9	4.2	-	3.5	5.8	21.0	-	3.7	4.6
Others	-	1.5	-	-	-	1.7	-	-	-	-	-	-	-	-	-
<u>Multilateral credit</u>	<u>36.4</u>	<u>40.3</u>	<u>9.5</u>	<u>65.5</u>	<u>1.9</u>	<u>33.0</u>	<u>56.9</u>	<u>87.0</u>	<u>52.4</u>	<u>125.2</u>	<u>114.9</u>	<u>178.7</u>	<u>263.2</u>	<u>51.2</u>	<u>225.4</u>
IDB	18.4	18.3	9.5	14.9	0.5	21.6	42.1	46.5	46.2	54.1	40.2	83.3	180.7	12.2	42.6
IBRD	-	-	-	23.2	-	-	-	-	-	32.0	68.0	92.0	34.0	-	50.0
IDA	-	2.0	-	7.4	1.4	6.8	8.0	6.0	6.2	7.5	-	-	9.0	19.5	16.0
CIF	-	-	-	-	-	-	-	0.4	-	-	0.9	2.3	-	-	5.7
IMF	18.0	20.0	-	20.0	-	4.5	4.7	32.9	-	5.5	-	-	39.5	11.5	111.1
Others	-	-	-	-	-	0.1	2.1	1.2	-	26.1	5.8	1.1	-	8.0	-
<u>Private financial institutions</u>	<u>0.3</u>	<u>-</u>	<u>2.8</u>	<u>15.5</u>	<u>-</u>	<u>17.3</u>	<u>33.1</u>	<u>10.3</u>	<u>71.3</u>	<u>99.5</u>	<u>219.9</u>	<u>223.7</u>	<u>316.5</u>	<u>179.9</u>	<u>151.5</u>
Suppliers	17.4	0.8	14.6	11.5	5.6	3.9	40.2	16.6	13.8	44.2	39.0	15.6	39.7	70.0	6.5
<u>Total</u>	<u>86.7</u>	<u>54.2</u>	<u>59.0</u>	<u>104.8</u>	<u>8.9</u>	<u>84.9</u>	<u>185.9</u>	<u>153.8</u>	<u>213.1</u>	<u>307.4</u>	<u>393.3</u>	<u>499.5</u>	<u>680.0</u>	<u>454.5</u>	<u>408.0</u>

Source: IDB, Financiamiento externo de los países de América Latina, December 1978, December 1982 and World Bank data.

It is worthwhile to discuss in detail some of the key factors involved phenomenon.

In the first place, it must be remembered that, on the supply side, despite the market crisis of mid-1974, the banks were still flooded with liquidity and this led them to grant loans at any cost. They had already placed significant amounts in many Latin American countries and their natural inclination was to diversify their portfolios; the problem in Latin America was that they had already granted substantial amounts to almost every country, except the ones that really did not participate in the first round of loans. Among the latter, there were few attractive options. Chile and Argentina, two potential new clients, were going through a serious economic depression. In their effort to keep on lending, the banks found better opportunities in Bolivia.

For obvious reasons, one of the criteria of creditworthiness applied by the banks was that the borrowing country should enjoy economic and political stability. In this regard, it should be noted that a key factor in their change of attitude towards Bolivia was the consolidation of the régime of General Hugo Banzer. With the coup against General Torres in August 1971, it became clear that the Government's main aim was to establish law and order, in 1974, when General Banzer consolidated his power by eliminating the MNR and the FSB from the Government, the country's prospects for stability were better than they had been throughout most of its history. 19/ Another factor --discussed in greater detail in the second part of this study-- was also very important, i.e., the Government's highly positive attitude towards the private sector and the participation of foreign capital in the economy, which represented a turnaround from the approach taken by previous governments (Ovando/Torres). In assessing creditworthiness, the banks put great store in the policy towards private capital and, in particular, foreign capital. 20/ As Maria Conceição Tavares has remarked,

a positive attitude towards foreign capital is so important that it can, in an of itself, give a country broad access to international credit, even in times of economic crisis. 21/

The situation improved steadily for foreign capital during Banzer's administration. One of the first things he did was to enact new laws concerning hydrocarbons and investment, facilitating the expansion of national and foreign private-sector activity in the national economy. Moreover, the Government acted immediately to compensate the owners of the Matilde mine for the action taken by the previous government. 22/ As the military régime became more entrenched, integration with foreign capital increased; in 1973-1977, the country opened its doors to 17 oil companies, authorizing them to carry out exploration activities in Bolivian territory. 23/ In 1976, with the appointment of the former General manager of Citibank in La Paz, (a Bolivian national) as Minister of Finance, Bolivia's image on the international financial markets unquestionably received a new boost.

To these factors, which have to do with the general atmosphere in the country must be added certain economic developments which helped change the banks' opinion of Bolivia's creditworthiness. During the period 1965-1974, Latin America enjoyed a strong cyclical increase in exports, 24/ and Bolivia took part in this, as has been noted. Basically, thanks to the good international prices, Bolivia's exports grew rapidly and it managed to accumulate a large amount of foreign exchange; the international banks view both these factors as very important indicators of creditworthiness. 25/ And, of course (as mentioned above), the boom in the value of exports brought with it a high rate of economic growth, which is another significant indicator used by the banks to assess creditworthiness. 26/

Although all these factors helped improve Bolivia's image on the international capital market, it was probably its prospects for gas and oil

production that made the banks decide to take an active part in the country's market. In 1974, Bolivia was already exporting 30 000 barrels of oil per day and this, along with the high prices imposed by OPEC, brought a real foreign-exchange bonanza. What was even more important, however, was the fact that in 1974-1975, the country had great expectations of further increasing its oil and gas production and this determined the policies followed by the Government and by the international capital interests, particularly the private banks.

Seventeen foreign oil companies were conducting explorations in the country and the Government was expecting oil and gas production to reach 200 000 barrels per day and 550 million cubic feet in 1980-1981. 27/ These expectations are reflected in the fact that in 1974, the Government negotiated an agreement with Brazil in return for aid with the development of an industrial pole, at a cost of over US\$ 1 billion. 28/ Judging by their behaviour between 1975 and 1977, the private international banks shared the Bolivian Government's optimism.

In brief, the situation in Bolivia led the banks to see signs that this country, with such great potential wealth, would finally reach the point of economic takeoff. And there is no question that the Government was receptive to the banks' desire to expand their portfolios in Bolivia. The authorities, normally accustomed to the straitjacket imposed by official credit (in terms of technical and political requirements), were now flooded with offers from the banks that did not entail any direct economic or political conditions. Indeed, in 1975-1977, Bolivia seemed to be living in a veritable external-credit paradise.

During this period, thanks to the favourable attitude of the international banks (as shown in figure 1), the country enjoyed unprecedented access to credit. However, there was a cost: what the banks did not require in the technical sphere

they did require in the financial sphere. As will be noted in the next chapter, the price of these loans was much higher than that of credit from official sources, and the maturities were much shorter. (Table 10 shows the average credit terms of some official agencies.)

Since the financial conditions imposed by the private banks were relatively tough, it was essential that this credit be used with extreme caution, in order to ensure a return on investment that would be equivalent to or higher than the cost of the loan. The flexibility of the private banks in authorizing and disbursing credit (made possible by the fact that by contrast with official credit agencies, they did not impose technical conditions for their loans) brought about a rapid and abundant flow of financial resources which placed a tremendous responsibility for financial management on the authorities. The country had developed an ability to protect itself from crisis and, in particular, to live with a chronic shortage of external resources. With the sudden disappearance of this type of restriction, it became evident --rather ironically-- that the country was not prepared to take advantage of this positive turn of events. Later on in this study we shall see that these two aspects of private bank credit actually created problems for the Bolivian Government and contributed heavily to its subsequent economic crisis.

Around 1978, the flow of credit from the international banks began to fall; this led the country to end the year 1979 with its third crisis of external indebtedness. The banks were very reluctant to grant further credit to Bolivia and even demanded that the country turn to the International Monetary Fund. 29/ A series of factors affected the country's image with the international banking community. One was the drop in oil exports and the very limited success of the foreign companies' explorations for oil; 30/ at the same time, oil production,

Table 10

BOLIVIA: CREDIT TERMS GRANTED BY SOME OFFICIAL SOURCES, 1966-1979

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
	<u>Average interest rate</u> (Percentages)													
IDB	2.98	2.25	1.85	2.94	3.25	7.37	0.57	8.0	1.74	1.75	1.74	5.73	2.30	1.75
IBRD	-	-	-	6.5	-	-	-	-	-	8.5	8.13	8.21	7.61	-
AID	2.28	2.04	2.38	-	-	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.67	2.75
EXIMBANK	-	-	6.00	-	-	-	-	-	-	9.0	-	8.69	-	-
	<u>Average grace period</u> (Years)													
IDB	4.17	4.50	5.11	4.17	2.50	4.47	9.12	5.0	10.5	9.86	10.25	6.68	9.87	10.50
IBRD	-	-	-	2.0	-	-	-	-	-	5.0	4.33	5.18	5.0	-
AID	7.3	10.86	10.0	-	-	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
EXIMBANK	-	-	1.37	-	-	-	-	-	-	5.0	-	5.68	-	-
	<u>Average amortization period</u> (Years)													
IDB	12.2	22.5	18.0	20.6	13.0	18.4	28.8	25.5	30.0	28.7	28.4	24.3	27.9	29.5
IBRD	-	-	-	19.0	-	-	-	-	-	20.0	17.0	15.2	15.0	-
AID	28.0	29.1	30.0	-	-	30.0	30.0	30.0	30.0	30.0	30.0	30.0	20.0	30.0
EXIMBANK	-	-	8.0	-	-	-	-	-	-	5.0	-	5.0	-	-

Source: IDB, Financiamiento externo de los países de América Latina, December 1980.

which was falling steadily , was directed mainly towards expanding domestic consumption. This meant that an important element of security for the banks was vanishing, thus seriously eroding their assessment of Bolivia's creditworthiness. This problem was aggravated by a drop in the volume and price of almost all other Bolivian exports. The fatal blow for the banks, however, was General Banzer's retirement (in 1978), which was followed by a series of changes of government and political unrest. General Banzer's government, with its commitment to international capital, was the last source of security for the banks; his retirement from the political scene and the uncertainty that was brought about by the opening-up to democracy produced a new reluctance on the part of the banks to continue with their financial support.

2. Crisis and Renegotiation of the Commercial Debt

The political uncertainty of the years following 1978 was accompanied by a pronounced deterioration of the economy. As economic problems worsened, gradually brought their lending operations to a halt, while awaiting the outcome of a national effort to strengthen the country's democratic processes; this inevitably weakened the exercise in democracy itself. Given the shortage of foreign exchange, the commercial banks realized that it was not likely that Bolivia could keep on servicing its debt and they contacted each other unofficially, seeking a solution to the problem. However, the armed forces stepped in again in July 1980. The new government, constantly pressured by the shortage of foreign exchange, was not able to service the capital portion of its commercial debt, but it did keep up its interest payments. It began to negotiate a stabilization programme with the International Monetary Fund which would provide for a stand-by credit of US\$ 205 million. 31/ At the same time, the authorities sought a formula that would satisfy their private creditors, who had loaned the country a total of US\$ 825 million. 32/ In March 1981,

the country reached an agreement with the commercial banks for the refinancing of US\$ 400 million of that debt. 33/ The conditions which had to be met were quite stringent: the repayment term was seven years, interest was 2 1/4% over LIBOR and commissions were 1 1/8% for medium- and long-term loans. 34/ In addition, the country accepted another condition, i.e., that it would reach an agreement with the International Monetary Fund within 60 days from the date of signature of the agreement (28 April 1981). This latter condition seemed difficult, since in March 1981 the country apparently was not complying with some of the economic criteria used by the Fund to determine whether a country's economic policy qualifies for IMF financial support.

During 1981, it became obvious that the new rescheduling agreement would not get Bolivia out of its difficult situation. The country found it extremely difficult to meet the service of its debt; the leadership of the military government changed again and in early 1982, the government still had not been able to finalize the IMF agreement required by the transnational banks. An indicator of the seriousness of the crisis and the weakness of the country's bargaining position vis-à-vis its foreign creditors was the fact that in February 1982, on the eve of the arrival of an IMF technical mission to evaluate the government's austerity policy, the authorities enacted a sharp devaluation (77%) of the Bolivian peso. 35/

Considering the problems that Bolivia was facing and its weak bargaining position vis-à-vis the foreign capital interests, one wonders why its negotiators did not take advantage of the precedent set in 1980 by the Nicaraguan Government, which, in negotiating its debt with the transnational banks, obtained preferential treatment and terms that were more in harmony with the repayment capacity of a debtor country with serious economic problems. 36/ Instead, Bolivia managed,

in March 1981, to obtain a provisional debt rescheduling agreement with the commercial banks the terms of which were much more stringent as regards maturity, interest and commissions, as mentioned above. The reasons which Bolivia might have had for not taking advantage of the precedent set by the Nicaraguan Government in its negotiations with the banks are discussed in the conclusions of this report.

Notes

1/ See CEPAL (1958), pp. 11-12.

2/ See Arze Cuadros, p. 257 and CEPAL (1958), p. 12.

3/ See CEPAL (1958), p. 12.

4/ See Arze Cuadros, p. 257.

5/ Just before the suspension, the public sector had external obligations amounting to 174 million Bolivian pesos (US\$ 60 million), while fiscal revenues only amounted to 35 million Bolivian pesos. See CEPAL (1958), p. 12.

6/ Some of the better studies on the subject are: Alexammer, CEPAL (1958), Fifer, Malloy, Malloy and Thorne and Wilkie.

7/ As Blasier notes, the Bolivian revolution represents the only real social revolution that has received complete and continued support from the United States. In per capita terms, disbursements of United States loans to Bolivia were the highest of any granted to a Latin American country, (averaging, in absolute terms, US\$ 20 million per year between 1953 and 1960). See: Blasier, p. 83 and p. 86.

8/ See Wilkie, p. 13.

9/ See Blasier, p. 98.

10/ Data researched by the authors.

11/ United States authorizations peaked in 1964 at nearly US\$ 80 million. See: Blasier, p. 77.

12/ See Wilkie, p. 13.

13/ As regards the technical requirements, interviews with former Bolivian Government officials have revealed that, in their opinion, during the 1960s, the IBRD's policy was extremely strict and the AID's was also, to a somewhat lesser degree. By contrast, the IDB apparently had a much more flexible attitude towards the Bolivians.

14/ See Thorn, p. 200.

15/ Ibid., p. 211.

16/ According to the IDB, in 1972, Bolivia's per capita external debt amounted to US\$ 144, while its per capita income was US\$ 137. See Valle Antelo y Céspedes Toro.

17/ IDB, Statement of Loans, 31 January 1981.

18/ As shown in figure 1, in 1969 there was a net flow of credit from private financial institutions. However, this does not represent funds from the international banks, but rather a US\$ 15.3 million loan granted in the form of a bond by the New York State Common Retirement Fund. This credit, granted on terms that were extremely favourable to the country, was part of an arrangement between Gulf Oil Corporation and the Bolivian Government pertaining to compensation for the nationalization of assets belonging to Bolivian Gulf Company.

19/ In a 1973, President Banzer stressed his concern for achieving stability as follows: "The nation demands peace and order. We will give it stability, no matter who objects and no matter who falls." See Banzer (1973), p. 7.

20/ See Friedman (1977), p. 53.

21/ See Tavares, p. 40.

22/ As will be noted later on in this study, the transnational banks participated in the agreement to grant the Government the loans that were used to pay compensation for nationalized assets.

23/ See Latin American Economic Report, 19 August 1977, p. 127.

24/ See Devlin (1978), fig. 1.

25/ See Friedman (1977 and 1981).

26/ Ibid.

27/ Latin American Economic Report, 25 June 1976, p. 98.

28/ See Arze Cuadros, p. 503.

29/ An article in Euromoney (January 1982, p. 104), written anonymously by a former IMF official, contains a revealing analysis of relations between the Government and the International Monetary Fund during this difficult period.

30/ When they withdrew from the country, the oil companies had lost about US\$ 130 million. See Latin American Economic Report, 19 August 1977, p. 127.

31/ See Euromoney, op. cit.

32/ Wall Street Journal, 25 March 1981.

33/ See Crittenden. The bankers' committee charged with negotiating the agreement was made up of the Bank of America, which served as chairman; the Bank of Nova Scotia, Citibank, Crocker National Bank, Dresden Bank, Libra Bank and Manufacturers Hanover. See Andean Report, May 1981.

34/ The agreement provided for several quotas:

Quota 1A: Short- and medium-term loan in arrears from August 1980 to March 1981, equivalent to US\$ 104 million. Repayment term of 3 1/2 (two-year grace period), as of 6 April 1981. Interest of 2% over LIBOR and fixed commission of 1%.

Quota 1B: US\$ 69 million rescheduled at a seven-year repayment period (three-year grace period), as of 6 April 1981. Interest of 2 1/4% over LIBOR and commission of 1 1/8%.

Quota 2: US\$123 million maturing between April 1981 and March 1982. Down payment of 10%, with balance rescheduled over seven years (four-year grace period), interest of 2 1/4% over LIBOR and commission of 1 1/8%.

Quota 3: Payments maturing between April 1982 and April 1983, equivalent to US\$ 127 million. Down payment of 10%, with the balance rescheduled on terms identical to those established for quota 2.

See Andean Report, May 1981, p. 97.

35/ See International Monetary Fund, Morning Press, 9 February 1982.

36/ Twelve-year repayment period (5-1/2 year grace period); a margin of between 1% and 1 3/4% over LIBOR (less than 1.5% on average) and a maximum interest rate of 7% per year up to 1985, the difference being capitalized over the last five years of the loan. In addition, the agreement did not provide for payment of any commission. (See Winert, 1981.)

Chapter III

THE TRANSNATIONAL BANKS AND THEIR LOANS TO BOLIVIA

As has been noted above, the transnational banks only began to be an important source of credit for Bolivia during the 1970s. It is worthwhile repeating that, by comparison with many other Latin American countries, Bolivia was a "new arrival" on the international market, as it did not participate actively in the credit market until late 1974, when other countries (Brazil, Mexico, Peru, Panama, Colombia) had already gained considerable experience in dealing with the commercial banks. This chapter describes the transactions that took place between Bolivia and the banks that granted it credit. The creditors are identified and an analysis is made of the terms and conditions of the loans they granted to the State. This is important because a better understanding of the role of the banks will provide a better basis for analyzing their behaviour. This analysis also provides an opportunity for presenting some hitherto unpublished information about the country's commercial debt.

1. Banks that granted credit to the public sector

There are several ways to go about studying the banks that granted commercial credit to Bolivia. In this study, the matter is considered from three angles, i.e. that of the individual creditors, that of their groupings by country of origin and that of their groupings by size of the institution.

a) Individual creditors

Table 11 shows who were Bolivia's main creditors during the period 1970-1979. These are classified by sextiles according to the gross total amount by granted, and are divided into three major groups, i.e., large, intermediate and small creditors.

Table 11

BOLIVIA: COMMERCIAL BANKS ACCORDING TO AMOUNT OF CREDIT GRANTED, 1970-1979 a/

Name of bank	Gross amount of credit (millions of dollars)	Bank's country of origin	International classification ^{b/}	
			1974	1979
<u>Major creditors</u>				
<u>(I) > 97 < 116</u>				
Bank America Corp.	116	United States	1	2
Citicorp	109	United States	2	3
<u>(II) > 77 < 97</u>				
Banco do Brasil <u>c/</u>	97	Brazil	20	20
<u>(III) > 58 < 77</u>				
Société Générale de Banque <u>d/</u>	76	Belgium	59	45
<u>Intermediate creditors</u>				
<u>(IV) > 39 < 58</u>				
Dresdner Bank	57	Federal Republic of Germany	12	8
<u>(V) > 20 < 39</u>				
First Chicago Corp.	37		30	58
Bank of Montreal	36	Canada	37	54
Royal Bank of Canada <u>d/</u>	28	Canada	23	34
Bank of Nova Scotia	22	Canada	52	62
National Westminster Bank	21	United Kingdom	8	11
Westdeutsche Landesbank Gironzentrale	21	Federal Republic of Germany		
			17	13
<u>Minor creditors</u>				
<u>(VI) < 20</u>				

The other 107 banks mentioned in the study
(See appendix).

Source: ECLAC, on the basis of figures supplied by the Central Bank of Bolivia.

a/ All loans, regardless of whether or not they are guaranteed by official export promotion agencies in the bank's country of origin.

b/ Classified according to bank size on a worldwide scale of 1 to 300. The scale is based on the bank's assets in dollars, as reported in The Banker, June 1975 and 1980. The relative fall of the dollar during the second half of the 1970s explains to a large extent the general decline in the international ranking of United States banks in 1979.

c/ If export credit (i.e., credit guaranteed by the government of the country where it originates) is excluded, the creditor is placed in group V.

d/ If export credit is excluded, the creditor is placed in group VI.

Although a total of 118 banks (counting subsidiaries as part of the parent company) granted loans, only four^{1/}--Bank America Corp., Citicorp, Banco do Brasil and Societé Générale de Banque-- can be considered major creditors. These are followed by a group of seven other banks that loaned relatively large amounts during the period in question; these intermediate creditors include the Dresdner Bank of Germany, First Chicago Corp. and the Bank of Montreal. What is most interesting, however, is that 107 banks (over 91% of the banks that granted credit to Bolivia) loaned less than US\$20 million, i.e., the equivalent of less than US\$2 million per year. Indeed, many if these banks loaned US\$1 million or less during the entire period covered by this study.

Table 12 shows the distribution of total credit in the three categories of banks, which are grouped according to their importance as sources of credit. The four main ones, equivalent to only 3% of all creditors, granted almost one-third of all credit, whereas the 107 banks which, considered individually, loaned small amounts, provided almost 50% of the total amount of credit granted.

These figures deserve some comment. In itself, the distribution of credit shows that Bolivia was a customer of only marginal interest to the international banking community. As regards the banks classified as "major creditors" or "intermediate creditors" in table 11, it is interesting to note the absence of a large number of institutions that tended to be very active in financing developing countries (particularly in Latin America) during the 1970s. Among these were Chase Manhattan Bank, Bankers Trust, Manufacturers Hanover Trust, Continental Illinois, Chemical Bank, Wells Fargo and others, all ranked among the 15 largest bank in the United States.

Table 12

BOLIVIA: CREDITORS CLASSIFIED ACCORDING TO AMOUNT OF CREDIT GRANTED

	Major creditors (groups 1-3)	Intermediate creditors (groups 4 and 5)	Minor creditors (group 6)	Total
Percentage of total amount of credit granted	32.7	18.7	48.6	100.0
Number of institutions	4	7	107	118

Source: ECLAC, on the basis of figures supplied by the Central Bank of Bolivia.

Although they account for a large share of the credit granted to Latin America, they do little or no business in Bolivia.^{2/} The absence of other major banks, such as the Bank of Tokyo, Barclays Bank, Crédit Lyonnais, Deutsche Bank, Dai-Ichi Kangyo Bank (to mention only a few), is somewhat more difficult to explain, since less information is available on their overall credit strategies. However, the fact that they were hardly involved in Bolivia at all supports the view that even during its best borrowing period, Bolivia was not considered an important customer on the international credit markets.

As regards the major creditors, it should be noted that, in granting credit, two of the four had the backing of their national export-promotion agencies for most of their loans; in other words, they mostly financed the trade of their country of origin, at little risk to themselves. Indeed, only Bank America Corp. and Citicorp loaned large amounts on their own account; this is consistent with their ranking in the international classification and with their own overall credit strategies, which assign an important role to the developing countries. The structure of the market leads one to believe that had Bolivia been a more attractive customer, there would have been more banks in this category as well as in the intermediate category. As has been mentioned above, many of the large commercial banks seemed to have avoided the Bolivian market or to have entered it only marginally.

b) Creditors according to country of origin

Another way to look at Bolivia's creditors is to group them according to their country of origin. Table 13, which presents this type of data, shows that there is a high degree of geographical diversification in the structure of commercial credit, especially by comparison with official credit.

Table 13

BOLIVIA: LOANS AUTHORIZED BY COMMERCIAL BANKS, BY COUNTRY
OF ORIGIN, 1970-1979 a/

Bank's country of origin	Percentage of total loans authorized	Number of institutions <u>b/</u>	Average size <u>c/</u>	Number of credit transactions
United States	35.5	33	11	124
Japan	1.3	10	60	13
Canada	10.5	8	57	52
United Kingdom	9.9	8	37	38
Federal Republic of Germany	8.7	9	12	25
France	2.4	4	40	11
Italy	0.8	2	31	8
Switzerland	1.8	5	47	8
Others	18.1	20	44	60
Mixed banks <u>d/</u>	10.7	18	301	60
Not identified	0.3	1	...	2
TOTAL	<u>100.0</u>	<u>118</u>	<u>28</u>	<u>401</u>

Source: ECLAC, on the basis of figures supplied by the Central Bank of Bolivia.

a/ All credit, with and without the guarantee of export credit agencies.

b/ Subsidiaries are consolidated into the parent company.

c/ Classified according to volume of assets on the basis of the list of the 300 largest banks in the world published by The Banker. Calculations were made by taking the assets for the years 1974 and 1979 and creating a weighted average for the entire period (the figures for the amounts authorized by the banks were weighted). The number 301 was used to indicate an average volume of assets that was too small to be classified among the first 300. Banks of unknown origin or banks whose assets could not be specified are not included in the overall averages. Since the weighting for the banks in these two categories is insignificant, their exclusion does not greatly affect the results.

d/ Commercial banks whose capital belongs to a group of other commercial banks of various nationalities.

The United States is predominant as it accounts for almost 36% of all loans --twice as much as any other geographical area. This reflects the large number of United States institutions that took part in the Bolivian market (33) and their large average size (11) on a worldwide scale of 1 to 300. It is not surprising that United States banks should play such a major role, as they are also predominant in the international banking market, despite a slight decline in their participation during the second half of the 1970s. 3/ Moreover, the country also participated heavily in Bolivia's foreign trade, thus establishing another natural link between the United States banks and Bolivia (see table 14).

As regards banks from other countries, it is interesting to note that the Japanese banks had a very small share, despite their reputation for being very active in the credit markets of the developing regions and Japan is relatively important role in Bolivia's foreign trade (see table 14). This apparent inconsistency is probably due to the fact that after the Herstatt crisis of 1974, and up to 1978, the Japanese government would not allow these banks to participate in the international market; thus they were not able to participate in the campaign to open the Bolivian market. Their subsequent return to the international scene took place at a time when the deterioration of Bolivia's position was already evident and few banks wanted to lend to the country.

In contrast with the very low volume of trade between Canada and Bolivia (see table 14), lending by Canadian banks was quite high. This reflects a behaviour that was typical of the transnational banks during the 1970s: their lending strategy went beyond their interest in only serving the needs of non-financial transnational corporations.

Table 14

BOLIVIA: DESTINATION OF FOREIGN TRADE
(Percentages)

	1972-1973		1975-1976		1977	
	Exports	Imports	Exports	Imports	Exports	Imports
United States	27.4	22.5	32.1	26.1	34.5	27.7
Belgium	2.5	1.0	1.7	1.2	1.4	0.8
Japan	5.6	10.3	3.3	13.8	2.9	12.1
Federal Republic of Germany	4.0	9.2	3.3	8.0	3.6	8.0
France	1.1	1.0	0.1	1.8	1.4	0.9
Canada	-	1.0	-	1.0	-	0.7
Italy	-	1.3	-	1.8	-	0.1
Switzerland	2.6	1.4	3.8	1.4	4.0	1.6
United Kingdom	21.5	3.5	9.5	2.0	11.6	3.1
Brazil	5.1	7.1	3.3	14.8	2.3	9.9
Others	30.2	41.7	42.9	27.5	37.7	35.1
TOTAL	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: IMF, Direction of Trade, 1980.

c) Creditors grouped according to size

In table 15, the banks are grouped according to size. ^{4/} It is interesting to note that between 1970 and 1974, almost all credit came from the larger banks; during that time, 47% of the creditor banks were among the 50 largest ones and they granted 82% of all credit. Between 1975 and 1979, because of the large increase in Bolivia's indebtedness to banks, credit was more widely distributed; only 28% of the institutions lending to Bolivia were among the 50 largest banks and these accounted for 58% of all credit granted.

It may be seen from the above that although Bolivia had more than 100 creditors, access to credit was controlled by a very small group of very large banks. Because of the way in which the banks mobilize their lending capital, this concentration of financial power is even more serious than one might think. Indeed, Bolivia does not appear to be the only country that is in this position; very similar conclusions in this regard were reached in an earlier ECLAC study of Peru. Moreover --and for lack of arguments to the contrary-- it may be said that this concentration reflects the more general structural character of the world banking market.

2. The organization of credit by leading banks

The introduction of syndicated loans on the international markets was a key factor in the growth of the international banks. During the years when the banks played a major role in the Bolivian economy, i.e., between 1975 and 1979, almost three-fourths of the credit obtained by the country was channelled through this mechanism (see table 16). Between 1970 and 1974, the syndicated credit mechanism was used to a much lesser extent, inasmuch as

Table 15

BOLIVIA: CREDITOR BANKS ACCORDING TO SIZE, 1970-1979

Size of banks according to ranking among the 300 largest banks in the world <u>a/</u>	1970-1974			1975-1979		
	Number of banks	Percentage of total credit	Percentage of credit without an outside guarantee	Number of banks	Percentage of total credit	Percentage of credit without an outside guarantee
1) 1 - 10	4	16.9	(18.6)	7	25.6	(30.2)
2) 11 - 50	11	65.3	(58.6)	24	31.9	(23.1)
3) 51 - 100	4	9.8	(11.4)	12	15.7	(19.2)
4) 101 - 170	3	2.1	(2.9)	12	6.8	(6.5)
5) 171 - 300	1	0.3	(0.6)	9	2.9	(2.9)
6) Smaller banks	3	2.1	(3.4)	24	11.1	(12.4)
7) Not classified	6	3.5	(4.5)	22	6.2	(5.7)
<u>Total</u>	<u>32</u>	<u>100.0</u>	<u>(100.0)</u>	<u>110</u>	<u>100.0</u>	<u>(100.0)</u>

Source: ECLAC, on the basis of figures supplied by the Central Bank of Bolivia.

a/ Based on a scale of 1 to 300 according to calculations made by The Banker.

The size of a bank is determined by its assets in dollars or their equivalent.

The period 1970-1974 refers to assets for 1974 as published in The Banker

in June 1975; the period 1975-1979 refers to assets for 1979 as published in The Banker, in June 1980.

Table 16

BOLIVIA: GENERAL FEATURES OF SYNDICATED CREDIT a/

	1970- 1974	1975- 1979
<u>A. General</u>		
a) Percentage of total bank credit mobilized through syndicated loans	40.2	73.0
b) Average size of syndicated credit (millions of dollars)	11.7	21.7
c) Average size of creditor banks <u>b/</u>	17	43
d) Average contribution of banks (millions of dollars)	2.0	6.2
<u>B. Characteristics of organizers of syndicated credit</u>		
a) Number of organizing banks <u>c/</u>		
- as agents	5	22
- as managers	4	21
b) Average size of organizing banks <u>b/</u>		
- agents	4	13
- managers	3	36
c) Average contribution of organizing banks to syndicated loan (percentage of total value of loans) <u>d/</u>		
- agents	25	21
- managers	14	25
<u>C. Characteristics of other banks participating in syndicated credit</u>		
a) Number of banks which only acted as participants in syndicated loan <u>c/</u>	22	86
b) Average size of participating banks <u>b/</u>	47	67
c) Average contribution of banks participating in syndicated loan (percentage of total value of loans)	61	54

Source: ECLAC, on the basis of figures supplied by the Central Bank of Bolivia

a/ All loans.

b/ On a worldwide scale of 1 to 300. The scale is based on the banks' assets in dollars or their equivalent. The period 1970-1974 refers to the assets for 1974, as published in The Banker in June 1975; the period 1975-1979 refers to the assets for 1979 as published in The Banker in June 1980. This table presents a weighted average of the assets of all banks concerned and their ranking among the 300 largest banks in the world.

c/ Each bank is counted only once. A manager bank which also acts as an agent is counted only as an agent. Since a bank may appear in more than one transaction as an agent, manager or participant, the total number of institutions in this table is higher than the number of institutions studied.

d/ A syndicated loan has only one agent, but may have two or more managers.

Bolivia was not widely accepted on the international market before the end of 1974 and this made it difficult to organize them. This meant that those commercial banks which were willing to expand their portfolio in the country had to choose the alternative of lending on their own account.

The effectiveness of the syndicated loan as an instrument for mobilizing credit may be seen in the average volume of transaction carried out, i.e. US\$11.7 million in 1970-74 and US\$21.7 million in 1975-1979. The figures for loans granted by individual banks are much lower, i.e. US\$3.9 million and US\$3.4 million.

The banks which organized the syndicated credit (acting either as agents or managers) were usually very large ones in terms of size; during the period 1970-1979, agent banks ranked between 4th and 13th on the worldwide scale of 1 to 300, and manager banks ranked between 3rd and 36th. Other banks --called participating banks in this study-- would join the organizers in forming a syndicate and, as a group, would supply the bulk of resources for a transaction; these institutions were considerably smaller than the organizing banks (see table 6). This is a good illustration of how the pyramid structure works in the international banking market: some very large banks manage international loans by relying on the liquidity of other institutions which are smaller and offer much less experience in international lending.^{5/}

The organizing banks, which have considerable influence as regards the amount to be loaned and the credit terms to be applied, generally have a great deal of international experience and enjoy great prestige within the banking community; for this reason, other smaller banks trust them to evaluate the creditworthiness and establish the terms on which credit is to be granted. It is therefore worthwhile to study in some detail the banks which organized credit to Bolivia.

Table 17 shows the main organizing banks, classified according to their role in mobilizing credit. It should be noted that during the period of large flows of credit (1975-1979), the two major organizers of syndicated credits for Bolivia were Citicorp (through Citibank) and Bank America Corp. (through Bank of America). A lesser, though still important, role was played by the Dresdner Bank, Loeb, Rhoades & Co.,^{6/} UBAF-France and Leslie, Weinert & Co. These were followed by 12 other institutions that played only a minor role in mobilizing credit. In 1970-1974, when Bolivia did not have much access to foreign private credit, the two main banks organizing syndicated loans were Bank America Corp. and Dresdner Bank.

As regards the intermediate organizers, only the cases of Loeb, Rhoades & Co. and Leslie, Weinert & Co., are especially interesting. The rest are powerful institutions as far as the organization of syndicated loans on the international market is concerned.^{7/} We shall refer briefly to the cases of Loeb, Rhodes & Co. and Leslie, Weinert & Co., which are not really commercial banks, but rather investment banks or, in financial jargon, "street brokers". Their strategies and objectives are different from those of the commercial banks, as they do not take deposits or lend money, but rather concentrate mainly on providing services to borrowers e.g. by organizing syndicated credits and placing bond issues.^{8/} Table 17 shows the difference between these banks and the commercial banks: they do not bring resources to the syndicated credit they organize. The commercial banks, which do provide such resources, compete with the investment banks are not truly committed to their clients. Consequently, they tend to look down on borrowers who depend on investment banks to gain access to the international market. Indeed, inexperienced borrowers or those that have

Table 17

BOLIVIA: ORGANIZERS OF CREDIT SYNDICATED ACCORDING TO THEIR
 ROLE IN MOBILIZING CREDIT, 1970-1979 a/
 (Quintiles)

1970-1974		1975-1979	
Amount mobilized by bank as a percentage of total value of all syndicated credits <u>b/ c/</u>	Percentage share of the bank in its own syndicates (average)	Amount mobilized by bank as a percentage of total value of all syndicated credit <u>b/ c/</u>	Percentage share of the bank in its own syndicated (average)
<u>Major organizers</u>		<u>Major organizers</u>	
<u>43-35</u>		<u>30-24</u>	
Bank America Corp.	21	<u>Citicorp</u>	15
Dresdner Bank	21	<u>23.9-18</u>	
<u>34.9-27</u>		Bank America Corp.	23
...		<u>23.9-18</u>	
		Bank America Corp.	23
<u>Intermediate organizers</u>		<u>Intermediate organizers</u>	
<u>26.9-17</u>		<u>17.9-12</u>	
...		...	
<u>16.9-11</u>		<u>11.9-12</u>	
...		Dresdner Bank	28
		Loeb, Rhoades & Co.	0
		UBAF-France	11
		Leslie, Weinert & Co.	0
<u>Minor organizers</u>		<u>Minor organizers</u>	
<u>11</u>		<u>6</u>	
Loeb, Rhoades	0	Anthony Gibbs	37
Mercantile Bank of Canada	73	Hill Samuel	8
		Banque de la Société Financière Européenne	25
		Texas Bankshares	34
		Banque Française du Commerce Extérieur	50
		Compagnie Financière de Paris et des Pays-Bas	35
		Société Générale	40
		Euro-Latin American Bank	39

Table 17 (concl.)

1970-1974		1975-1979	
Amount mobilized by bank as a percentage of total value of all syndicated credits <u>b/ c/</u>	Percentage share of the bank in its own syndicates (average)	Amount mobilized by bank as a percentage of total value of all syndicated credit <u>b/ c/</u>	Percentage share of the bank in its own syndicated (average)
		Atlantic International Bank	33
		Royal Bank of Canada	50
		Deutsche Bank	60
		Banca Commercial Italiana	0

Source: Table 1 of the statistical annex.

a/ All loans covered by this study. Unless otherwise indicated, it was assumed that the main organizing bank was designated as the agent for the loan in question.

b/ Total value of syndicated credits organized by the bank, divided by the total value of all syndicated credits granted to Bolivia.

c/ The ranking for the two periods were calculated independently and are not directly comparable.

experienced difficulties in the market often resort to investment banks in order to obtain credit and have to pay additional commissions. However, these institutions provide special and personalized service to new borrowers and are very active in seeking out different sources of credit and convincing them of their client's creditworthiness. The large commercial banks which organize syndicated loans usually do not find this type of role very attractive; instead, they prefer to deal with clients that are already established in the market. Moreover, the cost to a large commercial bank of providing such special treatment to individual clients is probably greater than the immediate benefit to the bank, since a marginal borrower cannot mobilize large volumes of credit to produce large profits. All this suggests that the investment banks play a useful role, since they serve a sector of the market that is not always attractive to the commercial banks.^{9/} The additional cost of this service does not seem excessive, considering that the alternative to the borrower is to be left without access to credit. The importance of the investment banks to Bolivia is another indication of the fact that the country was not an attractive client for commercial banks.

Perhaps the main point that should be stressed here is that financial power in connection with Bolivia's access to the international capital market was highly concentrated. It has been said that Bolivia has more than a hundred private creditors and that credit is widely scattered among them; there is also a certain amount of geographical diversity among the creditor institutions. This might give the impression that Bolivia enjoys an "independence" in its access and use of credit controlled capital flows. However, this is an erroneous impression, as it does not take into account the way in which the commercial banks have channelled their loans to Bolivia, i.e., through syndicated

credits. Considering that the flow of credit depends to a large extent on the behaviour of the banks which organize syndicates, there is a tremendous concentration of power in the hands of a very small number of creditors. In 1975-1979, the first six organizing banks obtained 83% of all consortium credit and the top three, Citicorp, Bank America Corp. and Dresdner, accounted for 65% of the total. In 1970-1974, when the flow of credit declined, the concentration was even greater, since the Bank America Corp. and Dresdner Bank organized 84% of all syndicated credits.

Thus, the figures suggest that Bolivia's credit life depended to a large extent on the decisions of only two major United States banks, Citicorp and Bank America Corp., and to a somewhat lesser extent, on those of the West German bank, Dresdner Bank. Bolivia's independence as a borrowing country is certainly limited by this fact and it cannot be said on first sight that it was any better off during these periods than it had been during the 1960s (a matter which will be discussed in greater detail later on in this study). A heavy concentration of power in the organization of syndicated credits was also found in ECLAC's earlier study on Peru. It seems obvious that the concentration of economic power in the hands of a few banks is only an extreme example of a common phenomenon of the international banking market, where about 50 banks manage almost all syndicated credit. Even within this group, power is also highly concentrated, as may be seen in table 18.

3. Costs and political and commercial conditions

a) Contractual cost

The cost of commercial bank credit has three contractual components:

i) the interest rate; ii) the repayment period; and iii) commissions. In addition to this contractual cost, there is another one that is not reflected in the

Table 18

INTERNATIONAL BANKING MARKET: DISTRIBUTION OF SYNDICATED CREDITS
AMONG THE 50 MAIN EUROCREDIT ORGANIZING BANKS a/
(Percentages of valor of credit mobilized)

	1977	1978	1979
5 main banks	38	25	32
10 main banks	58	44	49
50 main banks	100	100	100

Source: Figures prepared on the basis of data published in Euromoney, February 1979 and 1980.

a/ In 1975-1976, since many banks (the Japanese ones, for example) withdrew from the market, the concentration of power in the main banks was much greater than during the period 1977-1979.

nominal price of a bank loan, i.e., the implicit risk of debt service problems, which increases as obligations accumulate. An inexperienced borrower who only looks at the contractual cost of credit may seriously underestimate its real cost and will probably realize this only when it is too late, as servicing problems arise and as the risk premium increases.

In any event, the contractual cost of credit may be expressed as follows:

$$\tilde{\pi} = (i; p; c)$$

where: $\tilde{\pi}$ = cost of credit

$$\begin{aligned} i &= \text{interest rate} & \left(\frac{\Delta \tilde{\pi}}{\Delta i} > 0 \right) \\ p &= \text{maturity} & \left(\frac{\Delta \tilde{\pi}}{\Delta p} < 0 \right) \\ c &= \text{commissions} & \left(\frac{\Delta \tilde{\pi}}{\Delta c} > 0 \right) \end{aligned}$$

When $\tilde{\pi}$ is fixed at a constant level ($\tilde{\pi} = \bar{\tilde{\pi}}$), i , p , and c , may vary within a given cost of the loan. Indeed, when a borrower negotiates the cost of a loan with a bank, he is usually able to play a bit with these variables; for example, he may accept a higher interest rate in order to obtain a longer repayment term. Another very common strategy consists of agreeing to higher commissions (not often publicized on the market) in exchange for a lower interest rate; the latter does receive a great deal of publicity and affects the country's image as far as creditworthiness is concerned. In speaking of the cost of credit, therefore, it would be a mistake to look at only one component of the contractual cost, without considering the other two.

In view of this situation, a consolidated index of the three components of cost has been prepared. Almost all Bolivia's loans are based on a floating interest rate (see below); this component of the cost of the loan cannot be negotiated directly. The borrower can only negotiate the margin, or spread, which the bank charges over and above the floating base rate, which

represents the most significant part of the cost for interest and fluctuates freely on the market.^{10/} Under such circumstances, it is more appropriate to speak of the consolidated index as an index of the "negotiated" cost of a loan rather than of the "actual" cost. The relevant data are shown in table 19.

Taking 1975 as the base year, ^{11/} it may be noted that the negotiated cost of bank credit fell considerably during the period 1972-1979. If comparable figures were available for other countries, it would be possible to distinguish more clearly between the trends in respect of cost which are related to Bolivia's creditworthiness and those which are related to the evolution of the market itself. In the absence of such data, all one can do is make some estimates of the factors which affected the cost of credit.

In general, the consolidated index of the negotiated cost of credit to Bolivia follows the general trends of the international Eurodollar market: the negotiated cost tended to fall during the first phase of expansion of international capital in the developing countries (1972-1974); the negotiated cost tended to rise during the crisis of 1975-1976, and then gradually declined during the second phase of expansion, 1977-1979.^{12/} As the table shows, however, one may assume that Bolivia's creditworthiness improved in 1975-1976, because, although the cost of credit was higher than in 1974, it was much lower than in 1972, when Bolivia's access to the international market was almost nil.

It is interesting to note that the negotiated real cost of bank credit reached its lowest level in 1979, when the country was in the midst of an economic and political crisis. The only reasonable explanation for this is that the conditions established in the agreements reflected the inertia of the movement generated in the preceding years of strong growth;

Table 19

BOLIVIA: INDEX OF THE NEGOTIATED COST OF
BANK CREDIT, 1972-1979 a/
(1975 = 100)

	1972	1973	1974	1975	1976	1977	1978	1979
Index of cost of loans	159	108	70	100	121	78	64	55
	<u>Information item</u>							
Index of base interest rate (LIBOR)	71	122	147	100	81	84	123	157

Source: ECLAC, on the basis of figures supplied by the Central Bank of Bolivia.

a/ The index takes into account the cost of margins, repayment periods and fixed commissions for loans at interest rates based on LIBOR and without the guarantee of export promotion agencies such as Eximbank. The annual index is based on the following calculations:

$$\frac{\sum cv}{\sum v} + \frac{\sum mv}{\sum v}$$

$$\frac{\sum pv}{\sum v}$$

$$\frac{\sum pv}{\sum v}$$

c = fixed commission

v = value of loan

p = total repayment period

m = margin above LIBOR

in other words, there was an inconsistency between the country's economic situation and its credit situation which was due to the influence of prior commitments.

i) Interest rate and amortization period. During the 1960s, the usual practice was for the banks to set a fixed interest rate for their loans. As world inflation increased, they felt this was no longer advisable; in the absence of stable prices, all risks fell on the creditor. Thus, in the 1960s, the banks introduced the practice of linking most of their loans to a floating interest rate.^{13/} This was the case with Bolivia; as shown in table 20, in 1970-1974, only a very small amount of credit was granted at a fixed interest rate and, when lending increased, almost all credit was based on floating rates.

Given the market practices which prevailed during that period, the floating rate consisted of a spread over LIBOR. Two observations are in order in this respect.

In the first place, the margins on loans to Bolivia were quite high during that decade. In certain years of that period, some developing countries obtained loans at spreads of less than 1%, while Bolivia, except in 1970,^{14/} consistently had to pay margins of about 1.50% and over. (In due course, we shall compare the credit conditions granted to Bolivia with those granted to some other countries.)

In the second place, when a variable interest rate was applied, Bolivia became vulnerable to the fluctuations of the Eurodollar market. As has been mentioned above, LIBOR is subject to sharp variations and this makes it difficult to predict the actual cost of a loan. This in turn makes it

difficult to plan and select projects, inasmuch as an activity that is initially considered profitable in light of the conditions of a loan can quickly become unprofitable if there is a sharp increase in LIBOR. Moreover, the floating rate makes it difficult to manage the external debt, since heavy increases in LIBOR are tantamount to an unexpected surcharge on the service of the debt and the balance of payments.

As regards the maturities, these were relatively short, i.e., on average, only slightly over six years (see table 21). This clearly shows why private commercial banks are not an adequate substitute for official lending agencies and the bond market: because their maturities are so short, loans from private banks are only suitable for more lucrative activities. Private bank loans cannot be widely used in a poorly articulated economy such as the Bolivian one. Indeed, in the light of the country's experience in recent years, it can be said that the flows of commercial credit have already gone beyond reasonable levels. This question will be discussed in greater detail in the conclusion to this study.

How might one compare the credit conditions granted to Bolivia with those granted to other countries of the region? To get a rough idea of the situation, one might compare the spreads over LIBOR and the repayment terms established for Bolivia with those established for some other countries: Brazil, Mexico and Peru.^{15/} This information is given in figures 2 and 3.

During the early 1970s, Mexico and Brazil were the most solvent borrowers in the developing world and, among the latter, they were the ones that received the most favourable credit terms from the banks Peru only entered the market in 1972, but by 1974 it had a good reputation with the banks. At that time, Bolivia was still not very well known by the banking community. This situation

Table 20

BOLIVIA: INTEREST RATES FOR COMMERCIAL BANK LOANS, 1970-1979 a/

	1970	1971	1972	1973	1974	1970-1974	1975	1976	1977	1978	1979	1975-1979
1. Percentage of credit with margin over a prime rate <u>b/</u>	-	-	21.1	-	11.8	12.2	-	-	0.4	0.4	0.3	0.2
Average margin	-	-	2.0	-	1.5	1.61	-	-	1.5	1.75	1.75	1.66
2. Percentage of credit with margin over LIBOR	100.0	-	78.9	100.0	88.2	87.8	100.0	99.7	99.4	98.7	84.9	97.1
Average margin	1.0	-	2.07	2.50	1.90	1.94	2.17	2.02	1.83	1.56	1.43	1.78
3. Percentage of credit at fixed interest rate	-	-	-	-	-	-	-	0.3	-	0.8	14.8	2.7
Average margin	-	-	-	-	-	-	-	10.5	-	10.9	12.0	11.9
4. Percentage of credit with another type of interest rate	-	-	-	-	-	-	-	-	0.2	0.1	-	-
All loans (percentage)	100.0	-	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Information items

New York prime rate (average)	7.81	5.65	5.22	8.15	10.71	7.51	7.73	6.73	6.83	9.25	12.8	8.7
LIBOR (average)	8.47	6.79	5.41	9.32	11.20	8.24	7.62	6.13	6.42	9.36	11.99	8.3

Source: ECLAC, on the basis of figures supplied by the Central Bank of Bolivia; information items, Morgan Guaranty Trust Company of New York, World Financial Markets (several issues).

a/ Loans not guaranteed by export credit agencies.

b/ In calculating the average, no distinction was made between types of prime rates; however, the rate generally used was the New York prime rate.

c/ Six-month rate.

Table 21

BOLIVIA: AVERAGE MATURITY OF COMMERCIAL BANK LOANS a/
(Years)

	1970	1971	1972	1973	1974	1970- 1974	1975	1976	1977	1978	1979	1975- 1979
1. Grace period	3.5	-	-	2.5	1.79	1.63	1.77	1.93	2.59	2.87	2.70	2.44
2. Amortization period	2.5	-	1.95	5.0	4.99	4.56	4.18	3.03	3.96	3.81	3.44	3.65
3. <u>Total repayment</u> <u>period</u> <u>b/</u>	<u>6.0</u>	-	<u>3.26</u>	<u>7.5</u>	<u>6.90</u>	<u>6.45</u>	<u>5.95</u>	<u>4.96</u>	<u>6.56</u>	<u>6.68</u>	<u>6.29</u>	<u>6.11</u>

Source: ECLAC, on the basis of figures supplied by the Central Bank of Bolivia.

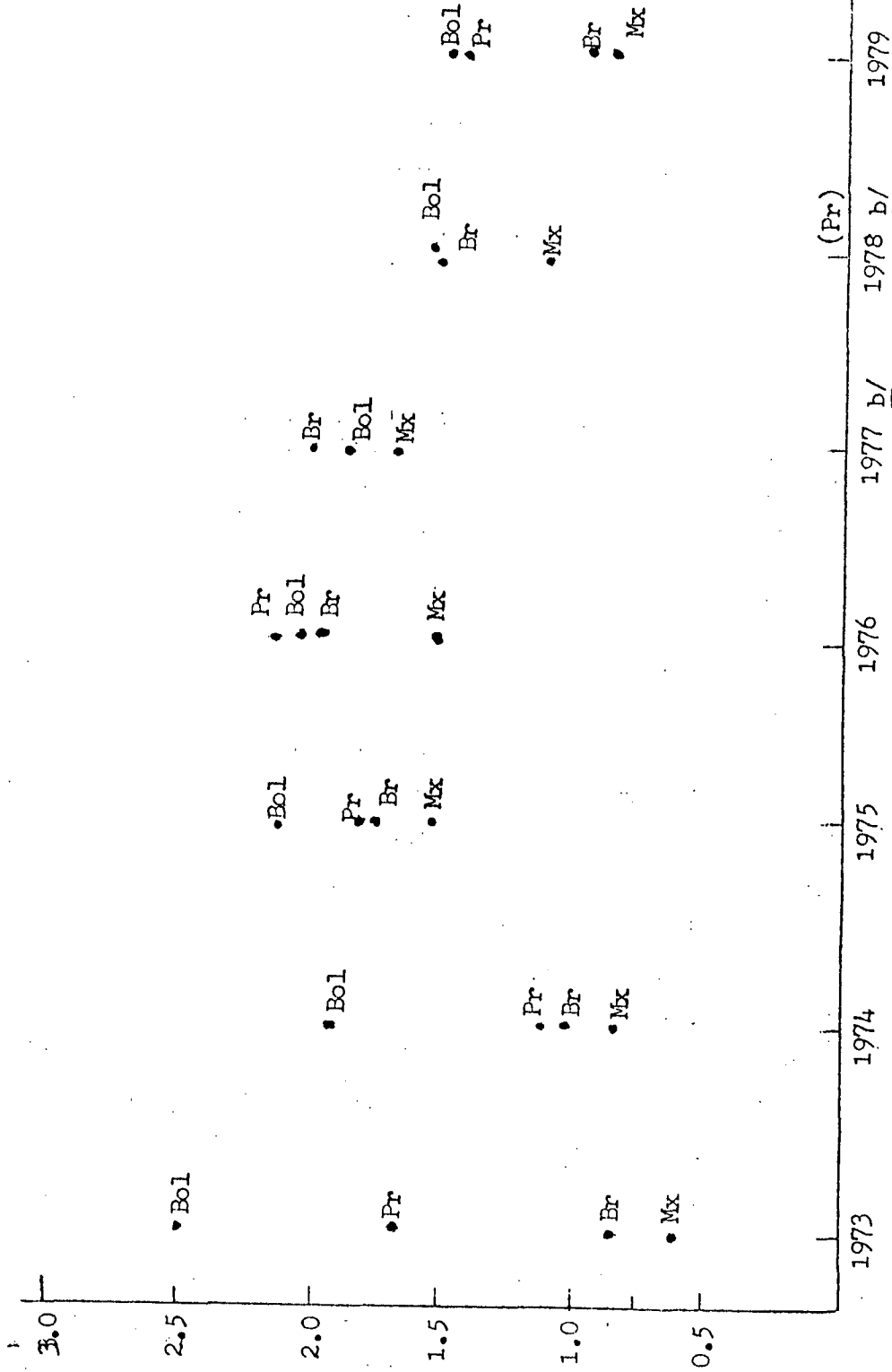
a/ For loans not guaranteed by export credit agencies.

b/ The total repayment period may be longer than the sum of the grace period and the amortization period, because of the existence of bullet loans.

Figure 2

MARGIN OVER LIBOR CHARGED ON BANK LOANS TO BOLIVIA, BRAZIL, MEXICO AND PERU, 1973-1979 a/

Surcharge

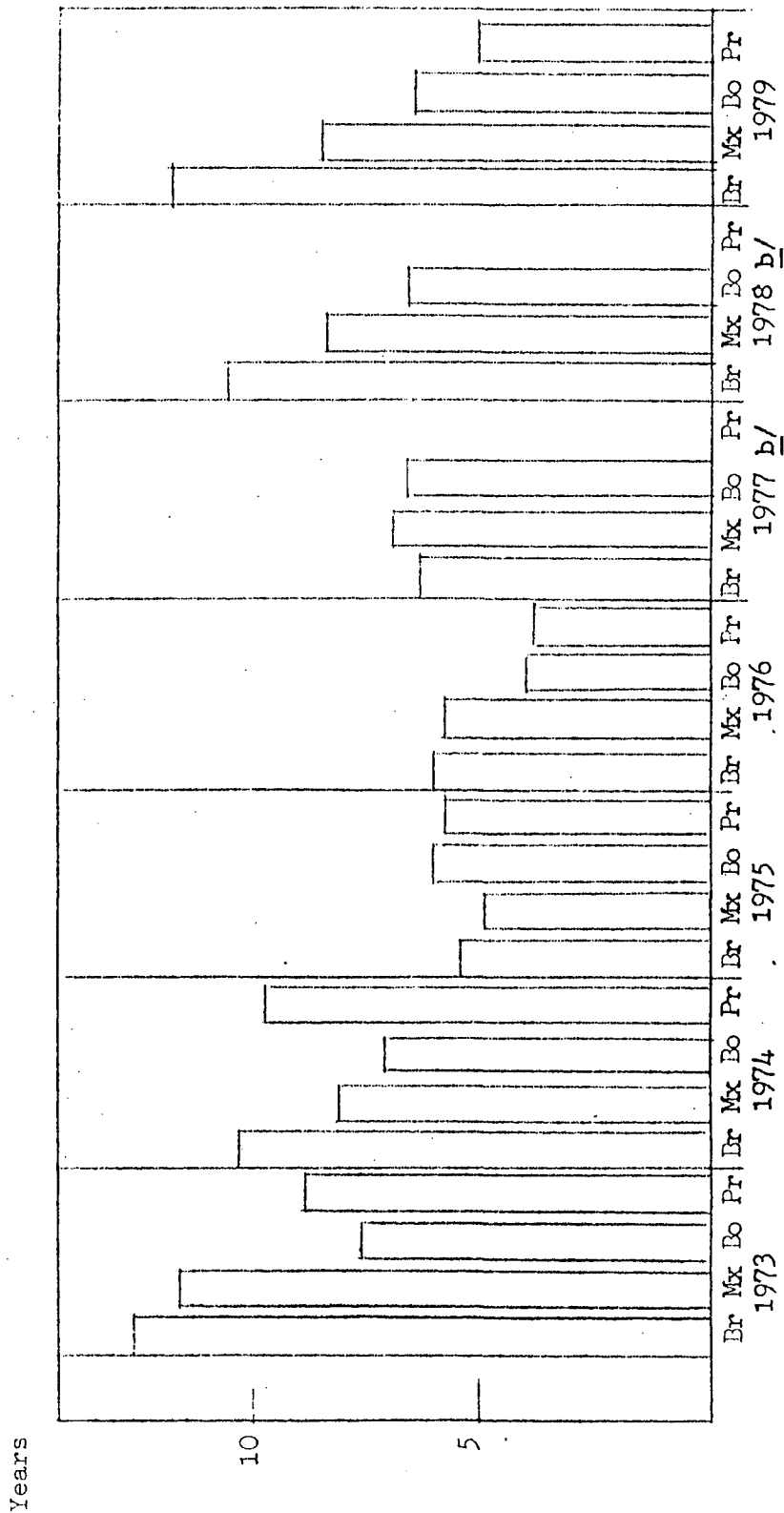


Source: For Brazil and Mexico, World Bank, Borrowing in International Capital Markets; for Peru and Bolivia, ECLAC, on the basis of official figures.

a/ Only loans to the public sector and loans not guaranteed by official export promotion agencies.
 b/ Peru did not obtain any credit during these years.

Figure 3

MATURITIES OF BANK LOANS TO BOLIVIA, BRAZIL, MEXICO AND PERU, 1973-1979 a/



Source: For Brazil and Mexico, World Bank, Borrowing in International Capital Markets; for Peru and Bolivia, ECLAC, on the basis of official figures.

a/ Only loans to the public sector and loans not guaranteed by official export promotion agencies.

b/ Peru did not obtain any credit during these years.

is reflected in figures 2 and 3, in the columns for the period 1973-1974, which show that the lowest margins and the longest maturities were granted to Brazil and Mexico. Bolivia had the highest spreads and the shortest maturities. Peru, for its part, was in an intermediate position and in 1974 --its best year on the market-- its situation was quite similar to that of Mexico and Brazil.

It has often been said that in 1975-1976, the international credit market suffered a great crisis of confidence and that this was reflected in a tendency to toughen credit conditions. This is confirmed in figures 2 and 3, which show that in 1975 margins above LIBOR rose sharply and maturities were drastically reduced for all borrowers, as compared with 1974. Despite this, the aforementioned figures show a very significant improvement in Bolivia's creditworthiness: in relative terms, credit conditions deteriorated much less for Bolivia than for other countries and, for the first time, its maturities and spreads were roughly comparable to those of the other borrowers.

Bolivia seems to have maintained its new and improved credit rating in 1976, because the reduction in maturities was combined with a reduction in the average margin for the first time Bolivia had a better credit rating than Peru, which in 1975 was in the midst of an economic crisis and was a cause of concern to the international banks. In 1977, credit conditions continued to be relatively stringent, but Bolivia seemed to strengthen its image, both in absolute and in relative terms; during that year, its spreads were lowered and its maturities were lengthened significantly with respect to 1976. This is in sharp contrast with the situation in other countries, which were obliged to accept higher margins in order to obtain longer maturities. Moreover, not only were the conditions offered to Bolivia in 1977 better than those offered

to Peru, which was completely excluded from the market because of its low credit rating, but they were also better than those offered to Brazil, which was causing concern because of its inflation, its enormous external debt (US\$ 26 billion at the end of 1976),^{16/} and the deficit on its balance-of-payments current account.^{17/} It also interesting to note that the difference between the credit conditions granted to Bolivia and those granted to Mexico was greatly reduced, as Mexico experienced economic difficulties in 1976 and the first half of 1977.

During 1978 and 1979, the country's credit rating deteriorated as difficulties arose in the national economy. During this time, credit conditions on the international market generally improved with respect to the period 1975-1977; Bolivia, however, did not benefit from this situation to the extent that Mexico and Brazil did. Indeed, figures 2 and 3 suggest that in 1979 Bolivia obtained credit terms similar to those of Peru, a country which still did not have a very good rating on the international banking market because of the continued uncertainty about its capacity to overcome the economic crisis of 1976-1978. It should be noted, however, that even during the difficult times of 1979, the country obtained credit conditions that were notably better than those it had obtained upon its entry into the international credit market.

ii) Commissions. Our analysis of the cost of credit has not yet taken into account the trend with regard to the commissions which are usually charged in connection with loans from commercial banks.

A loan agreement may provide for payment of many different types of commissions, but, basically, there are two kinds, i.e., those representing a fixed cost, which are usually paid once only, at the time of signature of the loan agreement, and those representing a cost which is determined by

the rate at which the borrower draws on his loan from the bank. The latter is called a commitment commission and usually amounts to 1/2 to 3/4% of the undisbursed balance on the loan.^{18/}

Table 12 shows the commissions that were paid by Bolivia during the period studied. Unfortunately, it is difficult to compare these with those paid by other countries, since the commissions on a loan are often the most secret part of the transaction. At any event, there is reason to believe that the commissions agreed to by Bolivia were quite high by comparison with those paid by other countries.

The only study in which a data base has been developed that is comparable to the one developed for this study is the aforementioned ECLAC study on Peru, published in 1980. That study shows (p.104) the overall average rate of fixed commissions for the period 1972-1976, which were the following: 0.47, 0.45, 0.31, 0.93 and 1.32%, that order. Thus, except in 1975, Peru paid fixed commissions that were considerably lower than those paid by Bolivia during the period 1972-1976, even in terms of the overall cost of commissions (see table 22). Since during the period 1972-1975, Peru was not considered by the commercial banks to be one of their better customers, one may assume that Bolivia paid some of the highest commissions in the international credit market. It is interesting to note that even in 1976 --when Peru was on the verge of becoming insolvent-- Bolivia signed agreements providing for higher commissions than those paid by Peru.

Finally, it is important to note that the figures shown in table 22 probably underestimate the real cost of commissions. In our analysis of the data on Bolivia, we frequently found that, during the second half of the 1970s, commissions were fixed by resorting to the practice of attaching "side letters".

Table 22

BOLIVIA: COMMISSIONS ON COMMERCIAL BANK LOANS a/

	1970	1971	1972	1973	1974	1970- 1974	1975	1976	1977	1978	1979	1975- 1979
1. Percentage of loans at fixed commission b/	-	-	21.1	100.0	99.8	89.0	98.3	96.4	97.6	95.1	85.4	94.7
Average specific rate c/	-	-	0.50	4.85	1.25	1.45	0.86	1.62	1.08	0.75	0.84	1.05
Average global rate d/	-	-	0.11	4.85	1.25	1.29	0.84	1.56	1.06	0.71	0.72	0.99
2. Percentage of loans with commitment commission e/	-	-	26.3	100.0	97.7	93.9	99.8	95.9	96.7	26.0	81.2	74.5
Average rate	-	-	0.50	0.50	0.56	0.56	0.58	0.70	0.58	0.52	0.56	0.61
Percentage of loans not providing information on:			<u>Information items</u>									
Fixed commissions	100.0	-	-	-	7.0	7.1	-	1.8	1.1	5.8	0.3	2.4
Commitment commissions	100.0	-	-	-	7.0	7.1	-	1.8	1.1	5.8	0.3	2.4

Source: ECLAC, on the basis of figures supplied by the Central Bank of Bolivia.

a/ For loans not guaranteed by export credit agencies.

b/ Commissions calculated on the total value of loan.

c/ Average for fixed-commission loans.

d/ Applying the specific rate to all loans. This rate may be considered as the actual cost of commissions on all loans for the period.

e/ Commission charged on undisbursed balances.

We were not always able to locate these documents and therefore feel that the amounts actually charged for commissions may have been somewhat higher than those presented officially in this study.

b) Penalties for delayed payment and premiums for prepayment

Commercial bank loans have other explicit costs which are applied in certain cases, i.e., penalties for delays in servicing the debt and premiums paid to the banks for the right to liquidate all or part of a loan in advance. Table 23 shows the relevant information for the period 1970-1979.

In loan agreements, commercial banks establish penalties which a borrower must pay when he does not meet the deadlines for the service of the debt. The reasons for this are obvious, i.e., to ensure that the agreed deadlines are observed and to compensate the bank for any cost it might incur if there is an interruption in the timely flow of funds to it. As confirmed by the data shown in table 23, in most cases, later payment penalties were established which usually consisted of an increase of 50% or more in the margin over the base interest rate. Naturally, the credit institution may choose not to charge these penalties, but the official information available suggests that this did not happen in the case of Bolivia.

Commercial banks usually charge penalties for the prepayment of a loan, as they wish to prevent a high-cost loan from being liquidated with a new, cheaper loan. A borrower can obtain credit on better terms if his credit rating improves or if the international credit situation changes so that the market becomes favourable to borrowers. The banks prefer not to have their loans paid ahead of schedule, as this means that they forego profits. Prepayments can also bring an unexpected influx of liquidity to the credit institution.

BOLIVIA: PENALTIES FOR LATE PAYMENT AND PRE PAYMENT a/

	1970	1971	1972	1973	1974	1970- 1974	1975	1976	1977	1978	1979	1975- 1979
1. Percentage of loans establishing penalty for late payment b/	-	-	-	100.0	86.5	73.4	81.3	84.0	77.5	91.9	96.1	88.4
Average penalty c/	-	-	-	60.0	107.0	103.8	40.7	52.1	59.9	68.5	64.9	60.7
2. Percentage of loans establishing penalty for pre payment d/	-	-	-	100.0	81.5	71.7	43.9	79.5	18.2	5.6	48.1	36.3
Specific average rate e/	-	-	-	2.5	0.79	0.92	0.77	0.49	0.66	0.52	0.86	0.62
Global average rate f/	-	-	-	2.5	0.64	0.66	0.34	0.39	0.12	0.03	0.41	0.23
Information items												
Percentage of loans on which it was not possible to verify the existence of penalties with respect to:												
Late payment	100.0	-	-	-	2.1	3.2	50.6	0.2	1.2	5.2	0.3	7.9
Advance payment	100.0	-	-	-	2.1	3.2	-	1.8	1.1	5.7	15.2	4.7

Source: ECLAC, on the basis of figures supplied by the Central Bank of Bolivia.

a/ For loans not guaranteed by export credit agencies.

b/ Penalty paid in cases of delay in the service of a loan.

c/ Percentage increase in the original margin on the interest rate with respect to the amount paid late.

d/ Penalty collected once only on the amount paid in advance. When the penalty varied according to the year in which the pre payment was made, the figure was obtained by taking an average and weighting it by the number of years in which the rate was applied.

e/ Average loans establishing penalties.

f/ Result obtained after applying specific rate to all loans.

The penalty does not prevent prepayment from being made, but it does add to the cost of such a transaction, thus helping to discourage borrowers from paying in advance.

The greatest incidence of penalties for prepayment and the highest cost incurred in this regard took place in Bolivia between 1973 and 1976, inasmuch as the banks tend to impose this type of penalty when credit conditions favour them and they can thus protect their highly profitable loans. In 1973-1974, Bolivia had very little bargaining power and had agreed to relatively high spreads; in 1975-1976, as mentioned before, lending was generally restricted and market conditions favoured the credit institutions. Over the next few years, as conditions became more liberal, the banks lost both the capacity and the incentive to impose penalties for prepayment and did so only infrequently (1977-1978). In 1979, however, the commercial banks apparently recovered, to a certain extent, their capacity to make it difficult to pay loans ahead of schedule.

Although the banks have their reasons for not wanting loans to be paid in advance, there is no question that the prepayment penalty does not suit the developing countries and that in the long run it can be countereproductive for everyone concerned. For the developing countries, prepayment strategies are a way of enabling borrowers to mitigate the impact of the increases in interest margins and reductions of maturities that often occur because of the variability of the market or the deterioration of a country's creditworthiness. Actually, in replacing an old and costly debt by a new and cheaper one, the borrower increases his capacity to service the debt. By applying prepayment and refinancing strategies, a borrower can become a more reliable customer and one who is able to take on larger debts, thus generating more resources for development and more profitable business for the banks.

c) Other conditions

Interest rates, amortization periods and commissions are not the only costs of credit. The banks usually add other conditions to protect themselves against loss; these involve monetary or political costs or both. One type of security is directly related to the credit transaction; for example, a bank may block an account by retaining the income of a borrowing State enterprise in order to guarantee the service of a debt or by imposing restrictions based on certain coefficients relating to the enterprise's trade balance, etc. Direct conditions of this type may be referred to as commercial conditions. A creditor may also require indirect financial guarantees which may not concern the individual borrower but rather the overall performance of the State. Such indirect conditions are referred to here as economic and political conditions.

i) Economic and political conditions. In its previous study on Peru, ECLAC found many instances in which political and economic conditions were established (chapter IX). In the case of Bolivia, however, there are no data that might lead one to say that during the 1970s the commercial banks imposed conditions beyond those normally associated with loans from such institutions.^{19/} The banks always require that their loans to public agencies be fully supported and guaranteed by the State; even though the countries would prefer not to provide this type of overall guarantee, very few have been able to avoid doing so.^{20/} Another political condition that is often found in the loan agreements is the requirement that Bolivia belong to the IMF (and sometimes the IBRD) during the entire life of the agreement, with the lending bank reserving the right to withdraw its loan if this is not the case. This is a common condition and it is obvious that the banks impose it in order to be able to count on the financial backing which the International Monetary Fund provides its members, as well as the results of the severe adjustment policies

which the Fund imposes. At any rate, the banks do not seem to apply this requirement evenly in all cases, as they often make large loans to socialist countries that are not members of the Fund. It may be said, however, that since the use of the Fund's facilities is entirely voluntary, very few members are likely to waive the right to have access to its resources.

There are two other indirect political conditions that are almost standard in bank contracts --the waiver of immunity of jurisdiction and waiver of the competence of the courts of the borrowing country-- that also appear in practically all the credit agreements entered into by Bolivia. In the ECLAC study on the transnational banks in Peru (p.123) these aspects were studied in considerable detail and is not worthwhile repeating the exercise here. In very simple terms, however, it may be said that what this means is that a sovereign government must waive its apparent right to immunity in respect of lawsuits brought before foreign courts. The commercial bank requires that a borrower (or co-signer) be subject to the jurisdiction of the courts of the bank's country of origin or of another banking centre within its sphere of influence (e.g., London) in the event that a dispute should arise concerning some aspect of the contract. Borrowing countries are reluctant to accept this condition, since it implies a weakening of sovereignty. Very few, however, have been able to avoid it.21/

It would appear that the only purpose served by these conditions relating to immunity of jurisdiction and competence of the courts is to arouse indignation in the countries rather than to provide an effective instrument of protection for the banks. As far as the waiver of immunity of jurisdiction is concerned the banks seem to forget that, in the final analysis, it is the good will of the borrower which determines whether it meets its obligations

or not, and that no court, either in its own country or in another one, can force it to comply with the bank's wishes. The same principle applies with respect to recourse to local courts: if a government is prepared to subvert its own court system in order to avoid an unfavourable judgement, it is highly unlikely that it will accept an unfavourable judgement from a foreign court. And it must be remembered that, because of their transnational character, the banks are better able than the borrowing country to adapt to legal environments other than their own. In brief, the two conditions seem to entail a high political cost for the country and to be of questionable value to the banks. Why, then, has not a compromise solution, such as the use of international arbitration, been considered to solve this type of problem? Some commercial banks have used arbitration and it might be worthwhile for other institutions to do likewise.^{22/}

ii) Commercial conditions. Although the documentation relating to loan agreements does not provide sufficient data to justify saying that a great number of political and economic conditions were imposed in connection with credit from the transnational banks, an analysis of the loans shows that this was indeed the case with regard to commercial conditions.

A very common practice in the case of Bolivia was the establishment in the lending bank of trust funds made up of certain revenues belonging to the borrower. For example, in the case of a relatively large loan granted to the State oil enterprise YPF in 1975, the borrower had to deposit in a blocked fund sufficient oil-export revenues to cover the service of the debt for 12 months.^{23/} In addition, it was stipulated that the banks would pay interest on balances only on deposits of more than US\$110 000, but in additional minimum amounts of US\$100 000 or more, and for a period of one year or more.

Moreover, the borrower undertook to channel export sales transactions (e.g., letters of credit) through the subsidiaries of the organizers of the syndicated loan. Another large loan granted that same year to the State enterprise ENAF entailed similar conditions, except that the fund arrangement was based on a contract for medium-term sales to a German company which included specific projections concerning sales and income.

Conditions relating to special blocked funds were quite frequent in the loan agreements. Other restrictions referred to aspects of a State enterprise's financial balance-sheet, such as the debt/capital coefficient, net value of the enterprise, total debt, etc. Another very common practice was that of requiring a borrower who did not have enough dollars to pay the service of the debt to deposit the equivalent amount in Bolivian pesos with a local subsidiary of a transnational bank; the credit institution thus had the option of trying on its own to obtain the dollars.

It should be noted that all these commercial conditions entail additional costs to the borrower. Some are directly monetary in nature: he does not receive competitive interest on the balances in the blocked accounts. Others are of an indirect nature: restrictive commercial conditions make it difficult to manage the sales and assets of an enterprise in a flexible manner. This aspect of commercial conditions can have an adverse impact on the borrower. On the other hand, however, it is not always undesirable from the standpoint of the central government body which is guaranteeing the loan. Indeed, commercial conditions can help impose discipline on a public borrower, thus minimizing the possibility of non-payment and avoiding the need for the central government (or the central bank) to bear the cost of the transaction. The cost which commercial conditions entail for the country is

thus closely related to the nature of the authorities' economic policies. As will be shown in chapter 7, it seems that some aspects of the commercial conditions imposed by the transnational banks clearly weakened certain public enterprises.

Finally, the Bolivian experience leads one to conclude that the establishment of commercial conditions has a great deal to do with a country's bargaining power. Virtually all conditions of this type were imposed between 1970 and 1975, when other, more experienced borrowing countries were not subject to any such restrictions. Later on, when it had more experience and a better rating on the international market, Bolivia and its state enterprises contracted for large loans without too many conditions being imposed on it, even though the objective circumstances relating to the use of credit were similar or identical to those of the period 1970-1975. Despite the fact that the country's economy deteriorated considerably in 1979, the banks apparently were not able to impose commercial conditions similar to those they had imposed during the first half of the decade: the borrowing country was by then better informed about the give-and-take of credit negotiations.

4. Loans guaranteed by foreign export-promotion agencies

In the above analysis of the costs and conditions of credit, we have only discussed bank loans not directly supported by export promotion agencies such as COFACE in France, EXIMBANK in the United States, and others. In financing imports of goods and services for Bolivia, the commercial banks often seek this type of guarantee. When an export promotion agency is involved, the loan ceases to be a purely commercial transaction and becomes a quasi-official credit operation, inasmuch as the lending institution transfers the risk to a government agency. If the borrower cannot meet the service of the debt, he will have to deal not only with the commercial bank but also with the government of the bank's

country of origin, which has final responsibility for demanding payment of the loan.

Given their political nature, these loans are generally granted on much more favourable nominal terms than others. In the case of Bolivia, approximately 22% of all commercial bank loans enjoy the protection of the government of the bank's country of origin and, as shown in table 24, their nominal costs were considerably lower than those of the regular loans shown in the preceding tables: the great majority had fixed interest rates, which, towards the end of the decade, were negative in real terms; amortization periods were 50% longer and the incidence of commissions was much lower.

The conditions on which these loans were granted seem to be truly favourable. Of course, one must take into account the fact that they do have "hidden" costs; for example, they are tied to the purchase of certain goods; there is the risk of intervention by a foreign government, and the commercial conditions tend to be relatively stringent. Despite all this, there is no question that this is often the more suitable type of transaction.

5. Loans classified according to their formal purpose

It is worthwhile to classify the loans as this provides information on the borrower's debt strategy and the banks' willingness to grant different types of credit. Before doing this, however, we must stress that such a classification is a formality which helps to show the legal purpose of the transaction; for example, it is understood that a refinancing loan is to be used to pay a prior obligation, either with the lending bank or with another credit institution; officially, a "free disposition" loan may be used for any type of purpose; a project loan is tied to the financing of a given fixed investment, etc. However, money is a fungible good and from the functional point of view, the differences between the various kinds of loans tend to be more formal than real. For example,

Table 24

BOLIVIA: CREDIT TERMS FOR BANK LOANS GUARANTEED BY
OFFICIAL EXPORT PROMOTION AGENCIES

	1970-1974	1975-1979
1. Interest		
a) Percentage of loans at fixed interest rate (Average rate)	75.6 (6.7)	90.0 (7.71)
b) Percentage of loans with spread over LIBOR (Average rate)	10.2 (1.18)	10.0 (1.75)
c) Percentage of loans with margin over prime rate (Average rate)	14.2 (0.75)	- (-)
2. Total amortization period (years)	9.79	9.0
3. Percentage of loans subject to fixed commissions (Average cost)	36.6 (1.50)	60.7 (1.13)

Source: ECLAC, on the basis of official figures supplied by the Central Bank of Bolivia.

a refinancing loan keeps resources from leaving the country in the form of debt-service payments, thus freeing the country's foreign exchange for general use, working very much like a free disposition loan. By the same token, a free disposition loan can be used to pay the debt and a project loan that is earmarked to cover local costs provides foreign exchange for any purpose. Even though the functional difference between the different types of loans is not very great, it is nonetheless important, since the banks tend to view formal differences as real ones and this influences their decisions concerning credit. Actually, as will be shown in the next chapter, some banks prefer to channel their activities towards certain kinds of loans.

In table 25, the loans granted during the 1970s are classified according to their explicit purpose. More than 40% were free disposition loans; 33% were earmarked for specific projects. Refinancing loans represented less than 20% of all transactions and loans to finance imports of goods only accounted for 4%, presumably because most of these loans were guaranteed by official export promotion agencies. It will also be noted that part of the credit granted was used to compensate foreign enterprises for assets which had been nationalized by previous régimes.

a) Free disposition loans

These loans are granted by the banks without any special restriction on the use of the funds; in other words, the borrower is free to allocate the resources as he sees fit. If a credit of this type is granted to a state entity such as YPF, the bank at least knows that the resources will be used for a general economic sector (in this case, hydrocarbons), although the enterprise is free to dispose of the funds as it wishes. If such a loan is granted to the central government, the bank has no way of knowing in advance what the resources will be used for, even at the sectoral level.^{24/}

This type of loan is a two-edged sword. On the one hand, free access to foreign exchange greatly facilitates the allocation of resources, at both

Table 25

BOLIVIA: CLASSIFICATION OF LOANS GRANTED BY COMMERCIAL
BANKS, 1970-1979 a/
(Percentages)

<u>Purpose of loans</u>	
Imports of capital goods	3.8
Imports of other goods	-
Refinancing	18.2
Free disposition	43.2
Projects	32.7
Nationalizations	0.6
Others	1.3
<u>Total</u>	<u>100.0</u>

Source: ECLAC, on the basis of figures supplied by the Central Bank of Bolivia.

a/ Only covers credit not guaranteed by export credit agencies.

the global and the sectoral levels; therefore, the fact that the transnational banks show a willingness to grant this type of loan --which traditionally has been very difficult to obtain from official international credit agencies-- could be a positive aspect of their participation in the external financing of the developing countries. However, it must also be borne in mind that these loans call for great caution and discipline; they test a country's capacity to manage borrowed resources, since their use must be compatible with their cost. Obviously, an abundance of free disposition loans could present serious problems for a country which has difficulty absorbing resources or which has very little financial discipline.

In the case of a country such as Bolivia, which does not have much experience in this area, the granting of free disposition loans helped the commercial banks fulfil one of their objectives: it opened the way for them to grant large volumes of credit and to expand rapidly on the Bolivian market. From the point of view of the borrower --who had been accustomed to "tied" financing from official international credit agencies--, the free disposition loan was a welcome innovation and provided a good means for establishing the country's position as a new sovereign borrower. It is not surprising, therefore that almost 40% of all free disposition loans were granted in 1976, a year in which the banks showed relatively great interest in the Bolivian market.

For a country such as Bolivia to receive a large share of its credit in the form of free disposition loans can be an unwise strategy, both for the borrower and for the credit institutions. The country's infrastructure is not the type that can absorb resources rapidly and such a large flow of

non-earmarked foreign exchange could entail considerable risk. In view of the foreign-debt problems that the country was faced with at the end of the decade, it is reasonable to think that such an abundance of free disposition credit might have been more of a burden than a help from the standpoint of economic policy. This question will be discussed in greater detail in the conclusions to this study.

b) Refinance credits

There are several ways to refinance debt. One is to obtain a new loan in a given year to cover the debt service on one or more older loans for that same year. Another is to refinance the entire balance outstanding on one or more older loans by paying them ahead of schedule with the income from a new loan. The first option --to pay the annual service with the income from a new loan-- is a "renewal" operation, and ensures that there is no net outflow of resources; the second usually entails a complete restructuring of that part of the debt which is made up of the old loans being refinanced. Borrowers tend to prefer restructuring when they can replace certain old loans that are expensive or that are subject to less favourable conditions by other loans granted on more favourable terms. They also tend to choose restructuring if they have debt-service problems and their credit rating is good enough to enable them to obtain new loans above and beyond what is required for a simple annual renewal.

Experienced borrowers refinance their debts regularly, bearing in mind the market situation and their own borrowing capacity. The year 1978 was a very busy one in this respect: this was the first year in which credit conditions improved substantially for Third World borrowers since the Herstatt crisis. During that same year, Bolivia began its first major effort to refinance its commercial debts.

That year, Bolivia refinanced its debt in a single operation, through a US\$ 155 million super-loan granted to the State and organized by Citicorp,25/ with the participation of 27 other institutions. The refinancing loan was granted at an interest rate averaging 1.57% over LIBOR, a 7-year maturity and commissions equivalent to 0.77% of the value of the loan; the agreement did not entail commercial conditions and political and economic conditions were limited clauses that were in common use at that time.

The amount refinanced was equivalent to almost 30% of the gross commercial debt accumulated since 1977; however, the resources were used to refinance the entire outstanding balance on three large loans contracted for by the central government in 1976, the amortization period for which began in 1978.26/ As may be seen in table 26, the refinancing operation enabled the government to replace relatively expensive loans by a new loan which reflected the favourable credit situation of 1978; from that standpoint, the refinancing operation was a good thing.

It is surprising that Bolivia did not carry out more refinancing operations in 1978 and early 1979. There are two probable explanations for this. In the first place, it seems that some of the banks realized that the country's economic situation was deteriorating seriously and that political changes were likely to occur. By early 1978, the country's economic problems had already become obvious and the government had proposed certain steps to remedy them.27/ Despite this, most of the transnational banks remained optimistic about the country: in March 1978, a large number of institutions agreed to refinance the US\$155 million debt on relatively favourable terms. It is known that the government tried to refinance a larger amount of the balance outstanding on the debt during 1978;28/ the fact that this effort failed indicates that the banks --which usually do not look favourably upon borrowers' efforts to take advantage of softer market conditions through refinancing-- were losing confidence in the country.29/

Table 26

BOLIVIA: THREE MAJOR LOANS GRANTED TO THE CENTRAL GOVERNMENT IN 1976
AND REFINANCED IN 1978

Amount of credit in millions of dollars	Bank acting as agent for syndicated loan	Number of financial institutions in the syndicate <u>a/</u>	Type of loan	Spread over LIBOR	Maturity of loan	Fixed commis- sions
30.0	Bank of Montreal	13	Definite project	2.125%	5 years	2.0%
75.0	Citicorp	24	Free disposition	2.0%	5 years	1.53%
50.0	Bank America Corp.	18	Free disposition	2.0%	5 years	1.54%

Source: ECLAC, on the basis of information supplied by the Central Bank of Bolivia.

a/ After consolidating subsidiaries into parent company.

Another factor which may have something to do with the lack of refinancing credit during 1978 is the poor co-ordination of the management of the public-sector debt. Between 1974 and 1977, public enterprises such as YPF, ENAF, COMIBOL and others had contracted for large loans on very harsh terms, and it seemed obvious that these loans would have to be refinanced in 1978; moreover, during that year the commercial banks were under tremendous pressures to accept the proposals of borrowers on the international credit market. It is reasonable to assume that had the public sector been better co-ordinated and more experienced in the practices of the market, it would have managed to achieve better results as far as refinancing is concerned, even taking into account the traditional reluctance of commercial banks in this regard and the economic problems of the country.

c) Loans for purpose of nationalization

In the previous ECLAC study on the transnational banks and Peru, it became evident (p. 89) that the transnational banks and the non-financial transnational corporations were co-operating with each other and that one of the ways in which they were doing this was by granting loans to a government in order to enable it to pay compensation to foreign companies whose subsidiaries had been nationalized by the State. Depending on the circumstances which prevail with regard to compensation and on the terms of the credit agreement, such a loan can also favour the government concerned, since it enables it to put an end to lawsuits and disputes with the company's home government which often have serious political implications.

These circumstances also existed in Bolivia. As has been mentioned before, the Bolivian Government nationalized the Matilde Mine, which belonged

to the United States Steel Corporation and Engelhard Minerals and Chemical Corporation. This action, along with the simultaneous nationalization of the Gulf Oil Company subsidiary, created serious concern within the United States Government. When the change of régime took place in Bolivia, one of the new government's first concerns was to settle this matter, and it therefore sought a way of compensating the aforementioned companies. It solved the problem by taking loans from the commercial banks; in fact, this was one of the first medium-term transactions carried out with these institutions.

Compensation was arranged by means of three bank loans granted in 1972, i.e., a five-year loan for US\$3 million, granted by Citicorp at an interest rate of 2.2% over LIBOR; a three-year loan for US\$2.4 million granted by Swiss Bank Corporation at a rate of 2% over the New York prime rate; and a 10-year loan for US\$8 million granted by the Bank America Corp. at a rate of 0.75% over LIBOR.^{30/}

The large loan granted by Bank America Corp. was guaranteed by the United States Government's Overseas Private Investment Corporation (OPIC); this explains its low nominal cost. It was also protected by a medium-term contract for the sale of ore to a United States corporation and by a blocked account in the Bank America Corp. which was the depository for foreign exchange from the sales.

As regards the other two loans, they were granted on much harsher terms, since the bank involved did not have the safeguards that the Bank America Corp. had. These loans were only guaranteed by the Bolivian State and the assurance afforded by the contract for the sale of ore from the mine. Nevertheless, because Bolivia had very little prestige as a borrowing country at that time and

in view of the political uncertainty that prevailed, it is reasonable to assume that the credit conditions were more generous precisely because the purpose of the loan was to pay compensation for the nationalizations.

A similar circumstance explained the preferential treatment granted in the case of Peru as revealed in the ECLAC study on that country.^{31/}

Finally, there is no question that the loans granted to pay compensation for the nationalization of the Matilde Mine served the interests of the new government, which wished to break off with the policies of the previous régime and normalize its relations with the Government of the United States and, in general, with international capital.

d) Other types of loans

Project loans accounted for a very significant share of the loans from commercial banks. This shows how close and direct a relationship there was between the government's economic development programme and these institutions. Because of the importance of this type of credit, a thorough study has been made of them. However, because it touches on matters that go beyond the scope of this chapter, it will be discussed in chapter VII.

6. Summary

In the preceding pages, we have outlined the main characteristics of the loan made by commercial banks to Bolivia during the 1970s. Contrary to what happened during the 1960s, when hardly any commercial bank was willing to grant credit to Bolivia, during the 1970s, the country had 118 creditors for its medium- and long-term commercial debt. However, Bolivia was never universally accepted on the international credit market:

of the more than 100 really large banks that were active in the international market, only 8 granted major loans (not counting the loans having outside guarantees from export promotion institutions). Many banks that were usually very active in Latin America granted only modest loans and a large number completely avoided the Bolivian market.

Most of the loans granted to Bolivia came from United States banks, which accounted for slightly over 35% of total gross credit; nevertheless, Canadian and European banks accounted for quite a large share. In geographical terms, Bolivia's foreign credit seemed to be more diversified than it had ever been during the entire postwar period. As regards the size of creditor institutions, from the beginning of Bolivia's cycle of commercial borrowing, it was the very large banks that granted almost all the country's credit; however, as its credit rating improved, during the second half of the decade, there was greater diversification, as shown by the important role played by medium-sized and small banks.

The presence, in the external financing of Bolivia, of 118 banks from various countries contrasted sharply with the situation during the 1960s, when a small group of official agencies of foreign governments controlled lending to the country. However, if one takes into account the modus operandi of the international Euromoney market, i.e., when one considers the importance of the syndicated credits and the small number of banks that the capacity to organize them, one finds a great concentration of power; during the credit boom of 1975-1979, the six largest organizers of syndicated loans mobilized 83% of all credit channelled through this mechanism.

As regards the negotiated costs and the conditions imposed in connection with credit, these were very stringent during the first half of the decade

because of the country's poor credit rating and possibly because of its lack of experience in negotiating loans. Between 1975 and 1977, the country's credit rating and its bargaining power improved substantially; although the absolute negotiated cost of credit increased with respect to 1974, Bolivia was able, as a result of the general crisis on the international credit market, to free itself to a considerable extent from the commercial conditions that had been imposed on it in the preceding years, and there are data which show that this cost, compared with that of other borrowing countries, did in fact drop dramatically. In 1978-1979, there was a sharp reduction in the cost of credit, but this was related to the general trends on the market; the country's credit rating actually deteriorated seriously during this period.

Finally, a large share of the loans granted by the commercial banks (43%) were free disposition loans. Although this type of credit can be very convenient from the standpoint of the country's freedom to allocate borrowed resources, the excessive number and amount of such loans does cause concern, since Bolivia has a longstanding tradition of problems with the absorption of resources and there is the possibility that the funds in question might not always be channelled towards activities that are profitable enough to guarantee the service of the debt.

Notes

1/ As noted in the general methodology, reference is made to the parent corporation, that is, subsidiaries are collapsed into their headquarters operation.

2/ Morgan Guaranty is another large United States bank that does not play a major role in Bolivia, but it is a bank that is known for its cautious credit strategy; it projects its interests more towards Europe and the transnational corporations and less towards the developing countries. See United Nations Centre on Transnational Corporations (1979).

3/ During the first half of the 1970s, the United States banks were in the vanguard as regards the expansion of international banks. During the second half of the decade, however, they grew somewhat more slowly, basically as a result of the weakening of the dollar and the already high level of their commitments in the developing countries. The balance-of-payments situation of Japan and Germany led their banks to be more active abroad, especially in 1978-1979. See Mills, pp.50-62. After 1975, even with a deceleration of their growth, United States banks increased their lending to developing countries at an average annual rate of 17%; the rate of growth of loans from non-United States institutions was 40% per year. See Morgan Guaranty Trust Co., Septemb 1980.

4/ Because assets are measured in United States dollars, the weakening of the dollar during the second half of the 1970s contributed to a sharp growth in the size of European and Japanese banks with respect to United States banks. The analysis of the size of institutions is therefore divided into two periods: 1970-1974 and 1975-1979.

5/ In a syndicated credit, one or more banks assume responsibility for organizing credit; these managing banks then designate one bank from among their number as the agent responsible for administering the loan during the life of the agreement. As explained by Miossi (p.16), the agent is usually the bank that has acted as the main organizer of the syndicate. In this analysis, unless information to the contrary is available, it is assumed that the agent is indeed the main organizer,

6/ This company was purchased by Shearson, Inc., in December 1979, and is now known as Shearson, Loeb, Rhoades, Inc. In 1981, American Express purchased Shearson, Loeb, Rhoades, Inc. In 1983, American Express International Banking Corp. merged with Trade Development Bank Holdings.

7/ See the rankings of organizing banks in Euromoney (September 1976, April 1977, April 1978 and February 1979).

8/ The investment banks have recently been providing an additional service to the developing countries, i.e., that of acting as financial consultants for countries that are near bankruptcy and are renegotiating their debt with the commercial banks. For example, Salomon Brothers served as a consultant to Bolivia in connection with its 1981 negotiations; Leslie, Weinert & Co. served as a consultant to the Government of Nicaragua in connection with its 1980 renegotiations, and Lazard Freres performed the same service for the Government of Zaire in 1976.

9/ It does not take a large amount of resources to be a broker. Therefore, in order to avoid problems, a borrower must be careful in selecting an organization to provide these services.

10/ The base interest rate fluctuates according to the supply of and demand for funds on the interbank market; however, in the loan agreement, the bank establishes the day and the hour on which the prevailing interbank market rate is to be adopted and this is used as the base rate for the loan for a period of three, or --more often-- six months, after which the base rate is readjusted according to the cost of funds on the market. To the base rate is added a margin or spread which is agreed upon by the borrower and the credit institution at the time of signature of the agreement; this becomes the effective interest rate for the loan. During the 1970s, the trend on the international market was often for the margins charged by the banks and the base interest rate to be inversely related to each other, i.e., margins often rose when LIBOR dropped significantly and vice versa. The informative section of table 9 includes an index of the base interest rate (LIBOR) which shows this relationship.

11/ One 1970 transaction has been eliminated from the series because being of a special nature, its cost was exceptionally low. Further details on this transaction will be provided later on in this report.

12/ It should be noted that the decline in the cost of the negotiated components of credit was accompanied by a very significant increase in LIBOR (see table 10), i.e., the base interest rate.

13/ See note 10.

14/ The 1% margin for 1970 is extremely low, since in that same year borrowers with very good credit ratings, such as Brazil, paid margins of over 2%. As will be explained later on, the low spread was due to certain special circumstances.

15/ We have not made a comparison of commissions, on which very little information is available; however, the reader must not forget that they are affected by the level of spreads and maturities. Moreover, caution must be exercised in making comparison, because the sources of information vary widely: the figures on Bolivia and Peru were obtained by applying the methodology used in the ECLAC studies, whereas the figures for Brazil and Mexico were taken from a World Bank periodical publication (Borrowing in International Capital Markets).

16/ ECLAC, Economic Survey of Latin America, 1979, p. 112.

17/ One very large commercial bank noted that Brazil's delay in carrying out internal adjustments was disappointing. According to that bank, the growth of overall demand, the reappearance of the fiscal deficit and the acceleration of inflation (estimated at between 40 and 50% for 1976) were incompatible with the clear need to adjust the current account. See: Morgan Guaranty Trust Co., October 1976, pp. 3 and 4.

18/ A loan agreement usually covers other charges that are not commissions per se. The banks ask the borrower to reimburse them for "miscellaneous expenses", such as legal fees, advertising, documentation and dissemination, travel, etc. They sometimes specify a maximum amount for such charges, but more often there is a carte blanche clause, i.e., the bank requires reimbursement without specifying amounts.

19/ The fact that a practice is commonly followed in the banking world does not mean that it is either desirable or right from the standpoint of the borrower's interests.

20/ It is worth mentioning that since 1980, the Chilean Government has managed to impose a policy of not guaranteeing foreign credit to public

enterprises, many of which are very active on the international financial markets. A key condition to the success of this policy has been the implementation of a programme aimed at enabling public enterprises to finance themselves.

21/ Colombia is one of the countries that has managed to do so.

See Ensor, p. 99.

22/ In the case of Bolivia, for example, the Banco do Brasil has often designated the OAS as an international arbitrator for its agreements. The most interesting condition for the settlement of disputes in the case of Bolivia was found in a contract for a US\$20 million loan granted by a group of Yugoslav banks, which stipulated that if there was a problem in the interpretation of the contract or other problems in the agreement, the countries would seek to find a solution within the spirit of mutual understanding and good will, but a simple exchange of letters would suffice.

23/ This period was later shortened to six months.

24/ As will be seen in chapter 7, even loans that are supposedly earmarked for projects can become, in practice, free disposition loans.

25/ The other directors and co-directors of the syndicated credit were the Bank America Corp., Bank of Montreal, First Chicago Corp., Morgan Guaranty Trust Co., Westdeutsche Landesbank Gronzentrale, Banque Canadienne Nationale, European Brazilian Bank Ltd., Bank of Boston and Wells Fargo.

26/ Data on the use of these funds are provided in chapter 7.

27/ See Latin American Economic Report, January 1978, p. 13, and February 1978, p. 42.

28/ See Latin American Economic Report, August 1978, p. 242.

29/ See Benny, p. 57.

30/ This loan is included in the data base on credit with an outside official guarantee and not under "credit for nationalization".

31/ See Devlin (November 1980), p. 30.

Chapter IV

CREDIT STRATEGIES OF THE TRANSNATIONAL BANKS

The foregoing chapter highlighted in broad terms, some of the basic characteristics of commercial bank loans made to Bolivia during the 1970s. The aim of the present chapter is to analyze certain aspects of the credit strategies employed by Bolivia's commercial creditors, based on the same information but viewed from a distinct perspective. Again, given that the material relates solely to the Bolivian case, the reader is advised not to generalize on TNB behavior. Nonetheless, as was the case for the study of the Peruvian experience and those that will follow the Bolivian one, this type of analysis contributes to the development of a more general appreciation of TNB credit strategies in Latin America.

The analysis will concentrate on the following aspects of the credit strategies of the TNBs: the relative participation of Bolivia in the loan portfolio of these credit institutions; the pricing of the loans, modes of penetration of the Bolivian market, credit modalities of TNBs with branches or offices in Bolivia compared to those without such branches; bank preferences with regard to type of loan or sectoral location; and, finally, the use of guarantees of the home country of the TNB. One should note that these areas of inquiry were selected in accordance with the availability of sufficient information and not necessarily with any view to the consistency of the findings across the various criteria. For that reason, it would be better to consider the distinct sections of this chapter as independent of one another.

1. Transnational Banks Relative Commitments and the Bargaining Power of Bolivia

A country which contracts debt with a commercial bank normally establishes a medium-to long-term commercial relationship with that institution. The continuing increase in the TNB commitments to a particular country presumably deepens the bank's concern for the fortunes of its client and some investigators have suggested that this circumstance augments the bargaining power of the client or debtor. Some have gone so far as to suggest that the massive expansion of sovereign lending to developing countries in the 1970s had made the TNBs "hostages" of their LDC clients. 1/ Furthermore, the possibility of the collapse of the international financial system due to a "domino effect" in the interbank market resulting from the non-payment of LDC debts has been contemplated. 2/ From this perspective it is of considerable interest to determine to the extent possible the degree of commitment in Bolivia that has been taken on by the TNBs and what it means in terms of the Bolivia's bargaining power and the welfare of the international financial system.

In order to determine with precision the net commitment of the commercial banks with Bolivia, or any other country, for that matter, it would be necessary to gain access to detailed information on each bank's sovereign loan portfolio which is not, presently, feasible. That information is considered confidential and no banks have willingly or voluntarily offered such information publicly. For that reason, it is necessary to employ an indirect and much less precise technique: gross commitments to Bolivia of each bank (according to the contract data collected for this study) were calculated as a percentage of the assets of that creditor bank. This technique does have its shortcomings: on one hand, short term credits are excluded from the sample, thereby producing

an underestimation of the real exposure of each bank, and on the other hand, the gross commitment figure does not take into account any amortization, thereby overestimating the real exposure of each bank in terms of their loan commitments to Bolivia. It is difficult to predict the net consequence of these shortcomings except to note that, to some degree, they would cancel out each other, which favors consideration of the conclusions drawn from these data.

Table 27 indicates the relative commitments of the principal banks which have placed loans with Bolivia during the 1970-79 period. A notable feature is that almost without exception their Bolivian commitments are very low (less than 0.5% of their assets) and most are miniscule (less than 0.1% of their assets). The only banks with more than 'very low' exposure are the mixed, or consortium banks. These Consortium banks are small institutions, measured in terms of assets; however, their capital is usually controlled by two or more of the large TNBs. 3/ As they can count on the financial strength of their shareholders, the consortium banks seem to utilize more aggressive credit strategies which result in higher exposure ratios or commitments in Bolivia than is the case for the other banks.

These figures suggest that the TNBs have diversified loan portfolios: in the case of all the bigger TNBs the Bolivian commitments were very small. Any moratorium of debt service payments on the part of Bolivian would not represent a serious problem for the creditor banks and would hold virtually no impact for the international financial system. As far as the 'hostage' argument goes, these data suggest that the TNBs are in no danger with respect to Bolivia.

Table 27

BOLIVIA: RELATIVE COMMITMENTS OF TRANSNATIONAL BANKS, 1970-1979

(100 = 0.5% of total assets)

	1970-1979		International Classification c/
	Degree of Commitment of Bank b/		
	<u>High</u>		
	>402	<503	
Euro Latin American Bank			301 (m)
UBAF Holding			301 (m)
Atlantic International Bank			301 (m)
	>301	<402	
	...		
	<u>Intermediate</u>		
	>200	<301	
European Brazilian Bank			301 (m)
	>99	<200	
Libra Bank			301 (m)
International Commercial Bank			301 (m)
International Mexican Bank			301 (m)
	<u>Low</u>		
	>20	<99	
Nippon European Bank			301 (m)
European Arab Holding			301 (m)
Banque Européene de Tokyo			301 (m)
Banque de la Société Financière			301 (m)
American Security Corp.			301
Grindlays			174
Union Commerce Corp.			301
United Virginia Bankshares			301
First Boston Corp.			111
First Pennsylvania Corp.			153
Japan International Bank			301 (m)
Bank of Montreal			54
Canadian National Bank			118
First Chicago			58
Bank of America			2
Other banks included in study d/	<20		

(concl.)

(Concl. Table 27)

Source: ECLAC on basis of Central Bank information and The Banker rankings

- a/ Value of credits placed in Bolivia as percent of total assets of the bank. Credits with export guarantees of home country government were not included.
- b/ Value of assets taken from The Banker, June 1980 and one for the year 1979. Annual reports were used for a few banks that did not appear on The Banker list. Twenty-one banks did not appear in ranking of The Banker and did not have readily available annual reports.
- c/ Banks not in the first 300 positions of The Banker ranking are listed as 301. Those with (m) are mixed or consortium banks.
- d/ See list of banks in annexes.

Objectively speaking, there seems to be no reason to suggest that Bolivia has increased its bargaining power relative to the TNBs in keeping with the increase in the TNB commitments to Bolivia. If indeed, those loans represent an important element of the Bolivian balance of payments and for the economic growth of the country, they do not constitute, in any way, critical elements of the TNBs' sovereign lending portfolios and hold virtually no significance relative to the total assets of the commercial banks. This great asymmetry stands out dramatically. There are less ostensible factors which do come into play here; however, although it is difficult to clearly assess their importance. For example, in the last few years, the TNBs have shown great reluctance to declare a default on a developing country debtor so as not to set a precedent, even in the case of countries whose debts are a very small proportion of the TNBs portfolio, as is the case of Bolivia. This might suggest that an alert debtor could use this preoccupation of the TNBs to strengthen its own bargaining position vis-a-vis the TNBs by way of a kind of "brinkmanship" in their negotiations. To the degree that more countries utilize the same bargaining strategy, the growing possibility of moratoria would supposedly represent a threat to TNBs and the international financial system. The banks, for their part, have tended to treat beleaguered sovereign debtors in a strict fashion; but without pushing them to the wall such that they officially default. More will be said in this regard in dealing with the Bolivian negotiation strategies with the commercial banks during 1981 and thereafter.

2. The Pricing of Bolivia's Sovereign Loans

In simplified fashion, the decision to lend on the part of a commercial bank can be expressed as a function of the following factors:

$$C_t = f (E_{t-1}, S_t, P_t, E_z)$$

where:

C = new credits for the country during period t;

E = the existing exposure of the bank in that country ($f'(E) > 0$);

S = the bank's perception of the country's creditworthiness $\frac{4}{t}$ /
during period t ($f'(S) > 0$);

P = the price of the loan taking into account the spread over the base
rate of interest and the maturity ($f'(P) > 0$);

L = the degree of liquidity of the bank ($f'(L) > 0$).

The differences produced in a given moment in respect of E , S and L values of any bank are reflected in the volume and price (or both) of new credits placed with Bolivia. The previous section dealt with the question of volume for individual TNBs, it remains to deal with the pricing factor.

Two variables are taken into account here in dealing with the pricing of commercial credits: the spread over LIBOR and the maturity. For each of the 118 banks an average annual margin over LIBOR was calculated from the contract information, as was an average annual repayment period. These averages were used to compare individual bank lending to Bolivia with the general tendencies of the interbank market in respect of Bolivia. Paired observations for each bank and the overall averages for the 1972-79 period were grouped accordingly. Two-tailed Student T tests were carried out on the variables to confirm one of the following hypotheses.

H_0 : the average price charged by the bank was the same as the average market price;

H_1 : the average price charged by the bank was distinct from the average market price;

at a 95% level of confidence.

To complement this evaluation of bank behavior, the same test was applied to banks grouped according to their ultimate country of origin, that is, the nationality of the headquarters.

Before analyzing the results of these tests, it is of importance to point out that by their very nature the statistical exercise suffers from certain concrete limitations which suggests that caution is called for. For example,

the TNB credit cycle for Bolivia lasted only eight years and that limits the degree of freedom utilized in the analysis. Furthermore, the diversification strategy followed by TNBs resulted in the fact that there were relatively few observations with which to work. Finally, lacking information on the distribution among banks of the commissions for syndicated loans, it was not possible to include them in the analysis. While according to the banks the commission is not strictly a part of the pricing of a loan, it is known that in practice the negotiation of loan agreements deals directly with the spread, the maturity and the commission, the latter sometimes being used to artificially reduce the published price of a loan in terms of the spread or the maturity. Thus, the lack of information on omissions for individual bank participants in syndicated loans naturally represents an important limit for the statistical exercise. Nonetheless, using caution as the watchword, the exercise can offer tentative indications of the pricing strategies of transnational banks and, thereby, serve as a guide for future studies on this material.

The exercise on individual banks was limited to seventeen institutions due to the fact that they were the only ones with continuous participation in Bolivia over the decade of the 1970s. Almost all had placed important credits with Bolivia. The tests used 3 to 7 degrees of freedom and, at the 95% level of confidence of one bank differed notably from market margins (being lower) and only two banks diverged significantly from the market tendency for maturities (being longer).

The same test were carried out placing the banks into 10 groups according to country of origin, reaching the same degrees of freedom and the same level of confidence. There were no differences with market prices with regard to the spreads or the maturities. 5/

These results suggest that over time these credit institutions do not seem to price their individual loans very differently from the general market trends. This could be interpreted as support for the belief that price does not constitute

over the longer term, a key factor which the TNBs use to determine risk, rather than the volume lent seems to be the principal mechanism for such. 6/ Unfortunately, one still does not know which market structures produce that behavior, that is, a competitive, an imperfectly competitive or an oligopolistic financial market. A clarification of that question would require information at the level of individual TNBs --especially information on their cost structure--which is not within the parameters of the present analysis.

3. Entry Strategies for the Bolivian Market

By saying that, over a certain period of time, the TNBs show relatively uniform behavior in respect of the spread and maturity of their sovereign loans, this does not mean that countries should not distinguish or differentiate their potential creditors. The truth of the matter is that the medium-term cost of a lender's funds is often directly related to short term transactions. Thus, as was suggested in the previous section, a borrower that succeeds in contracting loans with an innovative lender can often notably influence the cost structure or volume of the credits obtained. A new entrant to a given market, for example, is often willing to provide cheaper loans for the purpose of gaining a toehold in the market and potentially expanding its loan portfolio. The ECLAC study on Peru, for example, demonstrated how a few innovative TNBs strongly and favorably influenced the credit conditions of that country during the first half of the decade of the 1970s.

The Bolivian case points out that certain key TNBs played key roles in the acceptance which Bolivia met as a sovereign borrower during the 1970s. Most important in this regard were Bank America Corp., Dresdner Bank and Citicorp. 7/ Other TNBs of importance were First Chicago, Bank of Montreal, Banco do Brasil and investment banks such as Loev, Rhoades (now disappeared) and Leslie, Weinert & Co

Before 1974, Bolivia did not have access to commercial bank loans, except those guaranteed by export agencies and a few other special transactions. In 1974, however, Bank America Corp. organized the first modern syndicated loan for Bolivia: a free disposition loan of US\$ 25 million for the National Government. 8/ The major participants, outside of Bank America Corp. were Bank of Montreal, First Chicago and Banco do Brasil. 9/ The cost of the loan was extremely expensive for that period: 1.875% over LIBOR, 8 year maturity and accumulated commissions of 2 percent. Nevertheless this loan did break the ice for Bolivia as a sovereign borrower and the loan was considered very much worth its high price given that it opened the doors to the accelerated contracting of TNB credits in the period which followed.

The Bank America Corp. syndicate was followed by another free disposition loan of US\$ 24 millions organized by Dresdner Bank (through its subsidiaries Compagnie Luxembourgeois and Deutsche-Sudamerikanische Bank). Of the twelve participants, it was Dresdner, Citicorp, Banco Nazionale de Lavoro and First Chicago which contributed the most. Also notable was the fact that some participants of the Bank America Corp. syndicate also joined in the Dresdner one: Banco do Brasil, First Pennsylvania Corp. and Royal Bank of Canada. Finally, this second syndicate, as should be expected, brought slightly more favorable conditions: 1.83% spread over LIBOR, 8 years maturity and accumulated commissions of only 1 percent.

As was pointed out previously, the failure of the Herstatt Bank in the middle of 1974 paralyzed the international loan market and the adverse effects of this bankruptcy did not abate until the following year. For Bolivia, as was the case for more established sovereign borrowers, that meant few new credits were contracted, especially free disposition ones until well into 1975. Again, Bank America Corp. broke the ice by organizing a US\$ 35 million credit for

YPFB destined to the construction of new refineries and a lubricants plant. The syndicated credit had fourteen participants, many of whom had participated in the previous syndicated loans (i.e. Citicorp, First Chicago, Dresdner, Bank of Montreal). Reflecting the difficult market conditions following the Herstatt failure the spread reached 2.14% over LIBOR and the maturity was only 6.7 years. (The commission, however, was 0.2 percent.)

During 1976, Bolivia enjoyed considerable success in contracting sovereign loans. Bank America Corp. organized the biggest syndicated loan for Bolivia up to that point in time, bringing seventeen banks into a US\$ 50 million free disposition loan for the Central Government. This loan carried a 2 percent spread over LIBOR, a 5 year maturity and commissions of 1.5 percent. New participants to syndicated loans to Bolivia included prestigious TNBs such as Chemical Bank and Deutsche Bank. A few months later, Bank America Corp's biggest competitor, both globally as well as in Bolivia --Citicorp-- organized a US\$ 75 million free disposition loan for the Central Government. Bolivia's power of attraction as a potential client during this period was such that the Citicorp syndicated loan was oversubscribed and prestigious new participants, such as Morgan Guaranty Trust and Bank of Tokyo signed up. The importance of Morgan's participation should not be overlooked, as it is internationally reknown for its caution and conservative lending practices.

During the formation of this syndicate there was an unfortunate incident, one which did, nevertheless demonstrate the favorable image which Bolivia enjoyed during this period. Chase Manhattan Bank, one of the largest in the world, unlike its American competitors, had not penetrated the Bolivian market. 10/ Apparently, its restraint resulted from the fact that it was fiduciary agent for one of the old unpaid Bolivian bond emissions described in Chapter II which remained unpaid. However, it seems that the enthusiasm for Bolivia demonstrated by its

competitors caused Chase Manhattan, or at least some part of it, to feel the need to penetrate the market. Chase signed up for a significant participation in the syndicate organized by Citicorp. The result turned out to be disastrous due to the fact that after the Bolivian Minister of Finance had arrived in London to sign the contract in August of 1976 Chase Manhattan Bank got cold feet and pulled out of the syndicate temporarily causing it to fail. Perhaps the legal department of Chase finally won their internal dispute in the bank to respect its responsibilities as fiduciary agent of the old bondholders and not participate in the sovereign loan to Bolivia. Nonetheless, the incident produced outraged the Bolivian delegation which returned to La Paz empty-handed. One can appreciate Bolivia's generally positive image in the bankers' eyes at this time by the fact that shortly thereafter a substitute for Chase was found and the US\$ 75 million free disposition loan was signed carrying a spread of 2 percent over LIBOR, a five year maturity and accumulated commissions of 1.5 percent. Chase's reputation in the eyes of the Bolivian authorities never really recovered and the whole incident tended to confirm then industry rumors of Chase's mismanagement.

Finally, this analysis of the penetration of the Bolivian market demonstrates that the key institutions in 'opening-up' Bolivia --Bank America Corp., Citicorp, Dresdner; First Chicago, etc.-- were all very large, long established TNBs of international financial reknown. This resulted in part due to the fact that many of the more dynamic medium- and small-sized TNBs which were very active during the early 1970s and had played a very important role in signing-up new sovereign clientes had retired from the field because of the problems experienced. Thus the market was principally in the hands of the major TNBs. These majors determined the acceptance of Bolivia as a new client as of 1975. Given the TNB

majors' control over Bolivia's access to sovereign loans was precisely during a period of credit restriction, the Bolivian borrowers had to accept very severe commercial conditions on their credits.

4. The Special Role of TNBs with Branches in Bolivia

It might be presumed that TNBs with branches in Bolivia would behave different from TNBs without such direct links to the country's welfare. Several considerations back up this hypothesis. First, a local office would provide the bank with direct information and allow it to experience the Bolivian reality; whereas, other banks would react on the basis of secondary information and the 'herd instinct' typical of indirect participants. One suggests that the TNB with offices or branches in Bolivia would possess a more mature perspective on the nature of Bolivia's creditworthiness. Second, a TNB with profitable local activities would find it less risky to extend foreign currency sovereign loans due to the fact that it would represent a natural complement to its local currency lending, especially in the case of large projects with significant imported components. Finally, TNBs with local branches or offices already have some of their activities subject to national banking laws and regulations and this relationship, in one form or another, usually influences the nature and magnitude of foreign currency lending.

These reasons are difficult to verify empirically given the scarcity of information on the decision-making process and the internal workings of transnational banks; however, in spite of these limitations, in the case of Bolivia, there is some evidence which suggests that TNBs with local operations followed strategies distinct from TNBs with no local operations in that country.

Table 28 presents information on the TNBs with offices in Bolivia and their relative importance as creditors of that country. All with the exception

of Bank of Boston, can be considered important creditors. In itself, this says little due to the fact that these same TNBs have large and wide-spread loan portfolios in all of Latin America. Nonetheless, there is a reason to believe that the foreign currency loans of these TNBs are related, to a certain degree, with the local operations of these credit institutions.

Citicorp, Bank America Corp., Dresdner Bank and Banco do Brasil were the key institutions in opening up the Bolivia market as far as sovereign lending is concerned. Moreover, if Bank of Boston did not have a preponderant role as a source of credit nor as an agent for syndicated loans, it was one of the first commercial banks to place a loan in Bolivia and it did participate in the first syndicated loans for the country. 11/ Moreover, Bank of Boston, which only opened its local office in 1974, did do Bolivia an enormous favor by presenting it in a very favorable light as a new and attractive client in financial circles by way of informative seminars and other forms of information dissemination on the country. It is not simply coincidence that these banks were so important for Bolivia as far as its gaining access to the syndicated loan market. They were in the best position to evaluate the economic and political changes in Bolivia and it is to suppose that only their very favorable attitude in the mid-1970s can explain Bolivia's sudden acceptance in the international capital market after so long a period of bad image and, to top it all off, unpaid bonds from the beginning of the century. Particularly important, no doubt, given the position of these banks in local commercial financing and their probable links with the petroleum transnationals that entered Bolivia, 13/ was that they were more susceptible to presume that the authoritarian Banzer regime would bring a period of stability which would be economically reinforced by the major new oil and gas finds which

Table 28

TNBs WITH OFFICES IN BOLIVIA: THEIR IMPORTANCE AS SOURCE OF EXTERNAL CREDIT AND AS ORGANIZERS OF SYNDICATED CREDITS a/

	Year Offices opened in Bolivia	Importance as source of external credit <u>b/</u>	Level of relative gross commitments	Importance as organizer of syndicated credits
<u>Branches</u>				
Banco do Brasil	1959	intermediate	low	-
Citicorp	1965	major	low	major
Bank America Corp.	1967	major	low	major
Bank of Boston	1974	minor	low	-
<u>Representative office</u>				
Dresdner Bank	1973	intermediate	low	intermediate

Source: ECLAC, based on information of Central Bank.

a/ Other foreign banks in Bolivia are Banco Popular del Perú, Banco de la Nación Argentina and Banco Real; they are not, however, considered transnational banks.

b/ Credits not carrying export guarantees.

which seemed just around the corner. In other words, the new liberal petroleum code and the exaggerated potential of Bolivia's petroleum reserves were important factors in enticing other TNBs into participating in the loans organized by these agents, and they were also important factors in the relationship between these agents and the petroleum majors which moved into Bolivia for the purpose of exploration.

It is true that these banks placed many credits in Latin America and one would expect that they would place some in Bolivia as well whether or not they had offices in that country. What calls attention, however, is the near perfect correspondence between the group of TNBs which opened up Bolivia for syndicated loans and the group of TNBs which had local offices in the country. Suffice to note that there are many other major TNBs without offices in Bolivia that had large Latin American portfolios, but did not lend to Bolivia, or entered the market only at a very late stage.

Aside from their role in opening up Bolivia to syndicated credits these TNBs with offices in Bolivia were tested as to their importance from the perspective of the terms on which they lent to Bolivia. The result of that analysis; however, suggested that these TNBs did not differ from the institutions without offices in Bolivia, with respect to the distribution of fixed and floating rate loans, spreads, maturities and commissions, etc. 14/

Another hypothesis related to special behavior is that the banks with local offices have a higher rate of participation in the foreign currency financing of high priority national projects, ones which contributed to improving the image of the country and, at the same time, protected and promoted the local currency operations of those banks. Indeed, in 1970 Bank America Corp. placed a US\$1.3 million credit with the Public Works Committee of Chuquisaca for the financing of a gas duct. At a time when Bolivia had virtually no creditworthiness in the eyes of

international bankers, this credit carried a spread of only 1% over LIBOR and had a maturity of 6 years. 16/ These credit terms do not appear to be strictly commercial and one might suppose that there were certain public relations in play. That year was one of great uncertainty for foreign capital in Bolivia due to the nationalization of Bolivian Gulf Co. and to the discussions surrounding the implementation of Decision 24 in Bolivia. The credit might have been conceived as a means of improving the relations between the lender and the national authorities and of protecting the lender's local operations during a period of severe challenge for existing foreign participants in Bolivian development.

There are other examples of the special behavior of the TNBs with offices in Bolivia. In 1972 the new government wanted to compensate some of the formerly US enterprises which had been nationalized by the previous regime. Two of the three TNBs which financed those operations had offices in Bolivia. 17/ Furthermore, Citicorp organized the credits for the Sheraton Hotel in La Paz, a project which promised the first moderns conference setting there and held symbolic value as representing the optimism surrounding the Banzer regime and the new economic policy. As another indicator, Citicorp, Bank America Corp. and First Boston Corp. were the key organizers of the US\$155 million refinancing of the commercial external debt, the biggest credit ever contracted by the Bolivian government.

Finally, one feels obliged to comment on the all too special behavior of Citicorp in Bolivia. Apparently, its branch in Bolivia provided it with the close contacts necessary to carry off an extremely able strategy for a profit-making commercial entity. According to Asheshov, in February of 1978, Citicorp --one of the two principal creditors of the country-- came to the conclusion that the economic and political situation was worsening and the future did not look bright. They began to drastically reduce their loan portfolio there, as well as shifting

to short term credits. A direct victim of this strategy --as the analysis of Chapter VII will detail-- was COMIBOL which was caught on a short term debt treadmill. According to Asheshov, Citicorp's plan was extremely successful as its exposure in Bolivia by 1980 was reduced to less than one-third of that of 1978. 18/ The key to its success was to lull its competitors in Bolivia into thinking that it was pulling its weight with the refinance operations when, in all reality, it was jumping ship. If this strategy had been followed by the other major creditors there is little doubt that the Bolivian government would have been forced to stop servicing the commercial external debt much sooner and, notably, Citicorp would not have been able to wind down its exposure so fast.

These considerations of Citicorp's strategy lead one to question the real intentions of that TNB in the US\$ 155 refinancing of March, 1978. Citicorp offered to be the principal organizer of the syndicated credit and it contributed US\$ 5 millions to the operation. No doubt, the other TNB participants interpreted Citicorp's action as a kind of vote of confidence in Bolivia by one of its principal creditors and one of the largest TNBs in the world. But, if Asheshov is correct in deducing that by February 1978 Citicorp already had decided to reheat from sovereign lending activities in Bolivia, its role in the US\$ 155 million refinancing operation would appear to be simple camouflage, aimed at keeping the other TNBs in the country. If this interpretation is correct, one must conclude that, for a profit-making commercial bank in an increasingly competitive sovereign lending market, it was a brilliant maneuver; however, from the perspective of Bolivian development it turned out to be extremely prejudicial. First, it increased the short term element of Bolivia's external public debt during a difficult moment. Second, when Citicorp's intentions finally became public knowledge, it, in the words of one international banker, "brought the whole house of

cards down". 19/ Obviously, the economic development of a country, and the external financing of such require stable relationships between the authorities of the country and the principal commercial creditors. Moreover, in the case of Bolivia, the aggressive TNB entry into sovereign lending and their rapid exit could only but destabilize an already difficult situation associated with the return to democratic rule. In this context, Citicorp's actions seem to have significantly prejudiced Bolivian development; even an international banker was moved to comment that "it is not much of an advertisement for farsighted lending". 20/

In sum, there is sufficient information to affirm that the TNBs with offices in Bolivia behaved significantly distinct from those without such offices and their corresponding local activities. These TNBs played a primordial role in the initial acceptance given Bolivia by the international capital markets during the 1970s. This suggests that, for an LDC with a poor image and low creditworthiness ranking in international financial circles, the TNBs with local offices could, in certain circumstances, represent key credit institutions for gaining access to foreign currency credits. This, of course, is not in itself sufficient to establish the overall convenience of such TNB offices in an LDC, that must be determined with reference to the overall effect of such offices, most particularly in terms of local currency savings and investment criteria. Nonetheless, the Bolivian case does demonstrate that these TNB offices can play an important role in the syndicated loan market.

5. TNB Preferences with Regard to Sovereign Credits

This last section deals with commercial bank preferences in respect of the type of loan, the economic sector where it is placed and the use of guarantees from official organizations of the home country of the creditor bank. This information is useful for country borrowers because one supposes that a better comprehension of TNB preferences augments the negotiating strength of the borrower.

If one knows that a TNB prefers a certain type of loan or to place credits in certain economic sectors the negotiating process can produce more favorable results for the prospective borrower.

The retrospective evaluation of the experience of one sole country does not allow for conclusions of universal applicability; however, it does add to the knowledge of TNB and, used with caution, can assist the borrowing countries and researchers in their efforts to better understand the TNB phenomenon.

a) Preferences for particular types of loans and specific economic sectors

It is possible that in certain circumstances that TNBs are totally indifferent with regard to the type of loan (project, refinancing, free disposition, etc.) that they make or the economic sector where it is placed. Generally, however, the TNBs do have marked preferences as Aronson has point out:

"Banks prefer lending for cash flow-generating projects which will allow borrowers to meet their obligations. They prefer not to finance consumption and infrastructure, are uneasy about financing payments deficits, and would rather not refinance previous loans. 21/

These criteria are very conservative and constitute the traditional rule for commercial banks; however, all the TNBs do not implement the rule in the same manner nor at the same time. Moreover, at times more important considerations, such as market entry, portfolio requirements, etc. come into play and certain TNBs may replace their traditional conservatism with a more innovative credit strategy. 22/

In order to examine bank preferences with regard to the type of loan one can postulate that, above and beyond the security of the use of the guarantee of the Bolivian State, TNBs can reduce their risks by way of a careful control of the type of loan they place. For example, TNBs traditionally consider project

financing to be safer due to the fact that one is dealing with a particular concrete activity which has usually been the subject of a previous evaluation or feasibility study. As well, these loans involve certain discipline on the part of the borrower because their use creates concrete assets fixed or otherwise, and the execution of the project can take advantage of the technical knowledge of established suppliers or contractors, whether foreign or national. 23/ Export financing of capital goods provides many of the safety features found in project loans.

Free disposition loans and refinance creates are more risky for the lender for the opposite reasons; there is no guarantee that the resources will be destined to productive activities which will generate the return necessary to service the contracted debt. In respect of refinancing credits, these are usually considered to be unattractive to the banks because of their insistence that original payment schedules be honored. By their very nature refinance credits are viewed as risky because they are often granted in times of economic stress and the rates of interest and maturities are not always commensurate with the risk involved.

A similar case holds for the sectoral preferences of TNBs; although they could be indifferent, especially if the State guarantee has been extended, generally, the TNBs have clear preferences for resource-generating (especially foreign exchange) sectors rather than improductive ones. In this sense, directly productive activities, such as those usually found in the agriculture, mining and manufacturing sectors are considered to be safer, usually because the financing concerns commercial activities which by their nature provide better

prospects of repayment. Loans to basic economic sectors (such as water works, energy, transport) and social sectors (such as housing and health, etc.) are considered riskier by the TNBs because there is usually no self-financing mechanism involved and payment usually relies solely on the resources of the Central Government. Naturally, many of these activities are based on an economic return only over the long term and that does not square well with the short- or medium-term financing which is usually contracted. Thus, the basic economic and social sectors are viewed as being more riskier for the placement of sovereign credits by the TNBs than those identified by more directly productive activities.

Given the fungibility of money, this type of distinction between loans might be considered questionable; however, if some banks usually take it into consideration in their risk calculations that is sufficient to make it an important factor for the present analysis. One could postulate that a tendency to place certain kinds of loans in Bolivia could reflect a determined credit strategy with respect to that country and perhaps, may reflect the general strategy of the TNB in question. For example, if a high proportion of a TNBs loans go to free disposition credits, one could maintain that the bank is demonstrating an innovative credit strategy. If, however, a high proportion of a banks loans go to directly productive activities, the implication is that the TNB has a conservative credit policy. On these kinds of suppositions is based the analysis which follows.

In order to evaluate these preferences of TNBs, these credit institutions have been grouped according to two principal categories, similar to those utilized in the preceding chapter: country of origin and size. For each subgroup of TNBs within each of two categories the distribution of loans according to type and economic sector was analyzed. The distributions were compared, for each subgroup, using standardized variables. 24/

Having converted the distribution to standardized variables, the strategy of each bank for each of the two principal categories was classified according to the results, as conservative or innovative. For example, as has been mentioned, a preference for free disposition or refinancing credits is considered an indication of an innovative strategy; a preference for project and capital good import loans suggests a conservative strategy. Similarly, a preference for placing loans in sectors identified by directly productive activities (agriculture, mining, manufacturing) was viewed as representing a conservative attitude whereas placing loans in sectors characterized as infrastructure represented an innovative viewpoint. Comparing the results of each calculation the overall strategy was defined as either conservative or innovative, according to the data contained in Table 29.

i) Banks grouped according to country of origin

With respect to the country of origin, it turned out that the Japanese, German and "other" banks, followed far back by mixed banks, and British and Italian ones, demonstrated the most conservative credit strategies. With the exception of the Japanese and mixed banks, this result generally conforms to a priori considerations, that is, that British and German banks are very conservative usually financing only projects in directly productive sectors, such as mining. The Japanese and mixed banks, however, were thought to be very innovative credit institutions both in terms of price as well as their preferences. Most probably, the fact that Bolivia contracted most of its loans during 1975-1977, when the international capital markets were quite restricted, accounts for the cautious attitude of usually more innovative TNBs. As was mentioned previously, the Japanese banks practically pulled out of the sovereign lending market during this period.

Within the group of relatively innovative TNBs, the French and Swiss banks are the only ones which appear to contradict the expected results. France

Table 29

BOLIVIA: CONSOLIDATED ANALYSIS OF CREDIT STRATEGIES OF TNBs BY TYPE OF LOANS
AND SECTORS, 1970-1979

(Net standardized scores) a/

	Type of loans preferred	Sectors preferred	Total
<u>Banks classified according to country of origin</u>			
United States	-50.6	211.9	161.3
Japan	-108.3	-65.1	-173.4
Canada	124.8	125.6	250.4
United Kingdom	-95.0	-18.5	-76.5
Germany	-25.4	-130.8	-156.2
France	-177.6	336.0	158.4
Italy	127.4	-177.6	-50.2
Switzerland	98.0	54.2	152.2
Others	124.3	-269.3	-145.0
Mixed Banks	-12.9	-64.4	-77.3
<u>Banks classified according to size b/</u>			
1. 1 - 10	-256.7	47.0	-209.7
2. 11 - 50	-11.9	-110.4	-122.3
3. 51 - 100	34.3	-41.5	-7.2
4. 101 - 170	141.7	264.0	405.7
5. 171 - 300	-387.0	284.2	-102.8
6. Smaller banks	8.4	-256.4	-248.0
7. Not classified	273.2	-185.4	87.8

Source: ECLAC, on basis of statistical annexes.

a/ Balance of the conservative and innovative aspects of the loans considering type and sectoral preferences. Figures represent the balance of standardized deviations around the overall average. A positive result suggests an innovative overall credit policy, a negative result suggests an overall conservative policy.

b/ The classification is the same as that utilized in Chapter III.

usually link their project loans to the sale of French components, which Table 3 of the Statistical Annex makes manifest. Nonetheless, given that most of the projects financed in Bolivia were ones associated with infrastructure, the French TNBs ended up with an "innovative" result. Similarly, Switzerland, normally thought to possess very conservative commercial banks, ended up with an "innovative" score due to the high proportion of their loans which were free disposition credits or for infrastructural activities. The most innovative TNBs, however, were Canadian, and American.

ii) Banks grouped according to their size

Grouped according to size, banks did not demonstrate any clear correlation in respect of their preferences. It is, however, notable that the largest banks (groups 1-3) and the smallest banks (groups 5-6) were more inclined to follow conservative credit strategies. The smaller banks were probably affected by the restrictive market conditions during 1975-77. The position of the largest banks is more typical as they tended to concentrate on financing capital goods and tended to shy away from free disposition loans.

b) Preference for credits carrying official guarantees from the country of origin

The previous section referred to loans whose risk was assumed by the lending bank. This is, however, a partial view of risk preferences due to the fact that a significant portion of the overall value of total loans, 22 percent, to be exact, carried official guarantees from government agencies of the home country of the TNB lender. This is especially the case for export credits associated with the sale of capital goods. Naturally, such guarantees eliminate most risk for the TNB lender, thus, any TNB that demonstrates a marked tendency to eliminate risks through official guarantees attached to their loans must be considered as implementing a conservative credit strategy. Table 30 demonstrates the tendencies for national groups of TNBs. The

Table 30

BOLIVIA: LOANS WITH OFFICIAL GUARANTEES FROM HOME COUNTRY AGENCIES, CLASSIFIED BY COUNTRY OF ORIGIN OF CREDITOR BANK, 1970-1979 a/

Country of origin of Bank	Guaranteed credits as national group as % of all guaran- teed credits	Guaranteed credits as % of all credits of each national group
United States	9.6	5.9
Japan	-	-
Canada	0.6	1.2
United Kingdom	17.0	37.7
Germany Federal Republic	4.6	11.5
France	7.2	65.1
Italy	0.5	12.5
Switzerland	-	-
Others (Brazil, Argentine, etc.)	55.8	67.7
Mixed banks <u>b/</u>	4.7	10.4
<u>Total: all banks</u>	<u>100.0</u>	<u>22.0 c/</u>

Source: ECLAC, on basis of information from Central Bank.

a/ Loans for which it was possible to establish a guarantee given that the borrower does not always know of any export guarantees which may be extended, these data might underestimate those credits guaranteed.

b/ Banks with shareholders of differing nationalities.

c/ Weighted average.

principal result is to reinforce the earlier characterization of British bank as following conservative lending strategies. "Others" came off as exceptionally conservative; however, this is a result mainly of the notable influence of the CACEX loans of the Banco do Brasil in the overall sample. 25/ Loans from French TNBs carried an exceptionally high (65%) proportion of official credits. Thus, the British and French banks tended to follow the most conservative credit strategies. In this regard, the case of the 'Other' banks representing a special case.

It seems that there is no evident correlation between the size of the bank and the use of official guarantees (Table 31); however, three things should be taken into account. First, Banco do Brasil is found in the second group which explains the high level of use of guarantees for these banks. Second, the mixed banks dominate the sixth group and, by definition, they have few links with government export promotion policies and practices. Third, the "not classified" group contains mainly very small credit institutions. With this in mind, there would seem to be an inverse relationship between the size of the TNB lender and the tendency to employ official guarantees from its home country government. 26/

6. Summary

The foregoing analysis has focussed on various aspects of the credit strategies of TNBs in dealing with Bolivia. From this analysis it seems to be the case that the TNBs could not effectively reflect their perceived risk in the price of the loan, rather they managed to do it by way of the volume of credit they placed in the country and the magnitude of their exposure there. Practically all the commercial banks, following the principle of risk diversification, contracted very low net commitments (in terms of the TNB's assets), although there were some exceptions and the most notable one was the case of the mixed or consortium banks.

Table 31

BOLIVIA: LOANS WITH OFFICIAL GUARANTEES FROM HOME COUNTRY AGENCIES, CLASSIFIED BY COUNTRY OF ORIGIN OF CREDITOR BANK, 1970-1979 a/

Size of bank <u>a/</u>	Guaranteed credits of national group as % of all guaranteed credits	Guaranteed credits as % of all credits of each national group
1. 1 - 100	8.3	7.5
2. 11 - 50	69.7	42.5
3. 51 - 100	2.3	3.4
4. 101 - 170	6.3	22.3
5. 171 - 300	2.4	20.7
6. Mixed banks <u>b/</u>	4.5	9.9
7. Not classified	6.5	24.3
<u>Total</u>	<u>100.0</u>	<u>22.0 c/</u>

Source: ECLAC, on basis of information from Central Bank.

a/ Based on The Banker ranking of the worlds 300 largest banks, by assets, for the year 1979.

b/ Banks with shareholders of differing nationalities.

c/ Weighted average.

It also became apparent that the relatively rapid and positive acceptance of Bolivia as a new sovereign borrower and participant in the international capital markets was orchestrated, for the most part, by only three major TNBs: Bank America Corp. Citicorp and to a lesser extent, Dresdner Bank. These majors utilized their status to induce other TNBs to join in their syndicated loans to Bolivia. Nonetheless, it was apparent that their optimism did not become generalized and many TNBs active in other countries of the region did not enter Bolivia or did so to a very minor extent. Those that entered more fully in the Bolivian market tended to compete on the basis of the volume of credit placed there rather than on price considerations.

Banks with offices in Bolivia were the leaders in opening up Bolivia to sovereign lending. This is clearly the case of Bank America Corp., Citicorp and Dresdner Bank, as measured by the volume of their lending. Bank of Boston, which also has offices in Bolivia since 1974, was more important from the point of view of convincing other TNBs to participate. It could be that the optimism of the economic circles associated with the new authoritarian regime spread more rapidly to these TNBs via their offices in La Paz, than was the case for the other TNBs receiving their information second-hand.

The TNBs demonstrated distinct preference with respect to the type of loan conceded, its placement by economic sector and the use of official guarantees of the government of their home countries. The banks with conservative perspectives were the British, French, Japanese and 'others', as well as the mixed banks. This conservative credit strategy is not normally associated with the Japanese or mixed banks, and this aberration may be explained by the crisis atmosphere which existed in the international capital markets during 1975-1977, when Bolivia contracted

most of its commercial bank debt. Thus, due to conjunctural factors, perhaps these normally innovative TNBs temporarily employed more conservative credit policies.

Also highlighted in this chapter was that the behavior of two major TNBs turned out to be particularly prejudicial for the interests of the Bolivian nation. Citicorp, without notice, drastically reduced its Bolivian portfolio precisely at the difficult moment of transition toward democratic government which compounded the problems involved and worked directly against the welfare of the Bolivian people. Chase Manhattan, by way of its own confused organization, pulled out of a large syndicated credit shortly before it was to be signed in London by the Bolivian Minister of Finance. That situation not only caused embarrassment for the Bolivian delegation, more importantly, it demonstrated how the less than serious behavior of a major TNB can negatively impact the creditworthiness of a developing country.

Finally, it is worth transmitting the opinions of some of the principal Bolivian authorities responsible for the negotiation of loans from TNBs during this period, 1974-1978. Generally, the three TNBs which left the best impression with respect to their flexibility and goodwill were Bank America Corp., Bank of Boston and First Chicago Corp. Others with good standing in the eyes of these authorities were Dresdner Bank, Manufacturers Hanover and Wells Fargo. Interestingly, with no knowledge of Citicorp's accelerated exit from the Bolivian market, authorities commented that commercial bank was exceptionally tough in its negotiations, but of high calibre and professionalism. As was to be expected, Chase Manhattan was not considered in a very positive light by these Bolivian authorities. Generally, the American, Canadian and German banks were considered more flexible. Meanwhile, the French banks were viewed as being the most difficult and rigid in their dealing with Bolivia.

Notes

1/ See Lissahers, p. 58.

2/ This opinion was expressed by the Wall Street Journal in 1979 and was quoted by Muller (1980), p. 140.

3/ Libra Bank is a good example. Its owners are the following: Chase Manhattan Bank (23.6%), Royal Bank of Canada (10.6%), Mitsubishi Bank (10.6%), Westdeutsche Landesbank Girozentrale (10.6%), Swiss Bank (10.6%), National Westminster (5.0%), Credito Italiano (7.1%), Bancomer S.A. (8.0%), Banco Altan (8.0%) and Banco Espiritu Santo Comercial (5.9%). The information is for 1978 and was published by The Banker Research Unit. (See Bibliography).

4/ Creditworthiness or solvency is a very general term utilized to express the evaluation made by a bank of the risk of incompleteness or non-performance on the part of the borrower. Commonly, the concept is operationalized to a large extent through reference to indication of external sector liquidity (i.e. exports, international reserves, etc.) and the general nature of the economic policy followed by the recipient. For more information in this regard, consult Goodman, Asian Finance, Brackenbridge, Anderson and Wolf. (See Bibliography.)

5/ Best results may be requested from the ECLAC/CTC Unit in Santiago, Chile.

6/ Here, again, the hidden nature of the commissions creates some uncertainty. Whereas spreads and maturities are usually public knowledge, commissions usually are not and, as was suggested earlier, this lends itself to some misuse in terms of artificially reducing the published price of the credit.

7/ As has been mentioned, subsidiaries have been collapsed into their headquarters, to avoid misconceptions. Thus, Bank of America becomes Bank America Corp., Citibank becomes Citicorp, etc.

8/ If, indeed, Bank America Corp. was the principal agent of this syndicated loan, it should be mentioned that an investment bank --First Washington Securities Corp (USA)-- was responsible for the initial structure of the syndicate. Although it did not contribute financially to the loan, it was designated co-manager and it did receive a portion of the commission.

9/ Each of these TNBs contributed more than the average participant's share in the credit, that is, more than US\$ 2 million.

10/ Chase Manhattan indirectly lent to Bolivia via its participation in Libra Bank. See note 3 of this Chapter.

11/ It should also be taken into account that it had one of the highest relative commitment levels of the non-mixed banks.

12/ Information obtained directly by the authors.

13/ Crespos' study (pp. 58-59) shows that the branches of US banks in Bolivia were known to have very close connections with the foreign enterprises there, especially the exchange of information on the economic situation of the country.

14/ In the case of one of the banks its spreads were significantly less than those offered by other TNBs, however, one cannot attribute this behavior to the fact that it possesses a branch in Bolivia due to the fact that it is known that the bank had global loan strategy of low-priced loans aimed at expanding its portfolio of sovereign loans.

15/ Later this credit was transferred to YPF.

16/ For example, Brazil, often considered one of the more solvent of Third World countries, was paying 2% or more over LIBOR. See Develin (1978) pp. 80-81.

17/ Citicorp and Bank America Corp had branches in Bolivia. Evidently, the close relations between these banks and the nationalized US companies in Bolivia was an important factor in the creation of this loan.

18/ See Asheshor, p. 63.

19/ Ibid.

20/ Ibid.

21/ Consult Aronson (1977), p. 177.

22/ The terms "innovative" and "conservative" do not carry value judgments with respect to each lender. In fact, an innovative credit strategy can be either (good) or (bad) depending on the particular situation at hand. For example, an innovative credit strategy on the part of the TNB may appear to better reflect the borrower's priorities in the short to intermediate term; however, if it leads to a breakdown of discipline and the uncontrolled contracting of loans it might work against the longer term interests of the borrower. On the other hand, the conservative credit strategy of another TNB would presumably keep the indisciplined borrower from getting caught on the debt treadmill. The analysis here has as its objective to demonstrate that the TNBs have varying credit strategies and that an alert borrower can take advantage of those differing orientations.

23/ If this supply or contractor is also an important client of the lender, another incentive for the loan is created.

24/ The standardized variable is $z = \frac{x - \bar{x}}{s}$, in which x represents the percentage of the total authorizations for that country, or that size of bank, corresponding to a particular type of loan or economic sector; \bar{x} is the unweighted average for all countries or all size banks with respect to the same type of loan or economic sector and s is the standard deviation of x.

25/ CACEX is the export credit arm of the Banco do Brasil and has been very active in all of Latin America.

26/ Table 14 of the statistical annex offers information on particular TNBs and their tendency to utilize official guarantees from the home country government.

Part II

THE MULTIDIMENSIONALITY OF THE STATE AND ITS CAPACITY TO NEGOTIATE

Chapter V

THE STATE AND ITS NEGOTIATIONS WITH FOREIGN PARTICIPANTS - A CONCEPTUAL
FRAMEWORK AND THE BOLIVIAN EXPERIENCE

In the previous chapters of this study, the nature of the participation of TNBs in Bolivian development, their negotiations with the Bolivian Government and the subsequent difficulties which arose have been analyzed in detailed fashion. In this second part of the examination at hand, the emphasis shifts to the State and the factors influencing its negotiations with foreign participants, especially TNBs. Given the particularities involved in the State's negotiations with foreign participants and their impact as the State's broader responsibility as guardian of the general welfare of the Bolivian society, it is necessary to employ innovative analytic instruments for the study of the different and at times contradictory aspects of such phenomena. Only in this way does it prove feasible to fathom the apparent anomaly of a strong State which weakens its own bargaining capacity. In order to capture central aspects of the complex matrices involved in this anomaly, it makes sense to begin by inquiring into the principal features of the State and its major roles in the development process before entering into the discussion of State: TNC negotiations and the particular case of Bolivia.

1. A Perspective on the State and its Roles in the
National Development Process

The intention here is clearly not one of advancing a new theory of the State and its functions; however, it is pertinent to point out the principal deficiencies of the most general existing theories, most notably the liberal

plurarist and fundamentalist Marxist arguments. These traditional and, here, admittedly extreme, views of the State serve as signposts in staking out somewhat that area of human knowledge which might be referred to as the State in Latin America, which will obviously relate to the theme of this part of the present study.

The liberal pluralist argument generally views the State as an impartial or neutral arbiter which mediates and resolves conflicting group interests, without directing, interfering or showing favour. 1/ In this vein, in his famous work Wealth of Nations, Adam Smith, assigned the State a minimum of roles (i.e. law and order, national defense, etc.) destined essentially to provide a secure environment for citizens to carry out their economic activities. It is clear, nonetheless, that the roles of the State in the democratic industrial countries expanded greatly beyond Smith's frontiers, producing in the last several decades the phenomenon known as the "welfare state". 2/ The liberal pluralist argument that the expansion of the State's roles results solely from 'functionalism' rather than any new or growing autonomy of the State itself seems either to beg the question or not adequately respond to it. 3/ Furthermore, abstracting from the experience of the democratic industrialized countries from which this theory or appreciation was born, it is evident that in Latin America there is little empirical evidence of the arrival of or existence of any State which could be in any way characterized as a neutral or impartial arbiter.

The fundamentalist Marxist position identifies the State apparatus as an instrument used to perpetuate the dominance of the current hegemonic class--usually meaning the industrial bourgeoisie--of the national social formation. 4/ This traditional focus does not permit any cogent comprehension of the welfare state of Twentieth Century, either. Although it is true that this simplistic view has

been substantially modified for the analysis of Western Europe and North America, 5/ it continues to be prevalent in parts of the developing world, especially in Latin America. 6/

Both of these extreme views have been largely written off as comprehensive explanations of the State and its roles; nonetheless, in the context of the convergence and modifications in the subsequent and more realistic streams of thought on this phenomenon, they did capture the basic differences of opinion in conflict. The subsequent discussions usual considered to what degree and in which situations did the State act as a neutral arbiter of conflicting group interests and to what degree and in which circumstances did it simply reinforce the dominant interests or classes.

One of the distinctive characteristics of the Latin American developmental experience and one that distinguishes it from that of the advanced industrial countries has been, precisely, the role of the State. In Latin America, the State has been a relatively (and, notably) autonomous actor in directing the development process, something which neither the liberal pluralist or fundamentalist Marxist perspectives seem capable of contemplating. Stepan affirmed, moreover, that this relative autonomy of the State must be central to any research strategies on Latin American development. 7/ Evans has suggested that the State has been so central to the process of capital accumulation that if it were not for the State's determination to promote local savings and enact a strong industrial policy, industrialization in the region would not have taken place. 8/ Thus, even this short appreciation clearly suggests that the State in Latin America is not simply a neutral arbiter nor solely an instrument of class dominance. The State in Latin America is much more complex and intimately linked to the centralist tradition dating from colonial times.

Veliz has suggested that this important centralist tradition in Latin America stems not from any general Iberian influence but from the particular Castille one, based on a centralist, civilian, bureaucratic and legalistic perspective which has shaped the evolution of the State in Latin America. 9/ Independence in this region did not entail any reformulation of the State or its roles via a liberal bourgeois revolution as was the case for the French and English experiences, 10/ rather the centralist structures and the authoritarian practices were maintained by the existing bureaucracy. 11/ Veliz places emphasis on what he considers the Catholic intolerance which was projected southwest wardly across the Atlantic Ocean. 12/ This difference separated the subsequent experiences of North and South America in respect to the relative importance and distinct roles of the State.

Since the period of the Great Depression and the Second World War, at a minimum, according to Veliz, the centers of decision-making and responsibility for the Latin American economies have resided securely in the public, not the private, sector. This fact is relatively independent of the situation of the dominant political parties of the classical spectrum: the governments of Cuba and Mexico; Chile and Peru, Brazil and Argentina are centralist not because they are left-wing, right-wing, capitalist or socialist, but because they are Latin American. 13/ Furthermore,

... the strategic position of the central state as main comptroller of the flow of resources generated by the export sector permitted successive governments to play a principal role in directing these funds into industrial promotion. Hence, within the space of one generation, the central state consolidated its key position at least with respect to three of the principal aspects of modern economic policy: it became the main financial entity able to supply capital to private industrial ventures; it assumed the function of arbiter in the process of income redistribution through

the implementation of a variety of social policies; and it assigned a dynamic role to the public sector directing toward it the financial resources required for the development of an adequate industrial infrastructure and the creation of the basic sectors of the new industrial economy. 14/

Thus, it seems evident that basic differences have marked the evolution of the State in Latin America in comparison to other areas and, therefore, the conception, structure and roles of the State have varied accordingly.

The State in Latin America is difficult to conceptualize according to traditional perspectives due to its proper developmental experience, its own implicit heterogeneity and the degree to which foreign influences impinged upon individual developmental trajectories. 15/ Nonetheless, Oszlak has made some interesting observations on the historical formation of the State in Latin America and how 'stateness' is acquired. He points out what is often forgotten, that is, that the State is not spontaneously generated nor is it created by "someone" through ritualistic practices. Rather, it is formed through a political economic process in which certain fundamental attributes are gradually acquired and, in a particular historical moment, are manifest in the level of development of the country. He suggests that certain 'elasticity' is involved in the degree to which these attributes are acquired by particular social formations and the degree to which they are acquired is manifest in the ability of the State to articulate and reproduce social relations, which he takes to define the existence of the State. 16/ The principal attributes are i) the material capacity to control, acquire and allocate social resources in respect of a determined population and territory; ii) the symbolic capacity to evoke, create and impose collective loyalties and identities on its citizens. 17/ Just the mention of these two attributes indicates the complexity of the concept, especially insofar as it is associated with a strong centralist tradition and that the State has, at a minimum, a dual character: the mechanism for articulating social relations and the institutional apparatus.

The State then is a multidimensional and multifaceted social actor 18/ whose character becomes more complex with the degree of material advancement and the nature of the social dynamic of the civil society that it mediates, and, particularly in Latin America, that it transforms in ostensible fashion. 19/

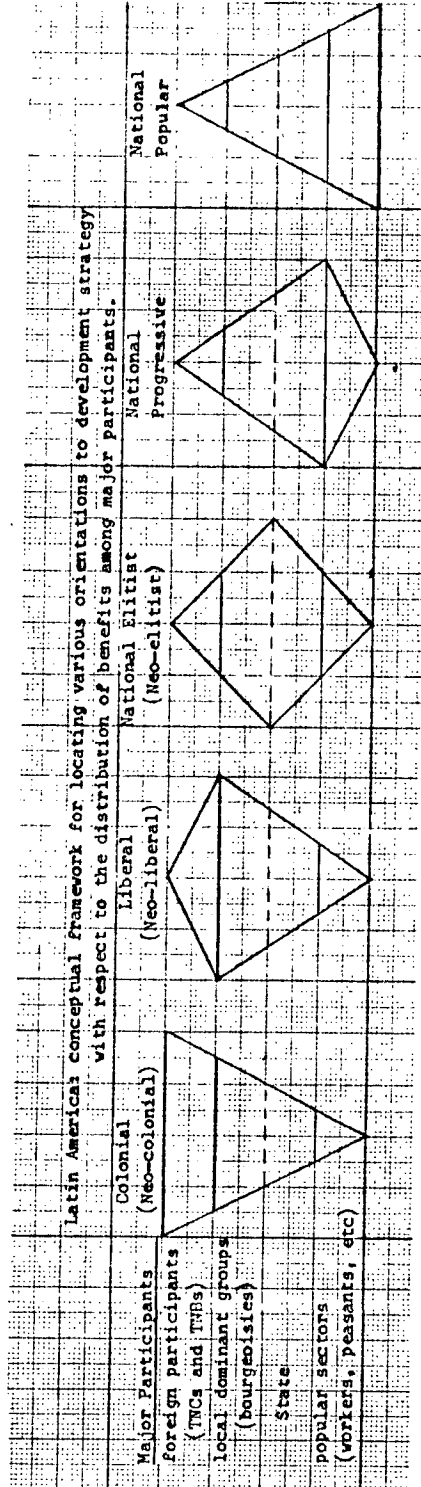
In this context, then, it is increasingly evident that the State is not immutable nor homogeneous nor undimensional. It is not a monolith rather it is a collectivity of numerous elements cemented together by particular authoritarian relationships. Viewed from the perspective of the region's developmental trajectory several elements of the State can be highlighted as of notable influence: the public policy team associated with the regime in power, the career bureaucracy and the State enterprises of the productive sector. 20/ The multidimensional character of the State often derives directly from the manner that these fundamental components of the State apparatus coordinate or conflict in the emphasis they give specific roles of the State and the degree to which central authority is accepted or imposed.

The multidimensionality of the State complicates any simple appreciation of the diverse and complex roles of the State at play in any given historical conjuncture, especially in developing countries where alterations in the State tend to be abrupt and, at times not at all predictable. Furthermore, the very idea of 'roles' of the State is often so broadly interpreted as to include practically any activity in any way associated with the State apparatus from the political process itself to the provision of municipal services. Obviously, to make sense of this amorphous mass, it is necessary to employ simplifying conceptual instruments; however, simplifying complex social phenomena always carries risks which increase with the degree of simplification utilized. In this case, a high degree of simplification is required.

If one assumes that, to an important degree, a specific development strategy must by its very nature indicate a perceived or ideal distribution of benefits among participants, (at a minimum, the major participants) then it becomes possible to define at least five principal schemes for the distribution of benefits among major participants which have held significance for the Latin American experience during the twentieth century. Figure 5 captures the dominant features of these five orientations to development strategy--colonial (neo-colonial), liberal (neo-liberal), national elitist (neo-elitist), national progressive and national populist--and their distinct distributions of benefits among major participants: transnational corporations, national dominant groups, the State and the popular sectors. While it is difficult to reflect a complex reality in five 2-dimensional images, these hypothetical distributions do offer of geometric simplicity which does assist in comprehending distinct orientations of the State during the development process.

Several qualifications on the use of this simplifying conceptual instrument are called for. First, one is dealing with general distributive orientations to the development strategy, that is, the idea in the mind of the principal public decision-making force (i.e. the political programme of the party holding office, the policy-making team of a defacto government) with regard to the proposed distribution of actual and potential benefits and not with stages of growth (which are based on productive not distributive characteristics). 21/ Although there is a temptation to view the transitions from one orientation to the next in sequential fashion as cumulative economic growth provides a higher level of material benefits to be distributed among the major participants, there is no firm empirical evidence to support this hypothesis in respect of the distributional aspects of growth and the general experience of Latin America during the 1970s would seem to have been a pronounced backward shift from national progressive

Figure 5



orientations to neo-elitist and neo-liberal ones. This, of course, would destroy any argument for sequential transitions of a teleological nature, such as those associated with stages of growth type arguments. Thus, this simplifying conceptual instrument deals explicitly with the distribution of benefits among participants, not stages of growth from a production perspective, and it is assumed that transitions occur in either direction--forward or backward--without any underlying teleological progress.

Second, we deal with the distribution of benefits among four major categories of participants or social actors (i.e. transnational corporations, 22/ national dominant groups, the State and the popular sectors), NOT isolated social classes (i. e. landholding aristocracy, industrial bourgeoisies, proletarian, peasants, etc.) although there is some relationship between the two. One of the explicit purposes of this analysis is, in fact, to demonstrate the importance of relatively non-class institutional participants, which is precisely the case of the transnational corporations and many elements of the State. 23/ Another clarification which should be made explicit is the apparent absence of the middle sectors or middle class from this scheme; given the great importance of these sectors or class in the industrial democracies. In Latin America the principal elements of the middle class are found to a large extent in the institutions and enterprises of the State (i.e. the career bureaucracy, 24/ the armed forces, public schools, hospitals, State enterprises, etc.). Those not in the State apparatus tend to fuse into the national dominant groups (when they meet commercial, industrial or financial success) or into the popular sectors (when they encounter failure). Thus, the middle sectors tend to be spread across several of the categories of participants discussed here and, aside from a notable mobility (which weakens their class cohesion), they tend to adopt conflictive political positions mainly related to

their individual perception of their own social position. For all these reasons, it was felt advisable not to include the middle groups as a separate category of major participant. It seems that the influence of the middle sectors is felt in various aspects of the distribution of benefits (as shall become more evident in dealing with the empire-building role of the State, below); however, its at times contradictory or conflictive forces tends to keep it from becoming, as a collectivity, a major participant.

Third, one of the more severe shortcomings of this scheme of five two-dimensional images is that one cannot realistically indicate the relative increase/decrease of the magnitude of benefits to be distributed in the transition from one orientation to another for the general case, nor can one clearly differentiate the line of demarcation between the principal elements of the national dominant sectors (the national dominant groups and the State) for the general case. In the case of the magnitudes of benefits involved in the shift from one orientation to the next, it is obvious that an increased level of material benefits will make the transition easier. For example, during the late 1960s, Chile was one of the few Latin American countries which did not see its overall level of material benefits squeezed by the exhaustion of the import-substituting industrialization scheme (mainly because its export earnings increased) and, sure enough, Chile was perhaps the only Latin American country for subsequently approximate the national popular orientation to development strategy with the Popular Unity government of the early 1970s. On the other hand, virtually all of the other Latin American countries facing what seemed to be a stagnating, if not declining, level of overall material benefits coupled with wider distributions, generally took a step backwards in their orientations to developmental strategy, enlisting more elitist distributional norms. A similar case holds for defining the dividing line with respect to the distribution of benefits

between the national dominant groups and the State; the diversity of individual developmental experiences and the structural heterogeneity of the region make a general case dividing line a very adventurous undertaking (therefore the mid-position in Figure 5 is indicated with a broken line only). One must recognize these shortcomings of the simplifying conceptual instrument in order to comprehend its utility in the clarification of the roles of the State and the nature of State: TNC negotiations.

2. An Overview of State: TNC Negotiations in Latin America

Experience has demonstrated that foreign participation in local development offers the promise of accelerated material advance; 25/ however, the host countries often encounter serious difficulties in retaining a significant proportion of the benefits generated, without scaring off the foreign participants. 26/ In Latin America, the classic period of foreign participation, 1850-1930, which encompassed the early external finance boom and later the US-based TNC direct foreign investment in natural resources, was characterized by huge benefits on the part of the foreign participants and extremely limited benefits for the local economy in spite of the successes made in exporting primary commodities. Sometimes exorbitant interest rates, at other times enclave-export activities, all in the context of a colonial attitude on the part of the foreign investors, generally determined that the distribution of benefits heavily favored the foreign investors. During the second phase of foreign participation, the US TNC DFI in manufacturing during 1940-1965/73, countries such as Brazil and Mexico characterized the accelerated material advance possible via the mating of foreign capital and technologies with a pronounced import-substituting industrialization process. Nonetheless, these countries as well as the smaller ones experiencing more modest rates of industrial expansion slowly came to the realization that this foreign participation often created severe balance of payments disequilibria for the host

country and, in the context of the multiple instruments available to TNCs for effecting capital transfers, this foreign participation eventually seemed vastly more expensive than originally presumed. Furthermore, the reliance on foreign technologies often was viewed as to further complicate rather than facilitate their industrial export drives. During the third phase of foreign participation in Latin America, based on TNB loans during 1965-73 to the 1980s the initial euphoria associated with apparently unlimited access to free disposition credits from international banks and the "easy" growth which accompanied it quickly dissipated as grace periods lapsed, the LIBOR and Prime rates of interest skyrocketed, the OECD countries increasingly closed their doors to the industrial exports of the Latin American newly industrializing countries and the TNBs attempted to retire their Latin American portfolios. As the TNBs posted record earnings in the midst of the international recession, the Latin American countries entered their worst economic crisis in 50 years. Caught on a debt treadmill which will weigh heavily on the region's balance of payments until the 1990s, at least, these countries are trapped between economic models given their inability to make the more technologically complex import substituting/export of manufactures transition to their industrial processes in the context of the present international economic conjuncture, as well as being faced with very weak primary commodity export prices. Thus, while each cumulative wave of foreign participation in Latin American development did seem to produce an initial boost for the rate of material advancement, each phase seemed also to complicate the perceived developmental trajectory due to the apparently exaggerated expense of foreign participation and what seemed to be the progressive circumscription of the national autonomous decision-making capability. The Latin American governments seemed to be increasingly compromised by the international capitalist system with each cumulative phase of foreign participation.

This perceived unfavorable distribution of benefits from growth between foreign and national participants was not a result of a weak State. As has been suggested, in Latin America, at least since the crisis of the 1930s, the State has been a remarkably active and relatively autonomous participant which has strongly influenced the process of capital accumulation in the region. As a result of the arrival of the Great Depression, which crippled the existing primary export model, the State, to a large extent, became the godfather of the new import-substituting industrialization model. Given the nature of this State-sponsored economic model and the State's influence over the process of capital accumulation, the State, concomitantly, acquired a direct influence over the nature of the distribution of the benefits from economic growth among competing social classes or agglomerations. In this sense, a new 'historic project' understood as a new orientation to development strategy, replaced the existing 'liberal' one associated with the primary export model. Unlike the preceding liberal orientation, the new national elitist one included an important degree of State intervention and State participation in both the productive (import substituting industrialization) and distributive functions. In general terms, the shift from the liberal to the national elitist orientation to development strategy implied a notable increase in the relative benefits going to the State, as participant, a more minor increase in the relative benefits going to the social agglomeration called popular sectors (workers, peasants, etc.), the maintenance of the relative level of benefits going to the local dominant groups (although a shift within that agglomeration which favored the industrial bourgeoisie vis-a-vis

the commercial/financial ones) and an important reduction in the overall level of relative benefits going to foreign participants (although TNCs in the manufacturing sector were favored over those in the natural resources and financial sectors). The problems of balance of payments disequilibria and ISI exhaustion associated in part with the foreign participation in the manufacturing sector coupled with increasing social mobilization of the middle and popular sectors, in the context of democratic political systems, produced several attempts at what could be considered a national popular orientation to development strategy in the late 1960s and early 1970s in the region. According to this orientation, relative benefits were to shift dramatically toward the popular sectors and, to a lesser extent, toward the State and to shift away from foreign participants and the local dominant groups. Chile in the early 1970s, was probably the only country which experienced something approximating the national popular orientation to development strategy, although numerous examples of what could be termed a national progress orientation--located between the national elitist and national popular orientations--became apparent. Figure 5 offered a schematic image useful for conceptualizing the various orientations with respect to the distribution of benefits from growth among major participants.

It is admittedly pretentious to suggest that nearly two hundred years of the political economy of Latin American development can be reduced to five two-dimensional images (Figure 5). Nonetheless, accepting that this simplifying conceptual device blurs class distinctions and does not capture differences of magnitude of the benefits to be distributed in the shift from one paradigm to another inter alia, it can be reasonably argued that this simplifying conceptual device is extremely useful for fathoming the changing nature of State/TNC negotiations from a political economy perspective. The further analysis of the

changing roles of the State according to different orientations to development strategy allows one to clearly perceive the significance of the more recent neo-elitist and neo-liberal orientations evident in the region and what is fundamental to the increased dependency prevailing in the region.

If one views public policy from the perspective of who gets what and which roles (not instruments) of the State are predominant over a given period, it is quite possible to 'locate' the orientation to development strategy of particular regimes. The six principal roles of State can be identified in respect of the participants which are favored and that these roles vary with the shift from one developmental orientation to another. In this fashion, the following principal roles were identified:

<u>Role of State</u>	<u>Principal beneficiary (participant)</u>
1. gatekeeper	foreign participants
2. Caesarian	local dominant groups
3. empire-building	State
4. welfare	popular sectors
5. mediatory	groups mediated
6. universal	'general' welfare of Nation

Accordingly, relating these roles of the State to the simplifying conceptual device and placed in the context of the principal characteristics of Latin American development, it is suggested that a liberal orientation would require strong Caesarian and gatekeeper roles on the part of the (subordinated) State; the national elitist orientation would demand strong Caesarian and empire-building roles with a still significant gatekeeper and a new universal role of relative importance; and, the national popular orientation would need strong empire-building and welfare roles coupled with a necessary mediatory role. The universal role

would become more prominent with the level of material advance achieved by the society and the ability on the part of the State to project itself as relatively neutral in certain general fields (e.g., infrastructure, education, health care, not to mention obvious examples such as defence, law and order, etc.). The mediatory role would increase with the nature of the tensions and antagonisms generated by the development process. For the liberal orientation, the State would have to mediate, to the extent possible, disputes which arise between foreign participants and local dominant groups. Generally, the appearance of the national elitist orientation provided the State with superior means to mediate between those same groups as well as between the dominant and popular sectors. The national popular orientation usually corresponds to a shift in the groups mediated, in that the popular sector dominant groups antagonism comes to the fore. Of course relative emphasis of the suggested roles of the State is no more than informed generalization as the resolution of the conflicting roles depends to a great extent on the specific nature of the principal participants, the particular crises faced and the nature of the country's incorporation into the international capitalist system. Nonetheless, it does indicate the importance of the State and its multidimensional character and the fact that its conflicting roles must be resolved in relation to concrete developmental challenges and political struggles. It is clear, however, that in the course of Latin American development the State has become one of, if not the, principal major participant in the distribution of the benefits from economic growth. Moreover, one would expect the control function of the State with respect to foreign participation to become increasingly prevalent and the promotion function to decline somewhat due to the ever-improving negotiating position of the State vis-a-vis TNCs.

The opposite took place, that is, during the recent period the foreign participants seem to have had the upper hand in their negotiations with Latin American States due not to any structural weakness of the State itself but due to the fact that the internal polarization of the social structures of these countries resulted in a kind of eunuch State with a very weak bargaining position vis-à-vis foreign participants as a consequence of the particular crises faced. The mentioned simplifying conceptual device allows one to fathom the essence of the examples of what can be called neo-elitist and neo-liberal orientations to development strategy which have recently emerged in the region as a result of the military and political defeat of the popular challenge which became apparent in the 1964-76 period. Table 32 serves as the background upon which the neo-elitist and neo-liberal orientations can be highlighted.

The period of proliferation of national progressive or national popular orientations to development strategy coincided generally with the exhaustion of the ISI model and attempts to surmount the more technologically complex ISI/export of manufactures transition to the process of industrialization in many Latin American countries. The popular challenge produced a clear contradiction between increased popular benefits and the increased capital investment requirements of the economic model and, as popular sector radicalism and violence increased, the local dominant groups and foreign participants united in active opposition and the State became internally divided and increasingly self-contradictory. As a consequence of mounting chaos, the armed forces occupied the State, instituted a severe anti-popular public policy and adopted anew apparently 'old' orientations to development strategy (national elitist and liberal) but now in a new setting of closer association with the foreign participants. The backward shift of the orientation of development

Table 32

LATIN AMERICA: A SUMMARY OF GENERAL TENDENCIES OF DEVELOPMENTAL ORIENTATIONS
AND THE NATURE OF STATE/TNC NEGOTIATIONS

Orientation to Developmental Strategy	Growth model	Distribution: favored sectors	Principal roles of State	Phase Foreign Participation	Nature of State/ TNC Negotiations
1. Colonial (To 1800s)	Colonial	Imperial representatives, landholding oligarchy	Gatekeeper	colonial	----
2. Liberal (1850-1930)	Primary export	Exporters, landholding oligarchy, financial and commercial bourgeoisie	Caesarian, Gatekeeper	classic	Terms external finance, DFI in export activities
3. National Elitist (1945-1965)	ISI	Industrial bourgeoisie, State, middle sectors	Caesarian, empire building, universal	US DFI	Promote DFI in manuf., reduce TNC benefits in export sector
4. National Progressive (1965-1975)	ISI	State, middle sectors, popular sectors	Empire Bldg., welfare, mediatory	US DFI	Control DFI in manuf., nationalization export activities of TNCs
5. Neo-Elitist (Late 1960s - 70s; Brazil)	ISI/ X Manuf.	TNCs, State, industrial bourgeoisie	Gatekeeper, empire bldg., Caesarian	US DFI/ TNB loans	Promote/control DFI in manuf., terms external finance
6. Neo-liberal (1970s; Southern Cone)	Primary export/ finance	TNBs, financial and commercial bourgeoisie, agricultural exporters	Gatekeeper, Caesarian	TNB loans	Terms external finance promote DFI (general)

strategy seems to have been a function of the degree of success previously enjoyed in the 'popular' direction. As was suggested, Chile, which in the early 1970s had a significant experience with the national popular orientation skipped back several phases to a kind of liberal orientation (neo-liberal), at extreme social cost. Brazil which in the early 1960s experienced a tepid national progressive orientation slid back only one phase--to a kind of elitist one (neo-elitist)--after their military coup took place. The common factor of both cases was that the internal polarization created by the corresponding popular challenge caused the orientation to lose its national character as the local dominant groups and the debilitated State ceded negotiating terrain to the foreign participants. In this sense, the aim was to return to a developmental orientation more favorable to foreign participants and the local dominant groups, however, this old orientation has to be forced upon a now more mature and influential State bureaucracy and public enterprises and more aware and organized popular sectors both of which are accustomed to higher relative levels of benefits. Only with the assistance of what were then undreamt of levels of external finance via commercial loans from TNBs did this return to the past become in any way feasible and only then by the force of arms. Its cost was, evidently, greatly increased dependence for the recipient countries as a result of their reliance on resources from foreign participants to solve their internal conflicts of a social/political nature.

3. An Overview of External Dependence in Bolivia, 1952-1980

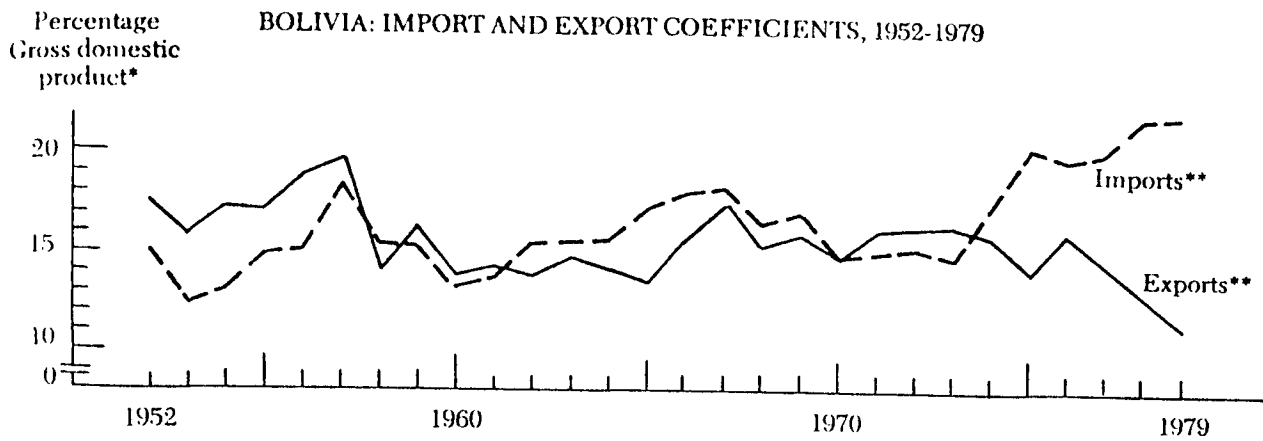
Generally the Bolivian economy can be thought of as a very open one in the context of Latin America and it has demonstrated a tendency towards higher foreign trade coefficients in the recent period. For the most part, the foreign trade coefficients have been in the 30-34% range in the 1952-1979 period, with the

exception of the 1960-1964 period of extreme economic vulnerability (below 30%) and the 1974-1978 period of exaggerated imports (above 34%). Figure 6 demonstrates the change in export and import coefficients over the 1952-1979 period in general and captures admirably the exaggerated importation which occurred in the period following 1974. 27/.

The export experience of Bolivia is indicated in figure 7. This experience appears to consist of three separate phases: extreme economic vulnerability (1952-1964); exceptional growth and diversification (1965-1976); and decline (1977-1979). During the phase of extreme economic vulnerability of the export sector the country was a typical mono-product exporter (minerals in general and tin in particular) operating in a very imperfect market. Thus, when the market weakened after the Korean War and tin and other mineral prices declined sharply, the economic vulnerability of the export sector quickly affected the balance-of-payments position of the country and rapidly spread to internal economic activity. The export sector remained in a state of depression for more than a decade and this was reflected in the erratic pattern of internal growth, in which the 1952 value of the gross domestic product, in constant terms, was not surpassed until 1962. Bolivia was buffeted by extremely unfavourable terms of trade until at least 1965.

These data also clearly show that after 1965 the Bolivian export sector enjoyed substantial and sustained growth based on the recovery of the markets for tin and other minerals and the diversification of exports by way of new and expanded exports of crude petroleum, natural gas and agro-industrial items. To all intents and purposes, economic vulnerability of the export sector disappeared as a constituent of the Bolivia dependency situation and as an unfavourable influence on the bargaining position of the State, particularly after 1975 when the country enjoyed an especially favourable terms of trade situation.

Figure 6



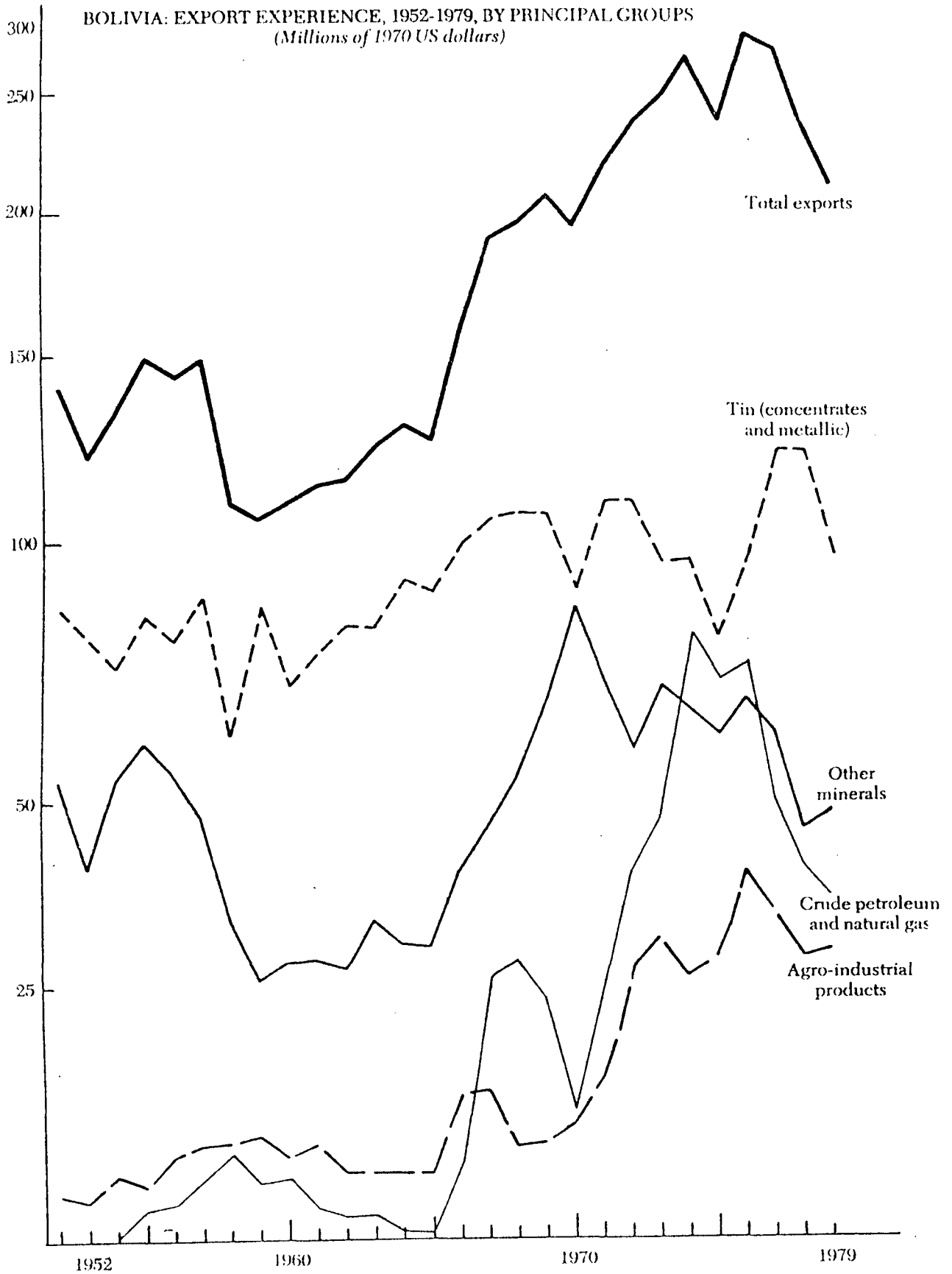
Source: CEPAL, on the basis of official information.

Note: Calculated on the basis of constant values (millions of 1970 US dollars).

*At market prices.

**Goods and services.

Figure 7



The nature and degree of foreign participation in Bolivia between 1952 and 1980 played an important part in the dependency situations in which Bolivia was placed. It should be mentioned that for the most part these situations were of what has become known as classic dependency, that is, extensive foreign influence in the export nexus between the local economy and the international market, and not the high degree of foreign participation via direct foreign investment in the local process of industrialization which typifies what has become known as 'dependent development'. It should be noted, however, that the financial dependency that characterized the Bolivian economy in the later 1970s is often considered to be more clearly related to the dependent development variant than that of classic dependency. These distinctions will become more evident with further elaboration of the Bolivian case study, particularly examination of the 1974-1978 experience.

Viewed from the balance-of-payments perspective, that is, the net inflows of foreign capital, table 33 summarized that aspect of foreign participation in local development over the 1952-1978 period. Measured in these terms, it is clear that the nature of foreign participation has changed significantly over the more recent period and there have been two periods--1960-1964 and 1975-1978--in which the degree of foreign participation has been notably high.

During the phase of extreme economic vulnerability of the external sector, 1952-1964, foreign participation came mainly in the form of official donations: the least expensive form of foreign participation in terms of the explicit costs involved. Direct foreign investment was a significant, if subordinate in magnitude, element of the foreign participation during this phase. In the period which followed, official donations declined sharply and there was pronounced disinvestment by foreign participants, 28/ so that foreign loans became by far the most important form of foreign participation in Bolivian development. That

Table 33

BOLIVIA: NET INFLOWS OF FOREIGN CAPITAL, 1952-1978, BY FIVE-YEAR PERIODS
(Annual averages in millions of 1970 US dollars and percentages)

Category	1952-54	1955-59	1960-64	1965-69	1970-74	1975-78
Donations	6.9	31.1	25.8	14.2	8.7	8.4
Direct foreign investment (DFI)	11.2	11.5	13.4	-3.7	-20.9	12.0
External loans	-3.8	5.2	13.5	27.3	53.7	65.1
<i>Total</i>	<i>14.3</i>	<i>47.8</i>	<i>52.7</i>	<i>37.8</i>	<i>41.5</i>	<i>85.5</i>
DFI + loans as % of exports	5.3	12.1	21.0	12.5	11.8	27.3

Source: CEPAL, on the basis of information supplied by the International Monetary Fund.

form of participation, however, implied certain explicit costs in respect of commissions, amortization and interest payments. In summary terms, it might be suggested that the increased foreign participation (via official donations) of the 1955-1964 period was a result of the extreme economic vulnerability of the external sector, whereas that of the 1975-1978 period (via external loans) stemmed from the local proclivity to import to an extent far beyond the parameters of export earnings. The first form of pronounced foreign participation was relatively costless in financial terms (although it did provide a high degree of foreign influence in the local export sector for the principal donor country) whereas the second category of participation carried rather onerous costs in the form of commissions, amortization and interest payments.

Turning to the role of the State in Bolivian development, which, as already noted, is a necessary antecedent for the examination of what has been called "voluntary dependency" resulting from the internal contradictions of the State, it may be said that the Bolivian case is not at all simple in the sense that there were continuous and constant trends in the orientation of development strategy. Rather, the Bolivian case is one of leaps, reverses and vicissitudes. Nevertheless, in the context of this overview of the subject, it may be suggested that the Bolivian experience has consisted of the following phases: the prerevolutionary period before 1952, which displayed a neocolonial orientation; the 1952-1964 period, which witnessed a jump to a defined national popular orientation; the 1965-1973 period, which was characterized by transition and uncertainty manifest in various changes in orientation of a national elitist and national progressive nature, none of which were very enduring; the 1974-1978 period, when a well-defined orientation of the national elitist variety was implemented; and the post-1978 period, in which transition and uncertainty have again come to characterize the orientation to development strategy.

Before the Bolivian revolution which began in 1952 the orientation to development strategy may be thought of as a form of the neocolonial perspective, due to the fact that a small group of large and nominally Bolivian mining enterprises linked closely to the local landholding oligarchy monopolized the benefits deriving from Bolivian development. The particular case of Simón Patiño is illustrative because from that basis he created what is today a fully-fledged transnational corporation. 29/ The gatekeeper/Caesarian role was almost the only one undertaken by the State, although there were weak efforts to promote the universal role of physically integrating the country, primarily on the basis of development assistance from the United States. The excesses of the gatekeeper/Caesarian role implemented by the State in the hands of the mining companies and local oligarchs undoubtedly account for the revolutionary initiatives which took place in the early 1950s.

The revolution brought with it a leap from the neocolonial to the national popular orientation of development strategy, based on cogovernment by the National Revolutionary Movement party and the Bolivian Workers' Central. The new orientation was manifest in the nationalization of the large mining companies, large-scale agrarian reform, the widening of popular political participation by way of universal suffrage and the institutionalization of the State and its public investment as the basic impulse for national development. With the obliteration of the power bases of the previous local dominant private groups, the dominant roles of the State became the empire-building and mediatory ones. However, the revolutionary chaos and the extreme economic vulnerability of the external sector soon brought this political project to the edge of economic and financial bankruptcy and the Immediate Economic Policy Plan of the Government of the National Revolution issued in 1955 became, in essence, an appeal to the United States Government for emergency and continuing economic assistance. 30/ Although this assistance was relatively costless in financial

terms, the foreign influence that it permitted caused a split between the two partners of the revolutionary government and the orientation of development strategy deviated in the national elitist direction. This was demonstrated, inter alia, by the opening up of the petroleum sector to transnational petroleum corporations, the orientation of the stabilization programme of the International Monetary Fund implemented in 1957-1958 and the new foreign influence introduced into the nationalized mining sector by way of the Triangular Plan. In the meantime, the fiscal deficit of the public sector was being met through external official donations. Table 35 suggests that to the extent that the revolutionary government eased up on its propensity to Statism in the distribution of internal credit, it was able to obtain external resources for investment purposes. Nevertheless, this experience with the national popular orientation of development strategy resulted in tremendous growth and expansion of the public sector (estimated in 1961 to account for 45% of the national GDP 31/) and the establishment of State universal and empire-building roles (much in advance of the local process of industrialization) in spite of the foreign influence which accompanied the extreme economic vulnerability of the external sector during this period.

The following period, 1965-1973, consisted of various opposed changes or zigzags in the orientation to development strategy, none of which can be considered both clearly defined and effective. This period is best characterized as one of transition and uncertainty made up of a kind of national elitist orientation during 1965-1969, a pronounced but ineffective national progressive orientation, 1969-1971, and once again a sort of national elitist orientation implemented during the crisis years 1972-1973. Again, table 34 shows basic aspects of these changes of orientation, as reflected by the sectoral placing of internal credit and the source of gross domestic investment. In many ways,

Table 3 4

LATIN AMERICA: INDICATORS OF THE PRESENCE AND ECONOMIC INFLUENCE OF PUBLIC ENTERPRISES,
1968, 1974-77 AND 1978-80

	Colombia	Argentina	Brazil	Mexico	Chile	Peru	Venezuela	Bolivia	Western a/ Hemisphere
1. % of GDP at factor cost									
1974-77	1.9	4.8 b/	nd	6.1 d/	15.2	nd	15.0	12.1 g/	6.6
1978-80	2.6	4.6	nd	7.4 e/	13.0	nd	27.5	nd	nd
2. % of gross fixed cap. formation									
1968	8.7	14.0	14.2	nd	15.2	10.2	15.3	39.1	nd
1974-77	6.6	20.7 b/	nd	21.8 d/	20.0	22.1	22.3	40.9	22.5
1978-80	5.6	19.6	22.8 c/	23.5 e/	12.9	12.9 f/	36.3	nd	nd

Sources: ECLAC, "Public Enterprises: Their Present Significance and Their Potential in Development",

Economic Bulletin for Latin America, (XVI,1), first half of 1971, p. 7; Short, R.P., "The Role of Public

Enterprises: An International Statistical Comparison", IMF Departmental Memoranda Series, DM/83/34, 17 May 1983, pp. 9-15.

a/ Weighted average which includes other Latin American and Caribbean countries.

b/ 1976-77.

c/ 1980.

d/ 1975-77.

e/ 1978.

f/ 1978-79.

g/ An OAS study - Informe final del grupo ad-hoc de la CEPCLIES sobre Bolivia, Ser. H/XIV, Washington, D.C., 10 October 1975 - estimated the public sector contribution to GDP to be in the order of 25 percent. It suggested, furthermore, that the public sector accounted for 90 percent of the total value of exports of goods.

the about-faces which took place represented reactions to the previous orientations. It should be emphasized, however, that the national progressive orientation of the 1969-1971 period resulted in the nationalization of the largest foreign enterprise in Bolivia--Bolivian Gulf Co.--which gave the State almost complete control over the local export sector (in association with the nationalized mining sector). Thus, although the progressive populist project contained in the strategy 32/ defined during this period never came to be, the public sector experienced a noteworthy expansion, again above and beyond the requirements of the local process of industrialization. According to available data, the Bolivian public enterprises were roughly twice as influential as their counterparts in other Latin American countries, as measured by their contribution to GDP and gross fixed capital formation (Table 3.4). Furthermore, the transition from this national progressive orientation to the new elitist one which followed was particularly violent and characterized by economic and social dislocation which required quite a strong stabilization programme to re-establish order. The new neo-elitist orientation was evident in the reopening of the petroleum sector to private participation (this time, however, via contracts of association between the State petroleum company and foreign petroleum enterprises) and the new investment law which promoted private (local and foreign) enterprise. 33/

In other words, the 1965-1973 period was one of political instability in which the orientation to development strategy underwent continual and opposed changes. Concomitantly, the various roles of the State went from one extreme to the other without clear or effective definition, and following the nationalization of the largest foreign enterprise in the country, foreign participation in Bolivia (except with regard to the financing of the nationalization) demonstrated a marked tendency towards decline. By and large, this period was one of transition and uncertainty.

The 1974-1978 period witnessed the clear and definite implementation of a neo-elitist orientation to development strategy which heavily favoured the private sector and its dominant interests. In the context of a volume of internal credit which doubled in real terms during this period, over three quarters of that credit was placed with the private sector. Furthermore, in spite of the fact that the country was enjoying an export boom of unprecedented proportions, a rapidly increasing proportion of the resources destined for domestic investment came from external sources, reaching 44% in 1978 (see table 35). As a consequence of this increased foreign participation, based on external loans, the external public debt of Bolivia shot up dramatically, doubling in real terms between 1974 and 1978. Nevertheless, in spite of this clear orientation of development strategy and the volume of resources available in the context of the export boom and the increase in foreign participation in local development, the economic situation of the State and, increasingly, the economy, was one of deepening crisis. The fiscal deficit of the State and more generally the deteriorating state of public finances aptly bring out the principal factor in the voluntary dependency situation which led to the undoing of the Bolivian economy: public investment for private profit. However, in order to understand in greater detail this particular dependency situation, it is necessary to focus more closely on the specific internal contradictions of the State, which accompanied the neo-elitist orientation of development strategy during the 1974-1978 period.

Before turning to that task it should be mentioned that since 1978 there has been a worsening of the crisis born of the 1974-1978 period. Again, transition and uncertainty are dominant elements of public policy, most notably in relation to the renegotiation of the external public debt. The indications are, as was suggested by the mentioned quotation from the Institutional Investor, that the dependency situation in respect of the transnational banks is such that the Bolivian authorities will have to accept virtually any terms offered to them.

Table 35

BOLIVIA: SECTORAL DISTRIBUTION OF INTERNAL CREDIT AND SOURCE OF FINANCING OF GROSS DOMESTIC INVESTMENT, 1952-1980
(Millions of 1970 pesos and percentages)

Year	Internal credit				Gross domestic investment			
	Current values	Constant values ^a	Sector (%)		Current values	Constant values ^a	Source (%)	
			Public	Private			Internal	External
1952	10	714.3	65	35	18	1 285.7	91	6
1953	20	408.2	65	35	31	693.9	79	21
1954	28	297.9	61	39	88	936.2	99	1
1955	62	301.0	74	26	318	1 543.6	99	1
1956	327	819.5	90	10	551	1 380.9	99	1
1957	406	955.3	85	15	558	1 312.9	93	7
1958	537	1 100.4	87	13	565	1 157.8	78	22
1959	632	1 134.6	88	12	477	856.4	83	17
1960	721	1 151.7	89	11	675	1 078.3	76	24
1961	803	1 216.7	86	14	546	827.3	82	18
1962	858	1 243.5	83	17	876	1 269.6	75	25
1963	934	1 338.1	79	21	909	1 302.3	76	24
1964	1 014	1 350.2	75	25	1 009	1 343.5	105	5
1965	1 161	1 488.5	74	26	1 218	1 561.5	79	21
1966	1 340	1 660.5	71	29	1 291	1 599.8	81	19
1967	1 538	1 792.5	72	28	1 284	1 496.5	68	32
1968	1 685	1 855.7	66	34	1 836	2 022.0	66	34
1969	1 765	1 873.7	64	36	1 714	1 819.5	64	36
1970	2 071	2 071.0	63	37	2 111	2 111.0	88	12
1971	2 510	2 408.8	61	39	2 302	2 228.0	80	20
1972	3 219	2 567.0	58	42	3 364	2 722.9	82	18
1973	4 223	2 368.5	46	54	5 311	3 033.7	92	8
1974	4 118	1 462.4	11	89	7 026	2 526.8	132	32
1975	5 702	1 902.6	23	77	12 026	4 012.7	72	28
1976	8 233	2 540.3	26	74	11 949	3 686.8	84	16
1977	11 188	3 113.8	21	79	13 563	3 774.8	76	24
1978	15 135	3 713.2	26	74	15 298	3 753.2	56	44
1979	21 274	4 414.6	37	63	16 216	3 365.2	51	49
1980	28 871	4 131.5	46	54	22 893 b/	3 276.0	63	37

Source: International Monetary Fund, *International Financial Statistics, 1980*; Central Bank of Bolivia, *Cuentas Nacionales, 1970-1977* and *Memoria Anual 1980*.

^aUsing implicit deflator for GDP.

^bPreliminary figures.

4. A Short Examination of the Internal Contradictions of the State which Derive from the Neo-elitist Orientation, 1974-1978

One of the anomalies of the experience with the neo-elitist orientation during the 1974-1978 period is that the financial crisis in the public sector came hard on the heels of the most notable export boom in modern Bolivian history, despite the fact that the State exercised almost complete direct control over the major export items (mineral concentrates and metals, crude petroleum and natural gas) through the main public enterprises COMIBOL, ENAF and YPFB. Table 36 demonstrates that during the 1974-1978 period, public sector fiscal income was to a very high degree (57-69% of total fiscal receipts) generated by the external sector, particularly the export sector. How then, should one interpret the resulting crisis which coincided with the vastly increased economic potential of the State?

Without doubt, one important factor involved was the false expectations generated by the export boom. Evidently, the team of decision-makers associated with the central government believed that the export boom provided a self-sustaining basis for contracting external loans, as did the transnational banks, which provided the major part of that external financing. It seems, however, that the latter were quicker to spot the artificial basis of the country's economic policy, that is, they realized that the export boom was mostly based on a favourable price effect that simultaneously affected most Bolivian export items. Indeed, the physical volume of most export items did not increase, and several even experienced a decline especially after 1977. Thus, one could conclude that the increase in external financing was based on a false export perspective and that, when those expectations did not develop the export earnings received were not enough to sustain the magnitude of external public indebtedness already contracted. However, as will be explained later, the decline in Bolivian export performance was not, in fact,

Table 36

BOLIVIA: SOURCE AND VALUE OF FISCAL INCOME OF CENTRAL GOVERNMENT
(Millions of 1970 pesos and percentage)

Year	Percentage Distribution										
	Value		Principally from private sector			Principally from public sector			Other		
	Current	Constant (1970)	Tariff duties	Taxes	Sub-total	Mining	Royalties b/ Petroleum	Export taxes	Sub-total	All others	Total
1964	511.3	680.8	(53.5)	(42.8)	96.3	-	-	-	-	3.7	100
1965	613.0	783.9	(56.0)	(41.3)	97.3	(0.2)	-	-	0.2	2.6	100
1966	723.5	896.5	(47.4)	(43.0)	90.4	(6.5)	-	-	6.5	3.1	100
1967	771.3	899.5	(51.0)	(45.2)	96.2	(0.9)	-	-	0.9	2.8	100
1968	836.9	921.7	(41.7)	(44.7)	88.4	(4.0)	(6.2) c/	-	10.2	3.5	100
1969	871.4	925.1	(41.5)	(47.8)	89.3	(7.1)	(1.1)	-	8.1	2.4	100
1970	1 070.4	1 070.4	(39.1)	(41.0)	80.0	(16.3)	-	-	16.3	3.7	100
1971	1 093.1	1 047.0	(34.6)	(50.4)	85.0	(4.2)	(3.3)	-	7.5	7.4	100
1972	1 330.1	1 059.0	(31.4)	(45.2)	76.6	(3.2)	(4.4)	(10.5)	18.1	5.2	100
1973	2 460.5	1 383.1	(21.0)	(36.7)	57.7	(7.7)	(11.3)	(18.3)	37.3	5.1	100
1974	5 069.7	1 802.2	(18.7)	(25.6)	44.3	(17.9)	(17.4)	(15.8)	51.1	4.6	100
1975	5 688.8	1 898.2	(27.2)	(30.3)	57.5	(8.4)	(14.4)	(10.9)	33.7	8.7	100
1976	6 840.9	2 110.7	(21.2)	(34.1)	55.3	(12.5)	(18.6)	(8.6)	39.7	4.9	100
1977	7 641.2	2 126.7	(22.2)	(36.0)	58.2	(16.5)	(12.0)	(7.0)	35.5	6.4	100
1978	8 540.1	2 095.2	(22.9)	(37.1)	60.0	(18.1)	(10.8)	(5.5)	34.4	5.6	100
1979	8 255.0	1 713.0	(25.0)	(42.7)	67.7	(16.1)	(0.6)	(9.8)	26.5	5.8	100
1980	11 792.7	1 687.6	(21.2)	(37.3)	59.0	(15.0)	(15.7)	(1.1)	31.3	9.2	100

Source: Central Bank of Bolivia, Boletín Estadístico, various numbers.

a/ Measured by the current receipts of the National Treasury.

b/ Applied to mainly export activities.

c/ The Bolivian Gulf Co. was still a private sector entity during this year.

primarily a result of bad luck, it was largely a direct consequence of the specific economic policy followed during this period.

On the one hand, the decline in the real value of export earnings can be associated with the level to which the Bolivian peso was overvalued--between 25 and 37% during the 1974-1978 period--using the 68% devaluation in 1972 as the basis for parity. ^{34/} Undoubtedly, the overvaluation of the peso served as a consequential disincentive for local exports, most of which were generated by the local public sector. Moreover, the ability to maintain the exchange rate in that state of overvaluation resulted in good part from the level of net receipts from external financing; it is noteworthy that the reduction in that external financing precipitated a 25% devaluation of the peso in November 1979.

On the other hand, the team of economic policy-makers followed an explicit policy of financial drainage of the dominant public enterprises. In essence, the export boom was channelled through the dominant public enterprises to the National Treasury (where the lion's share was further directed to the private sector). Furthermore, the rate of taxation of these public enterprises apparently exceeded their rate of return from export activities. Obviously, this degree of financial drainage of the principal export enterprises explains a significant part of the poor export performance which resulted.

Finally, because of this financial drainage and the placing of about three-quarters of all internal credit in the private sector, the major public enterprises were forced to rely on external financing for their investment programmes. Table 37 shows how the main public enterprises in the productive sector became dependent on external financing, almost all of it from transnational banks. The figures for total credit to public enterprises in the productive sector are almost identical with those for total external financing from transnational banks. Furthermore, although these public enterprises received only 38% of the total net

Table 37

BOLIVIA: NET INFLOW OF EXTERNAL FINANCING^a BY RECIPIENTS, 1974-1978;
OVERALL TOTAL AND TOTAL FROM TRANSNATIONAL BANKS
(Millions of 1970 US dollars and percentages)^b

Recipient	1974	1975	1976	1977	1978	Total	Percentage
I. Overall total:							
all sources							
Central government	15.2	8.2	25.9	31.8	18.2	99.3	22.2
Local government	-	0.2	6.2	11.7	15.7	33.8	7.6
COMIBOL	6.0	4.9	13.6	14.0	-9.0	29.5	6.6
ENAF	3.7	2.0	9.0	15.0	1.9	31.6	7.1
YPFB	-14.3	-10.9	19.4	39.3	0.7	34.2	7.1
CBF	-0.8	8.6	-0.8	-2.1	17.9	22.8	5.1
Specialized banks	15.9	16.0	11.0	7.1	3.6	53.6	11.9
Subtotal PEPS ^c	(10.5)	(20.6)	(52.2)	(73.3)	(15.1)	(171.7)	(38.3)
All others	7.7	29.1	28.3	34.2	44.3	142.6	31.9
<i>Total</i>	33.2	57.4	112.5	151.0	93.5	447.6	100
II. Total: transnational banks							
Central government	0.2	4.9	1.4	6.4	-1.7	11.2	4.1
Local government	0.1	-0.4	-0.6	8.8	11.0	18.9	6.9
COMIBOL	4.0	2.0	12.7	12.9	-8.2	23.4	8.5
ENAF	1.5	...	5.6	5.2	-	12.3	4.5
YPFB	-1.1	2.2	22.7	47.0	7.5	78.3	28.5
CBF	1.7	2.2	0.3	0.6	19.1	23.9	8.7
Specialized banks	13.8	15.7	11.5	6.4	1.8	49.2	17.9
Subtotal PEPS ^c	(19.9)	(22.1)	(52.8)	(72.1)	(20.2)	(187.1)	(68.1)
All others	3.4	12.4	18.7	10.4	12.9	57.8	21.0
<i>Total</i>	23.7	38.9	72.3	97.7	42.3	274.9	100.0

Source: Calculated from official information provided by the Central Bank of Bolivia.

Note: These figures have been adjusted to distribute to the corresponding public enterprises the credits contracted on their part by the central government. Only the largest loans (US\$ 155.0, 37.0, 25.0, 13.5 and 10.0 millions), which add up to US\$ 240.5 millions, were distributed in this manner.

^aWith guarantee of State.

^bDeflated by wholesale price index of USA.

^cPEPS: Public enterprises of productive sector.

receipts from external financing during the 1974-1978 period, they were the recipients of over 68% of loans from the transnational banks. In other words, 'productive' public investment was, to a very significant degree, financed by foreign participants, namely the transnational banks. In the context of national economic policy, which militated against the continued solvency of these productive public enterprises, particularly the major exporters, a decision by transnational banks not to refinance the growing public external debt of these enterprises meant the collapse of most public investment programmes in the productive sector, and in an economy like that of Bolivia, where the public sector is such an important part of local economic activity and is almost the sole major exporter, the collapse of the programme of public investment signals oncoming crisis.

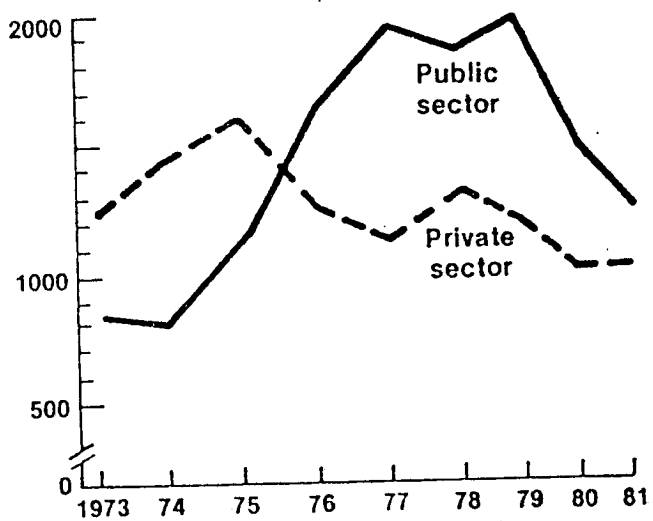
Until this state of affairs went to such an extreme that it called into question the solvency of the public enterprises in particular, and the economy as a whole, this form of voluntary dependency was quite convenient for all the main participants. The State completed its gatekeeper/Caesarian roles in relation to the dominant private groups and the foreign participants by channelling the gains from the export boom to private groups (local and foreign). The transnational banks, in an epoch of surplus funds associated with the recycling of petrodollars, were happy to make loans to the major public enterprises on the basis of a guarantee from the central government. Furthermore, the rates of interest charged, not to mention the fat commissions, made for very good business. The local dominant private groups enjoyed unheard-of-levels of internal credit and had plentiful foreign currency available to satisfy their desires to import. Last, but by no means least, the State enterprises were able to advance their empire-building and universal roles, in the short term, on the basis of external financing. In the beginning, then, the new system of public investment for private profit associated with the clearly defined national elitist orientation of development strategy applied in the period 1974-1978 seemed to work well in spite of the fact that it created a kind of voluntary dependence on the transnational banks.

Unfortunately, the new system was pushed to an extreme and the internal contradictions of the State laid the basis for its subsequent collapse. First, a significant element of the local dominant private groups took unfair advantage of the new focus of public policy. Increasingly, internal credit in the private sector was directed to non-productive ends and the accelerated importation came to reflect conspicuous consumption. Figure 8 shows that private investment in fixed assets declined steeply after 1975. It was public investment which fuelled the economy thereafter. In this way, the private sector registered its lack of confidence in the prevailing economic scheme. Cases of misuse of public credit to the private sector, such as that of the loans of the Agricultural Bank 35/ to the cotton growers of the Santa Cruz region, became common. Furthermore, the flight of capital (reaching US\$ 33 million in 1977 in constant 1970 values) reflected the lack of faith of the private sector in this particular national elitist orientation to development strategy. In short, the private sector declined the opportunity of becoming the motor of Bolivian development. Second, the effect of the national economic policy on the dominant public enterprises soon contributed significantly to the termination of the export boom as well as the decapitalization and consequent economic and financial crisis of those enterprises. 36/ In these unfavourable circumstances, the transnational banks soon decided not to continue financing the investment programme of those enterprises or refinance their existing external public debt. In this fashion, the internal contradictions of the State, in circumstances of voluntary dependence, resulted in a generalized crisis: one in which the foreign participants held the decision-making power to determine the extent of local suffering as a consequence of the terms and conditions that these transnational banks demanded as part of the necessary refinancing package.

Figure 8

BOLIVIA: INVESTMENT IN FIXED ASSETS, BY SECTOR, 1973-1981

(Millions of 1970 Bolivian pesos)



Sources: Central Bank of Bolivia, *Cuentas Nacionales, 1970-1977*, and *Memorias*.

This, then, is the general outline of the internal contradictions of the State produced crisis and the transnational banks acquired an awesome power of decision-making with regard to the intensity and duration of that crisis.

Notes

1/ Connolly (ed.) and Miliband offer interesting discussions of this theme. Ayres produced a strong criticism of the economic growth theories underlying this view of the State.

2/ See, for example, Schonfield on the general case and Bruce on the English experience. Polanyi (Chapter 6) sustains an interesting argument on how the democratic industrialized countries created new institutions (in a functional sense) to counteract or soften the pernicious social effects resulting from the operation of "free markets".

3/ Stepan, pp. xi-xviii and Chapter 1.

4/ See the article by Gold, Lo and Wright, as well as Fine and Harris, pp. 93-170.

5/ Consult, for example, Gramsci, Miliband, Poulantzas and Gold, Lo and Wright.

6/ For example, A.G. Frank.

7/ Op. cit., p. 24.

8/ Evans, p. 43. Gerschenkron, generally, has observed something similar in what he calls late industrializers.

9/ Veliz, p. 11.

10/ See Moore.

11/ Veliz, pp. 150-151.

12/ Ibidem, p. 208.

13/ Ibidem, p. 238.

14/ Ibidem, pp. 258- 59.

15/ Cardoso and Faletto underline the developmental importance attached to national or foreign control of the export sector.

16/ See Oszlak, (1981), p. 7.

17/ Nettl, passim.

18/ Oszlak, op. cit., p. 12.

19/ Stepan offers an interesting treatment of what he calls 'organic statism', p. 4.

20/ In developing countries, especially Latin America, it has become common place that institutional forces--most notably the armed forces--make their presence felt in numerous components of the State apparatus, including the State enterprises and the bureaucracy.

21/ See the articles of Henrist, Ilchman and Bhargava in Wilber (1973) as well as those of Rostow, Singer and Kuznets in Agarwala and Singh (eds.).

22/ Transnational corporations are not the only foreign participants; however, their influence tends to heavily outweigh that of the other foreign participants. Given that situation, TNCs becomes a more meaningful shorthand for the category of foreign participants.

23/ Without introducing economic determinism into this simplifying conceptual device, there is a tendency to impute a sequential transition process (interrupted by temporary backsliding) which is characterized by increasing national (especially popular sectors and State) and decreasing foreign participation in the benefits from development over the long term.

24/ Oslak (1979).

25/ Numerous studies, generally of a neoclassical nature, affirm that developing countries with higher degrees of foreign participation have experienced faster economic growth than those which have minimized the degree of foreign participation. See Reuber (p. 240), for example. Like most general arguments related to the present Chapter, there is little empirical evidence to support the hypothesis. The study by Bos, Sanders and Secchi indicates the difficulties involved.

26/ The old argument over which form of foreign investment is most convenient for host developing countries--direct or portfolio (loans)-- has yet to be conclusively resolved. See Johnson and International Development Commission, Partners in Development, (p. 102).

27/ The increment in the export and import coefficients during 1953-1957 resulted mainly from the relative decline in the real value of the GDP.

28/ The figures for foreign direct investment during 1965-1974 reflect primarily the profit remittances of the foreign-owned Bolivian Gulf Co., its nationalization in 1969 and, to a lesser degree, the disinvestment of the mining company, Mina Matilde, in 1971.

29/ Arce (1977), pp. 21-28.

30/ Guevara Arze (1955).

31/ "Plan General de Desarrollo", Planeamiento, N° 3-5, September 1961. See the Introduction of Juan Lechín Oquendo.

32/ Ministry of Planning and Coordination, Estrategia socioeconómica del desarrollo nacional, 1971-1991, La Paz, 1970.

33/ Banzer (1972).

34/ The exchange rate was fixed at B\$20 per U.S. dollar between 1 October 1972 and November, 1979. The parity exchange rate was presented in Table 5 of Chapter 1.

35/ This bank will be analyzed in Chapter 7.

36/ In Chapter 7, these State enterprises will be analyzed in more details, as case studies.

Chapter VI

THE PLANNING SYSTEM AND CONTROL OF THE PUBLIC EXTERNAL DEBT 1/

Experience suggests that for most of the developing countries, and especially for the relatively less developed ones, a rational and effective system for planning or programming economic development can be a very useful tool for ensuring conditions that will lead to more stable growth and for better defining the external financing needs of the national economy, as well as for controlling the level and conditions of the public external debt. This conception of programming has been encouraged, especially in the developing countries, by international institutions such as ECLAC and ILPES, the World Bank and the regional development banks. 2/ In this context, the traditional reluctance of national élitist regimes to implement planned or programmed development has lessened considerably and it is no longer unusual for well-defined national élitist projects to be associated with rational and well-conceived development planning systems.

Bolivia is an example of this. The experience of the period 1972-1978 was the first one in which a national élitist public policy orientation went hand in hand with significative initiatives in the area of development planning. Moreover, as may be seen in table 38, the inflow of external financial resources during that period alone (1972-1978) was sufficient to support the beginning of a rational development planning system. Finally, during that time, the first attempts were made to control the level and terms of the public external debt. It was only logical that the government should try to control its external indebtedness, since the new loans came mainly from the transnational banks, the most costly source of external financing. In general terms, the Bolivian authorities seem to have adopted suitable policies vis-a-vis the new circumstances of development and the favourable economic situation of the mid-1970s.

Table 38

BOLIVIA: RELATIONSHIP BETWEEN DEVELOPMENT PLANNING, AVAILABLE EXTERNAL RESOURCES
AND DEBT CONTROL, BY PERIODS, 1952-1980

Period	Political project	Was development planning considered important?	Were sufficient external resources available?	Was a formal debt control system developed?	External financial resources		
					Net average annual inflow <u>a/</u>	Main type	Main source
1952-1964	National popular	Yes	No	No	42.0	Donations	United States
1965-1968	National élitist	No	No	No	38.9	Loans	Bilateral/ multilateral
1969-1971	National popular	Yes	No	No	34.2	Loans <u>b/</u>	Suppliers
1972-1978	National élitist	Yes	Yes	Yes	68.6	Loans	Transnational banks
1979-1980	Transition	Yes	No <u>c/</u>	No	40.6 <u>d/</u>	Loans	Multilateral, Argentina

Source: ECLAC, on the basis of official information.

a/ Millions of 1970 dollars. Does not include compensatory financing.

b/ Financing of nationalization of Bolivian Gulf Co.

c/ The financial requirements resulting from the opening up to democracy coincide with the withdrawal of the transnational banks and the crisis of the public sector.

d/ Preliminary.

In light of the above, some explanation must be sought for the fact that the Bolivian experience of the period 1972-1978 gave rise to a serious public external indebtedness crisis and created conditions that led to unstable growth. In this chapter, we shall give a brief description of the country's planning and debt-control system and analyse its shortcomings.

1. Aspects of the Bolivian Planning System, 1972-1978

a) Background

One cannot speak of a continuous and effective process of social and economic management, although there were short periods during which such management was particularly important. From the standpoint of the institutional framework, the planning system was more clearly established as a formal component of the State apparatus as of 1972.

The period 1952-1964, which was one of national popular orientation as regards public policies, was characterized by many significant initiatives in the field of development planning. 3/ Also, several important measures were taken to create the institutional framework needed to institute a permanent planning apparatus, especially during the period 1959-1962. 4/ Despite all these initiatives, development planning efforts were undermined by the extreme vulnerability of the external sector and the inadequacy of external resources. As the external situation finally improved in the early 1960s, timely attempts at planning for development were frustrated by a change of government.

The period 1965-1969 was characterized by an national élitist orientation of public policies, which gave very little priority to planning. Thus, even though certain operational plans were published 5/ and institutional tasks were promoted, 6/ in general, the steps that were taken were not effective because the necessary political environment and the corresponding incentives were lacking.

During the period 1969-1971, when a national popular orientation again prevailed, there was renewed interest in development planning. The Social and Economic Strategy for National Development, 1971-1991, was drafted and approved (1971). As regards the institutional framework, the Ministry of Planning and Co-ordination was created (1970), as was the Commission on Administrative Reform (1970). Because of the short duration of the national popular régimes, the lack of external resources and the instability arising from a widespread popular movement, these initiatives had only limited impact in promoting the establishment of a rational and co-ordinated planning system.

In retrospect, the period 1972-1973 may be viewed as one of strong reorganization towards a national élitist public policy. Although many of the foundations of the well-defined political project that was fully implemented later on were established, this period must be seen as one of transition and, above all, of stabilization. That is how the new régime saw it, as may be seen from the following excerpt from a presidential message in 1972:

"We wish to address ourselves to the tasks of development in an orderly fashion, by means of a programme currently being developed, which covers a short-term operating period (1972-1973) and a subsequent three-year period (1974-1976) that will make it possible to carry out major changes in the economic structure, in order to achieve permanent objectives such as internal cohesiveness and the diversification of the economy, with a view to reducing external vulnerability and dependency." 7/

For this reason, the progress made during this period with respect to the planning system and the corresponding institutional framework are considered part of the system set up between 1974 and 1978.

b) Structure and institutional framework

The year 1974 marked the beginning of a clear-cut national élitist orientation to public policy; the planning system reflected how clearly this option had been adopted. Although some changes in the planning system and its framework were made during the transition period between 1972 and 1973, 8/ the year

1974 brought with it, along with a divorce between the armed forces and the political parties, an almost total redefinition of the planning system.

Following is a description of some of the main elements of this redefinition of the planning process and the corresponding institutional framework. The Organization of the Administration Act, enacted by the Executive Power, gave greater responsibilities to the Office of the President, while at the same time modifying its structure. In this regard, the Secretariat of the National Economy and Planning Board (CONEPLAN) was placed in the Office of the President, and the Ministry of Co-ordination was created. During the same year, this ministry became the Ministry of Planning and Co-ordination, thus receiving a new and broader mandate. The new National Planning System Act (DL 12848), the National Project System Act (DL 11849) and the National Preinvestment Institute Act, INALPRE (DL 11850) put the finishing touches on the new planning system and established its rules and regulations. It may thus be said that, from 1974 onwards, there was a comprehensive development planning system based on a firm political initiative emanating from the highest authority. The organization of the new planning system may be described as follows: 9/

"The National Planning System consists, in the first place, of two high-level policy-making bodies, i.e., the Council of Ministers and the National Economy and Planning Board (CONEPLAN). At the central office level, the system is directed and co-ordinated by the Ministries of Planning and Co-ordination and of Finance. Each Ministry has sectoral planning offices which co-ordinate the activities of the institutions and public enterprises for which they are responsible.

"The Regional Development Corporations are responsible for preparing plans, programmes and projects at that level. Their activities are co-ordinated directly by the Ministry of Planning and Co-ordination, which also ensures that they are compatible with the sectoral and national levels.

"Co-ordination of the process is initiated by the Ministerial Cabinet, which, under the direction of the President of the Republic, determines the objectives and general policies that shall orient the economic and social development process. Through its decree-laws, the Cabinet establishes the way in which the development plans, the budget of the public sector and the financial monetary programme are to be put underway.

"The second level of policy-making is the National Economy and Planning Board (CONEPLAN), which is directed by the President of the Republic and made up of the ministers responsible for the economic and social sectors. In the absence of the President of the Republic, CONEPLAN is directed by the Minister of Planning and Co-ordination, who in turn heads the economic team of the Supreme Government. The main functions of CONEPLAN include the following:

a) To approve the development strategy in order to ensure the fulfilment of the objectives established by the Supreme Government.

b) To give first approval to development plans, programmes and projects and to the the General Budget of the Nation.

c) To authorize the financing of public sector projects and of private sector projects requiring a State guarantee.

In addition to preparing strategies and overall plans and formulating national economic and social development plans, the Ministry of Planning and Co-ordination has the following main functions:

a) To orient and co-ordinate the work of the sectoral and regional agencies in connection with the preparation and implementation of plans, programmes and projects of a sectoral, regional and local nature.

b) To ensure that these plans, programmes and projects are compatible with each other and to monitor and evaluate their implementation.

c) To direct, orient and monitor the operation of the National Projects System.

d) To co-ordinate the preparation, implementation and evaluation of the public investment programme.

e) To co-ordinate the economic integration policy.

f) To formulate and co-ordinate the implementation of administrative reorganization plans.

g) To formulate, co-ordinate and evaluate technical assistance programmes.

h) To organize the National Statistical Information System and the National Personnel System.

"Within the National Planning System, the Ministry of Finance is mainly responsible for formulating, implementing, monitoring and co-ordinating financial, monetary and fiscal policies, submitting them for consideration to CONEPLAN.

"The sectoral planning agencies are responsible for formulating and implementing plans in their particular sectors, in accordance with the policies and forms established by the Ministries of Planning and of Finance and the relevant sectoral ministry.

"In accordance with the legislation currently in force, the system consists of the following agencies:

a) The National Economy and Planning Board (CONEPLAN), the highest decision-making body of the system.

b) The National Projects Committee, which co-ordinates the work of the components of the service system, analyses, evaluates and proposes priorities for public-sector projects and for private-sector projects requiring a State guarantee.

c) The executing agencies at the sectoral and regional levels. "The National Projects Committee is preside over by the Under-Secretary for Planning and is made up of the Under-Secretary for Interministerial Co-ordination, the Under-Secretary for Financial Policy, the Economic Advisor to the President of the Republic, the Presidents of the Central Bank, of the National Preinvestment Institute (INALPRE), and of the National Investment Institute (INI), of the National Financing Institute (INDEF) and the Project Director of the Ministry of Planning. The Under-Secretaries of the various ministries and a representative of the private sector participate when matters pertaining to their sectors are considered".

This planning system must be understood in the overall context of the structure of the public administration of Bolivia (see table 39). In general terms, the public administration is carried out at four levels: i) central government; ii) decentralized administration; iii) regional administration, and iv) municipal administration. As will be seen, decision-making in the planning system goes through various levels of government and the final decisions are made by the Office of the President and the Council of Ministers.

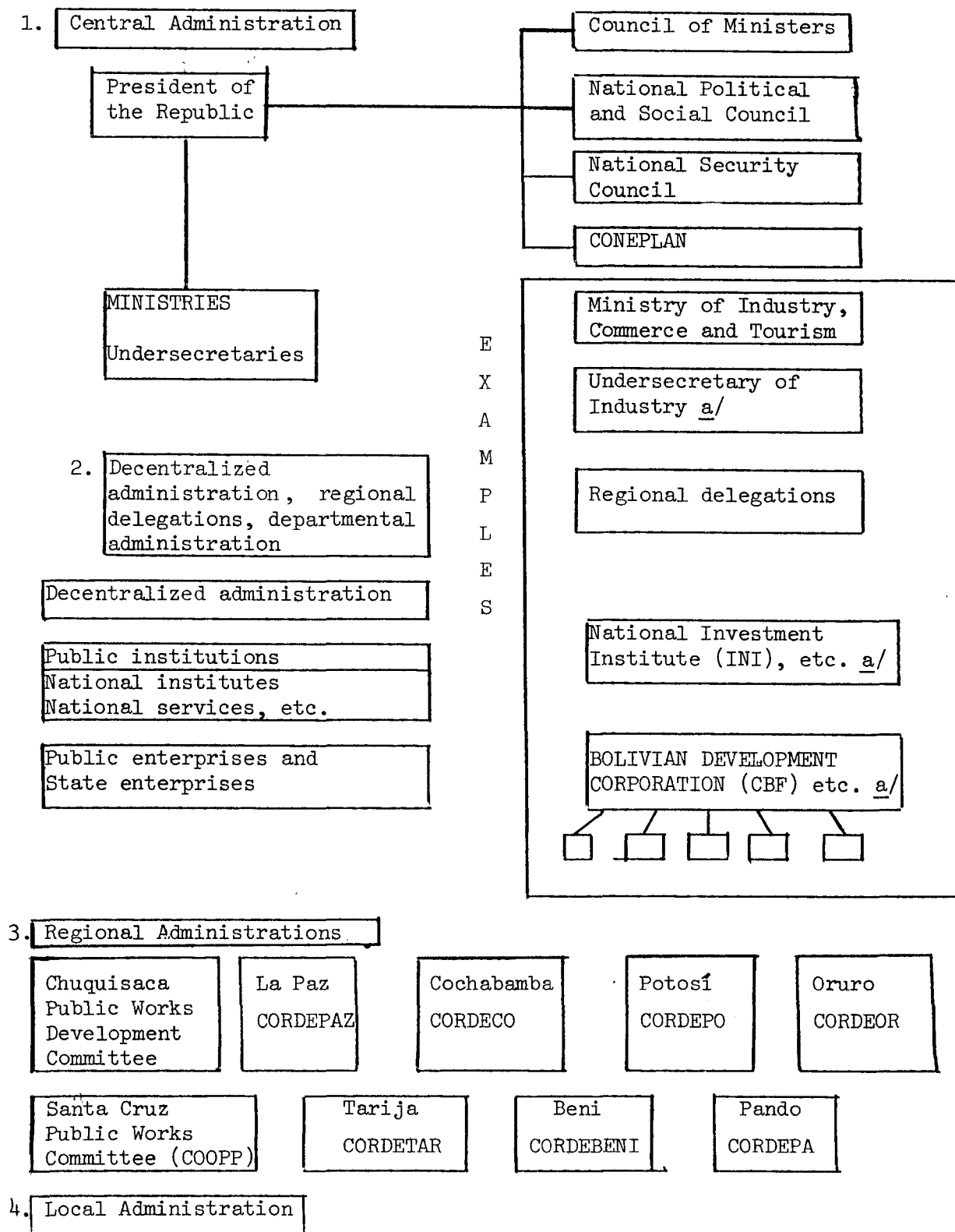
c) The decision-making process

Table 40 provides an organization chart of the decision-making process and the institutions that take part in it. It is clear that what was intended was that the Ministry of Planning should be responsible for project review (selection and viability) functions and the Projects Committee for implementation (co-ordination and monitoring) functions. It was felt that this would make it possible to co-ordinate, organize and refine the various investment projects during the decision-making process, with a view to keeping only the best ones, achieving close co-ordination between project implementation and the development strategy and ensuring that their design fits in with the development plan.

In this respect, the National Preinvestment Institute (INALPRE), a unit of the Ministry of Planning, and the National Investment Institute (INI), a unit of the Ministry of Industry, were responsible for generating "proven" projects of the public and private sectors, in that order, as part of the co-ordination and planning functions of the Ministry of Planning. As the Projects Committee considered

Table 39

BOLIVIA: STRUCTURE OF THE PUBLIC ADMINISTRATION
1974

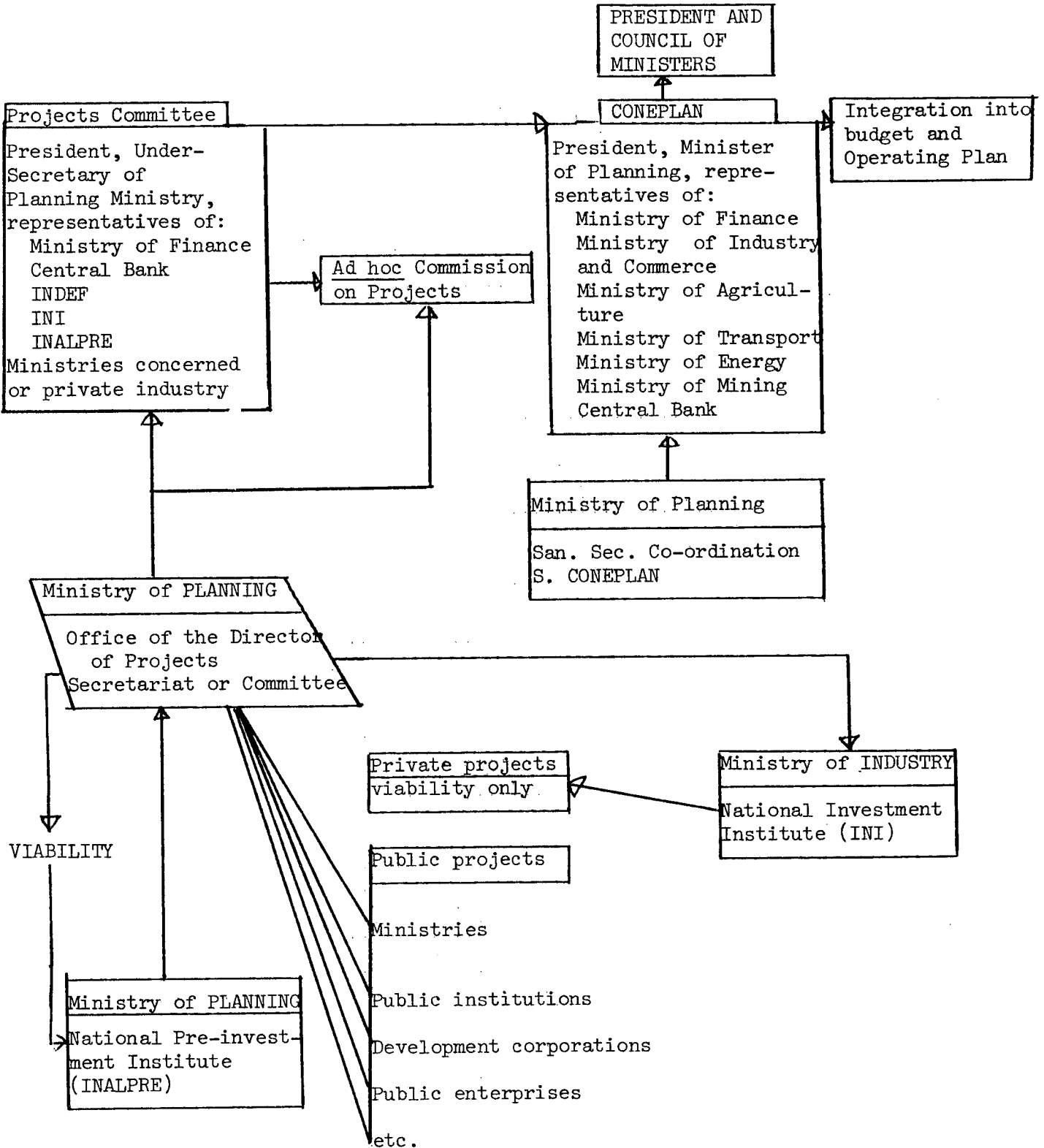


Source: Irvin, p. 46.

a/ Because of the lack of space, only a few examples are included.

Table 40

BOLIVIA: MAIN INSTITUTIONS TAKING PART IN DECISION-MAKING ON PROJECTS



them, the financial implications of the portfolio of projects were co-ordinated, in collaboration with the Ministry of Finance (and its National External Financing Institute, if such financing was needed) and the Central Bank, and each project's priority was established before they were sent to the National Planning Council for approval. Once this was obtained, the projects were formally included in the operating plans and annual budgets. The persons responsible for implementing the projects reported periodically to the Ministry of Planning on the status of each project.

Of course, the decision-making process had to be integrated into the overall development planning strategy. In order to better understand the "signals" sent out by the Ministry of Planning, the Projects Committee and CONEPLAN to the bodies responsible for designing, preparing and carrying out new investment projects, we must take a brief look at the main plans. The Five-Year Plan provides the best example for the period 1972-1978.

d) Five-Year Plan 1976-1980

The Five-Year Plan was the first major plan conceived and implemented within the new framework of development planning in Bolivia. The main objectives and goals of this plan have been described as follows: 10/ i) to accelerate the rate of growth of the per capita gross domestic product by orienting investment towards the goods producing sectors, after having established the relevant priorities; ii) to promote the diversification of exports and increase their value added, and iii) to continue applying a gradual and selective import-substitution policy. Bolivia projected an 8% increase in the annual growth rate of the gross domestic product for 1980, to be achieved through a gigantic (from the point of view of Bolivia) investment effort amounting to approximately US\$ 3.5 billion (at 1975 values), one of the highest investment ratios in the history of the country. It was expected that this accelerated growth would occur in the sectors comprising manufacturing, hydrocarbons,

mining, transport and communication, and construction. The rapid growth of exports was to be based on accelerated investment in the hydrocarbon, agroindustry and mining and metallurgy sectors and that this would make it possible to achieve a positive balance of trade beginning in 1979. As far as the objectives were concerned, at least, the plan could be considered optimistic and dynamic.

Financing for the investment required was to come in the following proportions: 69% from domestic savings and 31% from outside sources. The increase in domestic savings was to be achieved thanks to the rationalization of public expenditure, improvements in the administration of public and private enterprises and improvements in the tax base. It was projected that external financing would be closely linked to the country's capacity to meet its obligations, so that the service of the debt would not exceed a limit equivalent to 25% of the value of exports. In this way, although total external indebtedness would rise significantly, this increase would be backed by a wise policy for controlling the external debt.

Unquestionably, the message conveyed by the Five-Year Plan was that it was important that there be an efficient allocation of resources in the producing goods-sectors and a speedy generation of foreign exchange from new investment. For this reason, the external sector was the central point of the Plan, both from the standpoint of investment (projects aimed at generating foreign exchange) and of finance (external investment resources and trade surpluses). Even though it would thus appear that the plan was weighted heavily in favour of the public sector rather than the private sector (considering that approximately 90% of Bolivia's exports were produced by public enterprises in the natural resources sector), this was neither the intention of the plan nor the national élitist orientation vis-à-vis public policies. Irvin has correctly interpreted the Five-Year Plan in this regard and has pointed out that the public sector's function, basically, was to support the private sector in three ways, i.e., by providing a basic economic and social

infrastructure; by mobilizing financial resources, and by undertaking directly productive investments in order to increase the limited fiscal base of the State. 11/

In addition, the Five-Year Plan established that at least 30% of all investment envisaged should come from private investors.

In brief, the Five-Year Plan thus assigned a special role to efficient investment in the productive sectors, especially as regards projects that would generate foreign exchange. The mobilization of financial resources (especially foreign resources) was the responsibility of the public sector; the private sector, on the other hand, could be considered the most favoured investor and agent.

In general terms, we may conclude that the new planning system applied in Bolivia during the period 1972-1978 was sound in scope and rational and co-ordinated in design. It represented a remarkable advance with respect to the zigzagging trends that had preceded it. Moreover, it was applied during a period of political stability and was directly supported by the highest political authority of Bolivia. By comparison with other periods and other development circumstances, the planning system carried out during the period 1972-1978 had many clear advantages.

We shall discuss the deficiencies of the new planning system and those of the Five-Year Plan later on; first, let us briefly describe the new debt-control system.

2. The Debt Monitoring System, 1972-1978

a) Background

Since the preceding régimes of Bolivia did not manage to obtain the flow of external financing considered necessary to ensure the speedy development of the country, the problem of "controlling" the inflow of external resources never really arose as a restriction on development. Moreover, before the period 1972-1978, most external financing came from bilateral (e.g., the United States Agency for International Development) or multilateral (e.g., the World Bank or the Inter-American Development Bank) institutions which offered relatively favourable terms and a

certain degree of intrinsic institutional control over the management of the debt. Thus, in general terms, during the period in question, the Bolivia's development was characterized by a shortage of external resources, i.e., by a need to promote increased external financing, not by a need to control the public external debt.

The period 1952-1964, when development policy generally followed a national popular orientation, was an exception as regards the management of external financing. Mainly as a result of the extreme economic vulnerability of the external sector, of the revolutionary chaos prevailing in the country and, to a lesser extent, of the forced compensation of former owners of nationalized mines, the country's public finance became dependent upon bilateral donations from the United States Government. As part of the stabilization policy initiated in 1957, the International Monetary Fund effectively controlled the external indebtedness policy, and thus no national institutions were created for the purpose. Also, all the major debts contracted after that (e.g., the Triangular Plan) consisted of external financing from official sources (bilateral and multilateral) which implicitly established the debt-management priorities of the lending institutions themselves, in view of their direct participation in the projects undertaken. For these reasons, Bolivia's public external debt situation did not give rise to an organic or co-ordinated system for controlling indebtedness at the national level.

In general, this situation continued to prevail during the period 1964-1969, when public policy followed a national élitist orientation. The International Monetary Fund continued providing advisory services to the Development and Stabilization Council. In 1968, however, certain irregularities were already noted in the way in which external financing was channelled to investment projects, creating problems in the implementation of these projects. Moreover, the service of the debt was being taken care of by individual institutions without any co-ordination or control on the part of the Central Bank. New legal provisions (DS 08264, February 1968)

were enacted which required that all external financing, as well as the service of the debt, should be channelled through the Central Bank, and all public organizations were required to prepare monthly balance-sheets. Supplementary legislation (DS 08696, March 1969) was enacted to create the Trust Fund for Counterpart Contributions and the functions of the Ministry of Finance and of the Central Bank were expanded. Although these early measures were aimed at developing a rational debt-control policy, they did not achieve this objective.

A detailed review of the Bolivian economy undertaken by the new national popular régime (1969-1971) revealed that the public administration system in general and the national financial system in particular were actually holding back the development of the nation. The general State apparatus was reorganized under the new Executive Power Bases Act (DS 09195, April 1970) and the national financial system was restructured under the new National Financial System Act (DS 09428, October 1970).

It was envisaged that the National Financial System Act would correct the previous shortcomings while at the same time unifying the different financial institutions under a common legislation. The new system was thus aimed at encouraging domestic savings and rationalizing external financing and debt-service obligations in order to strengthen national monetary policy in the context of development planning. In the hierarchy of legislation, the National Financial System Act ranked directly below the Executive Power Bases Act, and was followed by the general and special laws and the rules of the Central Bank.

These provisions represented the first serious and co-ordinated attempt to establish an organic relationship between the national financial system and the development planning system. In this regard, the law contained clear guidelines for controlling indebtedness and provided the necessary institutional framework for the debt-control system to operate. However, because there was a serious shortage of external resources during that period, these debt-control arrangements were never actually tested in practice.

In general, it may be said that, despite the progress that had been made towards defining an indebtedness policy and creating an institutional framework for controlling the debt, the steady decline in the flow of external resources caused national policy to concentrate above all on promoting the inflow of external credit rather than on controlling the level or the terms of the public external debt.

b) Decision-making: the structure, the institutional framework and the process

The period of stabilization (1972-1973) made it possible to put the economy in order through a stabilization programme involving a 68% devaluation. The new Investment Act (DL 10045, December 1971), which was very liberal, encouraged national and foreign investment, and the favourable circumstances prevailing in the export sector had a positive impact on national economic activity, thus creating the conditions for the period that followed.

The boom in external financing, particularly from the transnational banks, made it necessary to take certain steps to control the debt. In 1974, under the new planning system, the National External Financing Institute (INDEF) was created by law DL 11520 of July 1974. This institution's role in the framework of the overall planning system was described in the preceding section of this chapter. At this point, we shall concentrate on the objective and structure of INDEF and its relationship with other institutions participating in the debt-control system in matters pertaining to decision-making.

INDEF was assigned five essential functions. At the more general level, the institution was to be responsible for harmonizing favourable circumstances on the international capital market with the country's external debt capacity, with a view to obtaining on a sound basis, the external resources necessary to implement existing development plans. To this end, INDEF was to take an active part in centralizing,

co-ordinating and leading the negotiations necessary to obtain foreign loans for public-sector institutions and for private investors, the latter being required to have a State guarantee.

INDEF was to be the only agent responsible for obtaining these resources and transferring them, under controlled conditions, to the borrowers. Moreover, INDEF was to follow-up on these credit agreements and monitor them in order to ensure that the resources were used correctly and that the borrowers followed the debt-control provisions. Finally, these functions of INDEF were to be fully integrated and co-ordinated with its functions within the planning system, both as regarded particular projects and as regarded the general level and the terms of the public external debt. In brief, INDEF was to monitor, direct and carry out the basic functions pertaining to external financing, from the contracting of external resources to the follow-up and management of the debt with respect to each individual project.

The structure of INDEF reflected its functions and its importance. 12/ The Board of Directors of INDEF was made up of the Minister of Finance, the Secretary-Minister of Economic Co-ordination and Planning and the President of the Central Bank. Other ministers concerned could participate in its meetings with the right to voice and vote and directors of public enterprises or decentralized agencies could participate with the right to speak but not to vote. The Executive Director of INDEF had ministerial status and was to serve as liaison between the Board of Directors and the functional departments of INDEF.

INDEF had four functional departments: the Programming Department, which was to keep abreast of the latest developments on the international capital markets in all matters pertaining to Bolivia's access to such markets. It was to prepare a list of the external financing needs, conditions and repayment terms for the projects approved, co-ordinate with INALPRE the priorities for these projects

and to prepare periodical reports on the progress of the projects. At a more general level, it was to assist in the drawing up of investment programmes for the public sector.

The External Finance Department was to keep abreast of the latest trends on the international capital markets as regarded conditions offered. This Department was concerned with establishing standards and instructions for entering into external financing arrangements and carrying out negotiations in that regard. Moreover, it was to be responsible for co-ordination with the Budget Office of the Ministry of Finance and it was to prepare reports on the incidence and implications of external credit for the economy of Bolivia.

The main function of the Project Execution and Control Department was to analyse the progress of projects and establish standards and procedures for monitoring disbursements of external loans contracted and verifying the use made of the funds. It was also to co-ordinate its work with the Project Monitoring and Co-ordination Department of the Ministry of Finance.

Finally, the External Control and Service Department was to be responsible for ensuring that the general criteria for public external indebtedness were in harmony with the debt-service capacity of the Bolivian economy. It was to confirm the availability of resources for the service of the debt and prepare studies on the characteristics of the public external debt, the country's capacity for future indebtedness, policy options available (conversion, rescheduling, consolidation), and the national contribution to projects having external financing. To this end, it was to co-ordinate its activities with those of the Ministry of Finance with a view to programming the service of the debt through the budget of the central government and establishing standards and instructions for obtaining necessary information from borrowers.

This description of the functions and structure of INDEF, although brief, shows that the institution was conceived for the purpose of administering a wide-ranging, rational and well co-ordinated debt-control system that would be in harmony with the new institutional structure of decision-making in the planning system (see table 40). There is no question that INDEF was to be one of the most important institutions of the Projects Committee, in a field in which external financing became the main source of resources for a large-scale public investment programme. In this regard, the debt-control system applied by INDEF should have marked a clear break with previous practices in Bolivia.

3. Shortcomings of the Planning and Debt-Control Systems,
1972-1978

The supreme paradox of the Bolivian experience between 1972 and 1978 is that, at a time when circumstances were extremely propitious for development, both the planning system and the debt-control system, instead of producing stable and balanced growth and development, led to a crisis. As has been mentioned before, after 1974, both the planning and the debt-control systems were, --at least in their design--, far-reaching, rational and well co-ordinated. In the brief span of five years, however, they produced results that were the exact opposite of their stated purposes.

As regards the planning system, the end results were very different from the original, explicitly-stated intention. Contrary to what was indicated in the Five-Year Plan, it was basic services rather than the goods-producing sectors which provided the basis for national growth. Likewise, the growth planned, which was to have been based on the leadership of the external sector, did not take place, mainly because of the weakening of the export sector; this, in turn, was partly due to the country's economic policy. The trade surplus rapidly turned into an enormous trade deficit, thus doing away with a fundamental source of investment financing.

The reality moved farther and farther away from the objectives and goals of planning (see table 41).

The divorce between the planned objectives and the actual results stands out clearly in the following quotation: 13/

"The development plans prepared by the Ministry of Planning show concern for achieving an economic expansion based essentially on the growth of the goods-producing sectors, and for bringing about a less inequal distribution of income. As may be seen from table 4 [see next page], the intentions of the planning body as regards the productive sphere differed from the results actually achieved. Similarly, the desire to establish a fair distribution of income was not reflected in concrete results.... Economic policy responded, in general, to interests other than those indicated in the development plans, and, therefore, the results of the short-term measures and decisions failed to fulfil the guiding principles for the medium-term outlined in those plans.

"The most notable divergencies between the plan and reality in the five-year period 1974-1978 may be observed in the mining and hydrocarbons sectors. According to the plans, both these sectors should have grown by 45 and 75%, respectively, over the five years, but in actual fact they declined by an overall figure of a little over 21%. In the agricultural sector, the difference was also significant, since in practice its growth was not even half that planned for the five-year period concerned.

"Such wide disparities in such important sectors of the economy reflect an evident divorce between intentions and actions, that is, between the economic plan and economic policy. Although in other sectors, the differences are more moderate, developments in the energy and transport and communications sectors are nonetheless noteworthy. In the latter sector, contrary to what occurred in the majority of the sectors, the results in practice far exceeded the plan, a difference which reflects the diverse motivations underlying the intentions and specific decisions.

"The gross domestic product also showed a significant difference in the five-year period analysed, although it is obviously the result of compensation between excesses and defects.

"In the last analysis, the attempts to change the mode of growth specified in the plans were clearly unsuccessful, while on the contrary, precisely the form of economic expansion which the authorities wished to change was steadily consolidated."

The answer to this paradox is simply that the explicit objectives of the planning system were not in fact the basic objectives of the national élitist régime. The planning system's main purpose for the economic team working with the régime in power was to facilitate private initiative rather than public-sector activities in the context of a propitious national economy. Therefore, the

Table 41

BOLIVIA: COMPLIANCE WITH DEVELOPMENT PLANS. COMPARISON BETWEEN PLANNED AND ACTUAL GROWTH IN SECTORAL OUTPUT

(Rates of change)

	1974-1978		1974		1975		1976		1977		1978	
	Planned a)	Actual b)	Planned a)	Actual b)	Planned a)	Actual b)	Planned a)	Actual b)	Planned a)	Actual b)	Planned a)	Actual b)
Agriculture	26.1	12.6	2.0	3.7	2.0	6.7	6.0	2.9	6.4	-3.4	7.5	2.3
Mining	44.7	-21.1	6.6	-4.8	6.6	-15.2	8.0	10.8	8.4	-5.0	8.8	-7.2
Hydrocarbons	75.5		17.0		17.0		8.0		8.4		9.5	
Manufacturing	46.5	39.8	6.7	11.3	3.2	6.1	9.6	3.9	10.0	6.2	10.4	5.3
Construction	47.3	47.2	8.1	9.0	8.1	12.9	8.6	7.9	7.5	5.9	8.0	4.7
Energy	50.6	37.5	9.9	10.0	10.0	2.2	7.3	9.7	7.4	6.1	8.1	5.1
Transport & Communications	39.4	75.5	4.9	14.9	4.8	15.7	7.5	12.0	8.6	14.1	8.6	5.1
Commerce and finance	40.1	36.0	6.5	7.0	6.6	8.7	6.7	7.3	7.4	4.6	7.7	4.2
Home ownership	40.5	25.5	6.8	3.7	6.8	7.5	7.1	3.1	7.4	5.6	7.1	3.4
Services	29.3	32.1	4.9	7.7	4.9	7.6	4.6	5.3	6.5	4.1	5.5	4.0
General government	36.2		7.2		7.2		5.6		4.8		7.1	
Gross domestic product	40.2	27.2	6.2	6.1	6.3	5.5	7.0	6.4	7.5	3.6	8.0	3.1

Source: a) Office of the Director of Global Planning and Economic Policy --Ministry of Planning and Co-ordination. Up to 1975, planned rates correspond to the Five-Year Development Plan, 1972-1977; after 1976, they correspond to the Economic and Social Development Plan, 1976-1980; b) ECLAC, on the basis of official statistics.

basic objective was to provide resources for the private sector, which was to become the new moving force of development in Bolivia; to do this, a new source of financing had to be found for the apathetic public sector. The idea is clearly expressed by Irvin who says that the necessary levels of expenditure for development tended to exceed by far the income produced by State enterprises. In view of the limited capacity of the State to gain access to other forms of domestic surpluses, especially by means of taxes (indirect taxes increase the cost of goods and wages and, usually, most new direct taxes affect the savings potential of enterprises), the State increasingly has to seek external credit, both for the central government and for State enterprises. This situation is advantageous to private capital for several reasons. It does not entail inflation, as monetary emission would. It frees a greater proportion of private domestic savings, which are largely mobilized through the State banking sector to private capital, thus avoiding an increase in interest rates. Finally, the State is able to offer generous tax incentive plans for private industry. Moreover, the stability of the exchange rate and the lack of restrictions on trade help stabilize the price of goods and wages, particularly foods. In summary, provided net investment in the primary sector is maintained, surpluses from it move directly and indirectly into private capital; their real value is maintained through stable exchange rates, and current-account deficits are financed through inflows of capital to the public capital account. 14/

In this context, it appears that two factors had to do with the failure of the project. Firstly, the private sector in general did not take up the challenge for it to become the moving force of development for the country. Thus, the growth that had been expected in this area did not materialize to the extent envisaged, inasmuch as a large share of private investment had only vague and ambiguous links with development. Secondly, considering that the main objective of the planning system was to provide a valuable tool for facilitating the new

orientation of public policy --rather than the specific goals of the plans themselves-- the investment programme proposed for the public sector was subject to antagonistic pressures. Some public enterprises were characterized by internal contradictions; in others, the State began to play an important Caesarian role. In general, the choice of projects was increasingly made under the influence of political pressures and less and less on the basis of technical decisions in a well co-ordinated and rational planning system. The implications of this situation for the rational administration of individual projects are obvious.

E. Arze Cuadros explains the essence of this weakness in the selection and monitoring of projects:

"One can imagine, then, the surprise of national public opinion upon learning from Mr. Enrique García-Rodríguez, Under-Secretary for Planning during the period 1974-1978, shortly after leaving his job, that the national planning system had been totally ineffective during the critical period mentioned, precisely because of the pernicious action of pressure groups in key sectors of the public and private administration of the country. Because García is a reliable witness and is well informed on the contemporary situation of planning in Bolivia, and because of the need to set up effective controls against this type of self-interested interference, we feel it is important to reproduce in extenso the main aspects of this revealing denunciation:

'Within the aforementioned frame of reference, Bolivia has, in recent years, instituted planning and project systems which, although in the formative stage, are advanced by comparison with those of most Latin American countries and, as such, set standards and technical, economic and financial, institutional and social criteria for optimum selection of projects leading to a comprehensive development model. But what has happened in actual fact? Are these standards and criteria followed? Unfortunately, they are only followed in small and medium-sized projects, but not in large-scale projects which are usually conceived, approved, and executed outside the scope of the existing systems. A clear illustration of this is the unconventional procedure that has been or is being followed in connection with the approval of the most largest projects --in terms of the amount invested-- such as the Viru-Viru Airport, the automotive industry, the Mutún iron and steel project, the natural gas pipeline to Brazil and the Karachipampa smelter.

'In this respect, the standards pertaining to independent preparation of feasibility studies have been or are being omitted and, in others, projects have not even gone through the established evaluation mechanisms, having been covered by special supreme decrees or resolutions. Since those six projects entail a total national investment of around US\$2.3 billion and an execution period of over five years, and would mean using

more than 80% of the total investment capacity of the public sector of Bolivia, it can be said that only 20% of public investment would be following the existing regulations. However, if to these six projects is added a series of smaller scale projects that have been approved or are being approved under political and regional pressure without adequate technical and social and economic justification, --such as the San Buenaventura sugar mill, the Severuyo Cement Factory and the Metro El Alto, to mention only a few--, we will see that, in practice, no more than 10% of national public investment is governed by the legal standards currently in force.

'This is the harsh comment which Under-Secretary García has to make about his own term in office. This is no less than an admission of the fact that priorities for the most important development projects of the country are not set or have not been set in accordance with the requirements of a balanced and harmonious development, but rather in accordance with the whims and self-interest of the different pressure groups and their associates. But the denunciation of the former Under-Secretary does not stop at merely admitting that the formal mechanisms of the planning system only channel perhaps up to 10% of total national public investment, with the remaining 90% being left to the judgment of pressure groups outside the system. The merit of the Under-Secretary's denunciation lies in the fact that it clearly identifies the pressure groups that have been interfering in the normal conduct of planning in Bolivia over the last few years. According to the testimony of García Rodríguez:

'These pressure groups fall into four clearly indentifiable categories:

1. Transnational corporations and suppliers of technology and equipment, who also influence the governmental and private financial agencies of their countries of origin to grant the external resources required. These enterprises are obviously more interested in earning profits and in controlling technology than in the quality of a project or the well-being of the developing countries.
2. Local commercial firms representing the transnationals which, as such, are basically interested in expanding sales for the firms they represent, in order to earn high profits themselves as well, independently of the individual merits of a project and of the national interest in achieving development objectives.
3. Local promoters of projects at the level of officials of State and government enterprises, who give their unconditional support to projects, sometimes out of conviction and other times out of personal convenience.
4. Civic and regional groups which, having been persuaded by the three groups listed above of the apparent or real merits of a project and of the formidable impact it supposedly will have on the development of their region, department, province, city or locality, become the most important political pressure group lobbying for government approval of the project in question.'

"The pathetic diagnosis made by Mr. Enrique García of the breakdown which has in recent years characterized the administration of State investments seriously threatens the future of a country such as Bolivia, with its shortage of financial resources, and once more underscores the importance of distinguishing between the ideologies set forth in development strategies and plans and the political and social restrictions which

hinder their implementation, as pointed out previously in our description of the Bolivian development model. Likewise, it shows that there is a fourth social group in the hegemonic power bloc in Bolivia, i.e., that of the transnational corporations and their native agents in Bolivia. This is a situation which, particularly in times of economic crisis such as the one caused largely by the action of these very groups, must not be tolerated". 15/

Later on we shall discuss in greater depth the serious problems which beset the public investments of the planning system, including the internal contradictions of the State that were reflected in the major public enterprises of the export sector (e.g., YPFB and COMIBOL), the extreme Caesarian role of the State as demonstrated by public enterprises in the banking sector (e.g., the Banco Agrícola) and the inadequate selection and execution of projects by other public sector entities (e.g., the central government and the Corporación Boliviana de Fomento). Nonetheless, at this point we may now say that the planning system did not function effectively as a technical instrument for achieving the country's macroeconomic goals in a conscientious and careful manner.

By the same token, the debt-control system did not operate as anticipated. Practically the only purpose of the institution turned out to be to arrange for external financing, to the detriment of its role in controlling the debt. Many shortcomings may be mentioned. For example, the Programming Department did not co-ordinated its work with that of INALPRE in order to establish priorities among investment projects, even though some members of the Board of Directors of one institution were also on the Board of the other. The External Financing Department did not keep informed about the formulation of the public-sector investment programme nor did it prepare any important study on the characteristics of public external indebtedness or on how best to convert, reschedule or consolidate the debt. The Project Control and Execution Department was almost totally ineffective as regards the fulfillment of its main duties. Likewise, the External Debt Control and Service Department did not adequately perform the tasks assigned to it. The result of all

this was that an unusually high volume of external financing was arranged for (on very stringent terms) from one single source: the transnational banks. It is obvious that greater priority was given to the volume of external credit obtained than to the quality (terms) of the loans received. By arranging for an excessive amount of financing from the source that imposed the harshest terms, INDEF contributed towards multiplying the deficiencies of INALPRE, i.e. its inability to generate a portfolio of projects that would efficiently absorb the costly resources mobilized. The result was a serious public external indebtedness crisis.

Notes

1/ This chapter is based on the document entitled Control institucional de la deuda externa en Bolivia, by Juan Villarroel and Tania de Villarroel.

2/ Given the importance of controlling the savings-investment ratio in order to accelerate economic growth in the developing countries, these institutions began to promote the idea of a leading role for the State and greater State intervention in order to compensate for the weaknesses inherent in the pluralistic/neoclassical liberal model in situations of underdevelopment. Rosenstein-Rodan was one of the first orthodox economists to recognize the need to expand the planning role of the State. However, since much of the external financing came from multilateral and bilateral financial institutions, the new State intervention by way of planning was based on strict monitoring by these institutions during the first decades of the postwar period.

3/ For example, the Economic Policy Plan of the National Revolution (1955), the Priority Plan for Immediate Investments (1960), the Programme for Nationalized Mines Recovery (1961) and the Ten-Year Plan 1962-1971 (1962). See the report by J. Villarroel (1981) for further information on this and the other initiatives mentioned. See also the bibliography.

4/ Formation of the National Co-ordination and Planning Commission (1953), the Permanent Council (1954), the Committee on Inventories and Auditing of Tenders (1958), the National Planning Board (1960), the National Development Council (1961), the Executive Committee of the Council (1962), the Sectoral and Regional Programming Offices (1962) and the National Planning and Co-ordination Service (1963).

5/ For example, the Two-Year Plan 1965-1966, Operating Plan 1967, and Two-Year Plan 1968-1970.

6/ For example, the National Development and Stabilization Council (1966), the Sectoral and Regional Planning Offices (1967), the Technical Planning Secretariat (1968) and the Office of the Director of National Co-ordination and Planning (1968).

7/ See President of the Republic (1972).

8/ For example, the Investment Act (1972), the National Plan for Administrative Reform, 1973-1977, the National Economy and Planning Board, etc.

9/ See ILPES, pp. 114-116.

10/ See ILPES, pp. 120-123.

11/ See Irvin, p. 83.

12/ See DS 11520 (1974), amended by Decree Law 12381 (1975).

13/ ECLAC, Economic Survey, 1978.

14/ Irvin, pp. 4-5.

15/ Arze Cuadros, pp. 474-475.

DISCREPANCIES BETWEEN PUBLIC INVESTMENT AND ECONOMIC POLICY: CASE STUDIES
OF IMPORTANT ELEMENTS OF THE MULTIDIMENSIONAL STATE

The dispassionate analysis of an existing situation is easier for the non-participating observer than for participants (such as the economic team, the bureaucracy or public enterprises) due to the fact that the latter are not only involved but responsible and must make important decisions during critical moments often under pressure. Nonetheless, it is important to remember that one essential purpose of a particular development strategy implemented via a consistent planning system is precisely to avoid contradictions among the diverse public policy instruments. In the case of Bolivia, after 1972, severe contradictions internal to the State apparatus became apparent, particularly ones between the economic team of the regime in power and the principal public enterprises. As shall become increasingly evident, these contradictions were consequences of the excessive Caesarian role of the State during this period, of the notable inconsistencies in the selection and execution of public investment projects and of the debt administration connected with those projects. An examination of various case studies of the experiences of particular public enterprises will clearly demonstrate that the economic policy followed during this period was based on an incomplete and inadequate appreciation of the multidimensional character of the Bolivian State.

1. 1972-1978: a developmental paradox

Normally a country experiencing a marked increase in the external financing of its public investment will be very concerned with the dimension and quality of its investment projects so as to guarantee that the overall return of the project safely surpasses the debt service implied, at least over the medium term. Bolivia represents a case in point in the sense that during the 1972-78 period, itself characterized by a continuous national elitist orientation to development strategy, the

level of external financing--mainly from TNBs-- increased precipitously. According to INDEF,^{1/} during this period the average maturity of foreign credits decreased by 25 percent and the average rate of interest doubled. Another study ^{2/} suggests that the maturities dropped by 33 percent while the average rate of interest increased by a third. Evidently, the cost of Bolivia's external finances, however measured, increased substantially.

In addition to the extreme care needed in project selection in the context of an enlarged role for external financing of the public investment of a particular development strategy, those projects from the beginning must explicitly contemplate the foreign exchange costs implied; something which in developing countries usually means investing directly in export activities.^{3/} In Bolivia, it was precisely during the 1974-78 period that the disequilibrium between the generation and requirements of foreign exchange became most pronounced. The typical indicator, that is,

IMPORTS	+	DEBT SERVICE	-	INTERNATIONAL RESERVES
<hr/>				
EXPORTS				

varied from 62.3 in 1974 to 153.0 in 1978,^{4/} suggesting in this manner the greatly increased external economic vulnerability of the country and the fact that it was not obtaining the necessary economic return from its investments in the export sector.

Given the care required in making public investments when the development strategy is largely based on external finance coming from transnational banks, the close harmonization of the contracting of the external credits with the

development planning process becomes prudent. This period witnessed the implementation of a new planning system which incorporated a control mechanism with regard to external public debt; nonetheless, if one compares the debt projections of the 5-year Plan with what actually occurred during that period (Table 42), it is clear that actual net debt increasingly fell below all projections. One unforeseen consequence was that the debt service and debt service/exports ratio were progressively out of synchronization surpassing projected values. In 1979, the real net debt was 16 percent less than that projected (due to the fact that the transnational banks stopped virtually all new lending to Bolivia); however, debt service and the debt service/exports ratio were 17 and 34 percent, respectively, above projected values.^{5/} Naturally, one does not expect Plan projections to be totally met; nonetheless, with so delicate a variable as that of external public indebtedness, one expects a closer approximation, most particularly insofar as critical elements such as the debt service and debt service/exports ratio are concerned.

In synthesis, the level and cost of Bolivian's external public debt increased notably during this period and, faced with a growing current account deficit on balance of payments, sufficient attention was not paid to properly planning external finance requirements or controlling the external public debt. All the above is very relevant for the consideration of what became the extraordinary paradox of the Bolivian developmental experience during this period: a great investment effort produced increasingly unsatisfactory results.

The violent jump in the Bolivian capital output ratio during the late 1970s (Table 43) suggests the magnitude of this paradox. In spite of the fact that this indicator suffers certain conceptual difficulties (i.e. it misses investment lags), statistical problems (i.e. no depreciation of

Table 42

BOLIVIA: RELATION BETWEEN PLANNED AND ACTUAL DEBT,^{a/} 1976-1979
(Millions of dollars and percent)

	(1)	(2)	(3)	(4)	(5)
	Net Debt	Amortization	Interest	Debt Service (2+3)	Debt Service Exports
a) <u>Planned</u>					
1976	1 154	70	38	108	17.5
1977	1 503	79	61	140	19.4
1978	1 880	88	91	179	21.1
1979	2 309	101	123	124	22.4
b) <u>Actual</u>					
1976	1 106.8	71.5	39.8	111.3	17.1
1977	1 457.7	100.8	60.1	160.9	21.9
1978	1 761.5	116.1 ^{b/}	84.4	200.5	27.8
1979	1 940.7	144.3 ^{b/}	117.5	261.8	30.0
c) <u>Percentage difference</u> $\frac{b - a}{a}$					
1976	-4.1	2.1	4.7	3.1	-2.3
1977	-3.0	27.6	-1.4	14.9	12.9
1978	-6.3	31.9	-7.3	12.0	31.8
1979	-16.0	42.9	-4.4	16.9	33.9

Source: ECLAC, on the basis of Requena P., J.C., op.cit., Table 72, p.213.

^{a/} Medium and long term public debt.

^{b/} Does not include \$155 million refinancing credit organized by Citicorp.

Table #3

BOLIVIA: INDICATORS OF THE INVESTMENT EFFORT,
1960-1980

(Million of 1970 pesos)

Year	(1)	(2)	Change in GDP (ΔY)	Marginal Capital: Output Ratio		Investment Ratio (1/2)
	Gross Investment in Fixed Assets (I)	Gross Domestic Product (Y)		$\frac{I}{\Delta Y}$	Period Average	
	1960	1 018		7 159	295		3.5	14.2
1961	806	7 309	150	5.4	11.0	
1962	1 210	7 717	408	3.0	15.7	
1963	1 324	8 213	496	2.7	16.1	
1964	1 276	8 608	395	3.2	14.8	
1960-1964 (average)	(1 126)	(1 801)	(349)		3.2	(14.4)
1965	1 347	9 202	594	2.3	14.6	
1966	1 176	9 847	645	1.8	11.9	
1967	1 346	10 470	623	2.2	12.9	
1968	1 289	11 222	752	1.7	11.5	
1969	1 638	11 757	535	3.1	13.9	
1970	1 792	12 374	617	2.9	14.5	
1971	1 949	12 985	611	3.2	15.0	
1965-1971 (average)	(1 505)	(11 122)	(625)		2.4	(13.5)
1972	2 150	13 732	747	2.9	15.7	
1973	2 093	14 668	936	2.2	14.3	
1974	2 327	15 563	895	2.6	15.0	
1975	2 844	16 353	790	3.6	17.4	
1976	2 923	17 469	1 116	2.6	16.7	
1977	3 104	18 064	595	5.2	17.2	
1978 a/ 1972-1978 (average)	3 203 (2 663)	18 628 (16 354)	564 (802)	5.7	3.3	17.2 (16.3)
1979 a/	3 251	19 007	379	8.6		17.1
1980 a/	2 991	19 161	154	19.4	14.0	15.6

Source: ECLAC, in the basis of official statistics from the Central Bank.

a/ Preliminary figures.

of investment is included) and the aggregate figures themselves often have weak empirical bases,^{6/} the dimension of the change in Bolivia was so great that one cannot help but consider that the indicator in fact captures that reality. Until 1978 Bolivia achieved an improved average investment ratio: 16 percent for 1974-78 as compared to about 14 percent for the preceding periods. This increased investment ratio (due, in part, to the increased external financing) did not result in an improved marginal capital output ratio ($\frac{I}{\Delta Y}$) according to these data, rather the historical trend level (1.7 - 5.7) worsened to 8.6 and 19.4, respectively, in 1979 and 1980. Thus, this indicator, taken together with the case studies presented below, would seem to capture the essence of the Bolivian developmental paradox of this period, that is, a greater investment effort produced ever-worsening results. In this sense, as was expressed in Chapter V, the increase in foreign participation in Bolivian development, by way of the external financing of large public investment projects, resulted first in a loss of dynamism and later in a severe crisis. One might ask: what is the cause of the crisis?

2. What is the cause of the crisis?

The answer to this question consists of many elements and covers various spheres of the political economy of Bolivian development. In this opportunity three central and fundamental aspects will be dealt with: i) the effects of the internal contradictions of the State on the export sector, ii) the extremely exaggerated Caesarian role of some sectors of the State and iii) the inconsistencies in the selection or execution of investment projects or in the administration of the public sector debt. Taken together,

these factors highlight the basic problem of Bolivian development during 1972-78: the large public investment program could not withstand the cost of its external financing thereby provoking a grave problem of external public indebtedness.

a) Internal contradictions of the State: financial drainage versus public investment in the export sector

According to the analysis in Chapter V, the principal internal contradictions of the State existed between the strict Caesarian role imposed upon the public sector in general and the public enterprises in particular by the economic team of the regime in power and the empire-building role assumed by many of the principal public enterprises (especially those in the export sector) which was designed to serve their own particular self-interest. The Caesarian role of the State reflected the new economic policy which aspired to channel the domestic credit almost exclusively toward the private sector. To attain that objective, the public investment program had to be financed externally, mainly via transnational bank commercial credits. At the same time, the new economic policy tried to direct an increasing share of the foreign exchange resulting from the export boom (mainly from the public sector mining and petroleum companies) to the National Treasury, where these resources were more directly controlled by the economic team, for the purpose of stimulating PRIVATE enterprise. Concurrent with this policy was a fixed exchange rate policy which progressively favored importers (mainly private sector) at the expense of exporters (mainly public sector).^{7/} Unfortunately, the objective of the domestic economic policy--a public sector capable of not only financial self sufficiency but capable of creating a surplus with which to promote private enterprise--was frustrated by the open financial drainage of the public enterprises of the export sector.

Table 37 of Chapter V showed that more than 40 percent of the net commercial credits from transnational banks went to the public enterprises of operating in the export sector. The State petroleum company (YPFB) received 28.5 percent, while the State Mining Company (COMIBOL) and the State metal refinery (ENAF) together received about 13 percent of those credits. Thus, a more detailed analysis of those cases of public enterprises in the petroleum and mining-metallurgical sectors will assist in identifying the precise nature of the problems created by the mentioned internal contradictions of the State.

(i) The State petroleum company (YPFB)

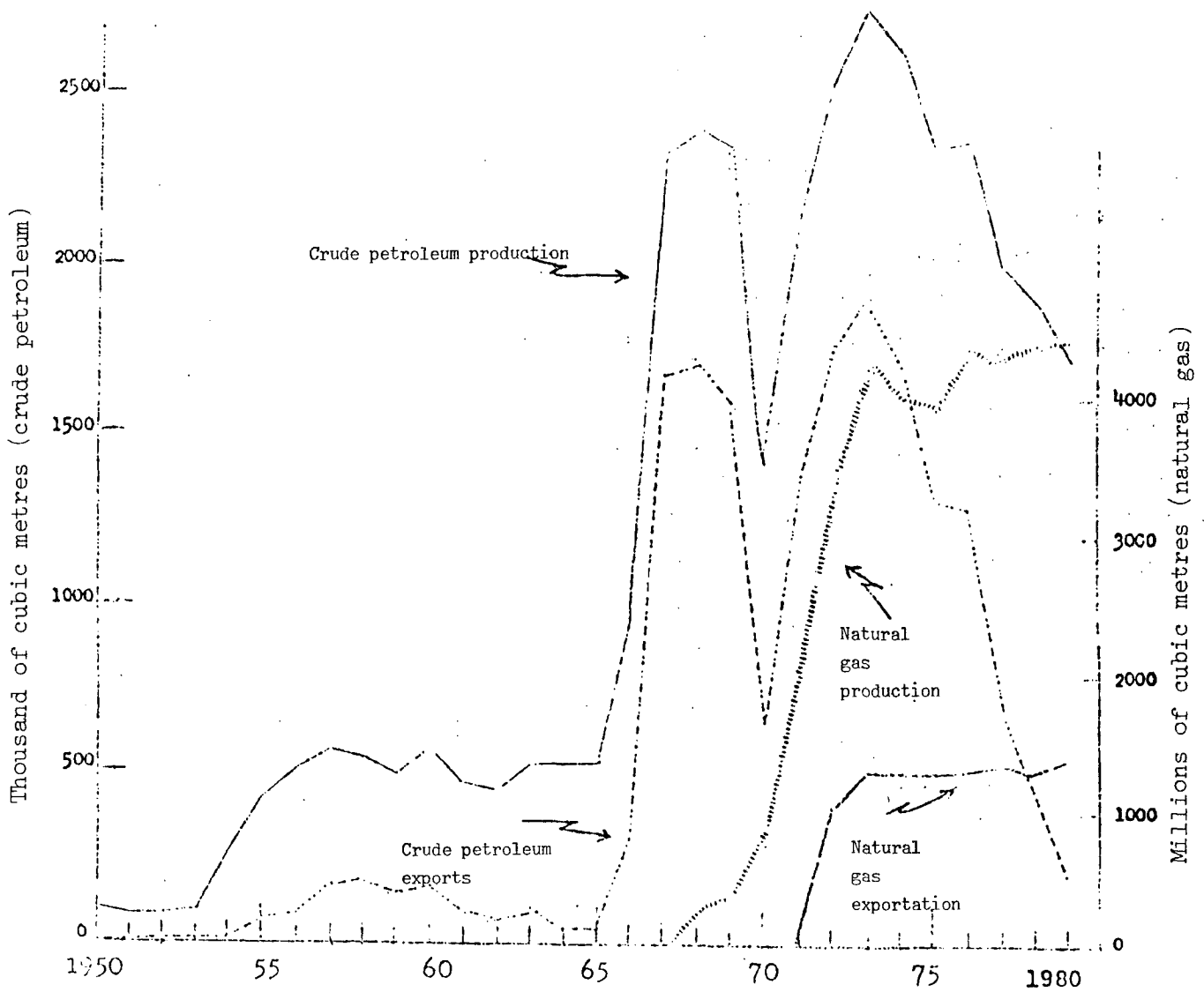
One of the grave problems encountered by YPFB during the 1970s was the accelerated decline of crude petroleum reserves due to increased domestic consumption and a weak exploration effort. Furthermore, the rapid increase of export earnings for natural gas exports to Argentina was not enough to offset disappearing earnings from exports of crude. Figure 9 indicates the situation for crude petroleum and natural gas production and exports over the 1950-80 period. In spite of this constraint, it must be mentioned that the shortage of operational reserves of crude petroleum was not the principal cause of the financial crisis suffered by this public enterprise during the final years of the 1970s. Within the framework of the OPEC initiatives of 1973 the proven resource base of the State petroleum company was more than sufficient to guarantee the financial well-being of the enterprise.

The principal causes of the crisis derive from the economic policy imposed on the company which represented a severe negative influence on its operations. The financial drainage of this State enterprise greatly exceeded the parameters of the natural gas and crude petroleum export boom enjoyed by the firm, as was suggested in Chapter V. This affirmation

Figure 9

BOLIVIA: PRODUCTION AND EXPORTS OF CRUDE PETROLEUM
AND NATURAL GAS, 1950-1980

(Units of cubic metres)



Source: ECLAC based on Banco Central de Bolivia, Memoria Anual, various.

is ratified by the information provided in Table 44. In the context of declining export volumes of crude petroleum, the payment of taxes and royalties as a proportion of export values (including natural gas) rose from 57 to 70 percent between 1974 and 1978. Measured as a proportion of net profits, the payment of taxes and royalties exploded from 149 to 1015 percent over the same period. This accelerated financial drainage soon surpassed the payment capacity of the enterprise and payments arrears began to accumulate as of 1975. The reaction of the economic team of the Central Government was as curious as it was very harmful for YPFB. In effect, the Central Bank contracted new external credits (on onerous terms) which it used to cancel back payments of taxes and royalties, charging the debt to YPFB. In this manner, the economic team evidently believed that a public enterprise which already could not withstand the effect of accelerated financial drainage was somehow going to generate not only the value of back payments of tax and royalties but also the interest and commissions corresponding to the new TNB credits.

In this difficult financial situation, the State petroleum company was forced into independent action. However, it faced serious constraints. It was still paying off, in accelerated form, the indemnization of the Bolivian Gulf Co. which, according to the 1972 agreement, meant earmarking export earnings from the ex-Gulf fields (about 50-54 percent of total YPFB production, at the time) which were deposited in a fiduciary fund administered by Citicorp.^{8/} The effect of this agreement was to remove from YPFB's control an important element of its operations. Another agreement, implying commercial conditioning was signed in 1975, was administered by the Bank of America, and had the effect of removing most of the balance of YPFB's petroleum activities from its autonomous control. This 1975 agreement created a fiduciary fund in guarantee for the TNB commercial credits contracted for the purpose of constructing and enlarging local refineries.

Table 4.4

BOLIVIA: YPFB - FINANCIAL ASPECTS OF ITS OPERATIONS, 1971-1978
(Millions of 1970 pesos and percentage)

Aspect	Annual Average 1971-1973	1974	1975	1976	1977	1978
1. Gross income	858	1 633	1 336	1 325	1 206	1 004
Exports	503	1 249	930	936	730	565
Domestic Sales	355	384	406	389	476	439
2. Total Expenditure	647	1 155	1 120	1 011	1 082	965
Taxes / Royalties	216	711	562	601	495	396
Exploration, etc.	nd	118	178	191	137	99
General Administration	nd	20	29	35	35	36
Other expenses	nd	306	351	184	415	434
3. Net profit	203	478	217	315	124	39
4. Total Assets	2 490	2 296	2 600	2 961	3 751	3 684
Fixed Assets	1 364	1 221	1 327	1 770	2 731	2 731
Stocks	304	346	669	622	498	473
Other	822	729	604	569	522	480
5. Total Debt	1 723 a/	1 105	1 263	1 407	1 707	1 879
Long term	1 391	808	787	1 124	1 301	1 224
Short term	332	297	476	283	406	655
6. Number of employees	4 885	4 380	4 252	4 411	4 347	4 590
<u>Memo items (%)</u>						
1. Exports/Gross income	59	76	70	71	61	56
2. Net profit/Gross income	24	29	16	24	10	4
3. Taxes Royalties/exports	43	57	60	64	68	70
4. Taxes and Royalties/ Net profits	106	149	259	191	399	1 015
5. Fixed assets /Total assets	54	53	51	60	73	74
6. Short term debt/Total debt	19	27	38	20	24	34
7. Total debt/Fixed assets and Investment	103	71	63	59	53	59
8. Exploration/Total Expenditure	33	10	16	19	13	10

Source: ECLAC based on YPFB, Memoria Anual, various.

a/ Principally the nationalization of Bolivian Gulf Co.

In this form, until these projects began to operate and generate cash flow and profits, YPF B had few disposable resources. On top of these constraints, YPF B was obliged to subsidize the domestic consumption of petroleum and its derivatives: YPF B estimated this value in 786 million pesos (1970 constant value), that is the equivalent of 12 percent of total sales during the 1974-78 period.^{9/} It is clear, then, that the accelerated financial drainage of the company via tax and royalty payments, the earmarking of petroleum export earnings and the subsidizing of domestic consumption represented evident aspects of the economic policy which served to impose a marked Caesarian role of the State on YPF B.

On its own part, YPF B initiated a large scale investment program for the construction and enlargement of domestic refineries, which demonstrates the nature of the internal contradictions produced in the case of the State petroleum company. In this sense the YPF B investment program represents a clear empire-building role of the State for the company aimed at financial self-preservation; a role in evident and open contradiction with the Caesarian role desired by the economic team. It also contradicted the stated objective of opening up of the sector to foreign participants, as well. The internal contradictions revealed by this example held grave consequences for all those involved.

Table 4 demonstrates, for example, that YPF B clearly attempted to invest heavily in the acquisition of physical assets as a means of avoiding accelerated decapitalization, which was the consequence of the economic policy to which it was subjected. During 1974-75 there was an appreciable increase in stocks, which, during 1976-78, were transformed into fixed assets as the large investment projects advanced. On the other hand, there is no doubt that the mere selection of those large investment

projects--two refineries (27.5 and 15.0 thousand barrels a day, respectively) and the lubricants plant (2.1 thousand bpd)--meant that other activities, such as more intensive petroleum exploration, were eliminated due to the particular interests in play. Undoubtedly, the economic team itself favored large scale projects of this nature because it was easier to secure the necessary commercial credits from TNBs for such endeavors. YPFB probably favored these projects because their high capital and technology coefficients permitted the enterprise to 'secure' resources in the form of physical assets not susceptible to the financial drainage manifest in the economic policy. For unknown reasons, even the IDB promoted these projects, providing capital and other contributions. As consequence of all this, during 1976-78 more than US\$250 million, that is, more than half of YPFB's investment program during this period, was invested in the refineries and lubricants plant.^{10/}

As may have been suspected, the projects began to experience problems which threw doubt on their feasibility and, ultimately, their economic logic. Faced with declining proven petroleum reserves, these refineries and lubricants plant only served to further increase local consumption, accelerate reserve depletion and cut export possibilities. Table ¹⁴⁵ points out that precisely when these projects came on stream (1979), the level of physical production of various of the principal refined products DECREASED: kerosene, diesel oil, fuel oil, motor fuels, automotive and industrial oils and grease. Coupled with the obligatory subsidization of the consumption of several of these products, the pressure on YPFB's financial situation became fierce. If, indeed, some of the new productive capacity could be justified in terms of efficiency criteria, by replacing small refineries, the truth of the matter is that

Table 45

YPFB: PHYSICAL PRODUCTION OF REFINERIES AND LUBRICANTS PLANT, 1965-1980
(Thousands of Cubic Metres and Percentage)

Category	Annual averages					Growth rates									
	1965-1969	1970-1973	1974-1978	1974	1975	1976	1977	1978	1979	1980	1965-69	1970-73	1974-78	1974-78	1980
I. Refineries															
Crude intake	609.4	805.0	1 283.5	943.1	1 170.9	1 263.3	1 479.6	1 560.5	1 741.0	1 554.3	4.8	9.8	4.8	9.8	4.9
Gasoline	239.7	334.4	550.9	370.1	509.6	539.6	678.1	657.2	710.9	585.6	5.7	10.5	5.7	10.5	1.5
Kerosene	100.6	141.3	174.0	169.1	176.6	171.4	167.1	185.8	164.3	162.4	5.8	4.3	5.8	4.3	-1.7
Diesel oil	94.2	115.8	221.1	146.1	181.9	216.8	266.9	293.6	290.9	252.3	3.5	13.8	3.5	13.8	3.4
Fuel oil	140.9	160.9	215.1	178.7	200.8	215.0	238.5	242.4	114.4	15.4	2.2	6.0	2.2	6.0	-48.3
Combustion motor fuels	4.7	19.5	82.5	36.1	52.5	64.5	77.1	96.2	86.0	113.4	26.8	33.4	26.8	33.4	8.3
II. Lubricants plant															
Automotive oils	4.5	5.3	7.3	6.4	7.3	6.6	8.0	8.3	7.3	9.0	2.8	6.6	2.8	6.6	5.4
Industrial oils	1.7	2.7	5.2	3.7	4.4	5.4	5.9	6.7	6.4	6.1	8.0	14.0	8.0	14.0	4.1
Grease (metric tons)	314.9	460.5	931.7	587.0	964.0	1 246.0	1 008.5	833.0	680.8	655.0	6.5	15.1	6.5	15.1	-8.4

Source: ECLAC, on the basis of Memoria anual, various; Ministerio de Energia e Hidrocarburos, Informaciones petroleras, various.

capacity utilization never surpassed the 40-60 percent range and as might be expected these projects could not withstand the debt service burden implied in the commercial terms of their external finance.

Table 46 shows that the transnational bank commercial credits contracted to finance these and other projects completely modified the structure and cost of YPFB's outstanding debt. The debt it had contracted at the beginning of the 1970s generally came in the form of "soft" loans, carrying rates of interest of 6-8 percent (the nationalization credit apparently carried no interest and originally contemplated a very generous maturity). On the other hand, the TNB commercial credits contracted during the 1970s carried interest rates of 1.5-2.0 percent over LIBOR coupled with reduced maturities. Moreover, the Central Bank credits carried even more severe terms (on the external credits which it contracted to cancel YPFB's back taxes in the Treasury). In this way, the effect of the financial drainage of the enterprise via tax and royalty payments, coupled with subsidized consumption of certain petroleum products and the notable increase in external financial costs for increasingly non-economic investment projects created an impossible situation for the State petroleum enterprise.

These internal contradictions of the State assist in explaining how the State petroleum company of a petroleum-exporting country can approach bankruptcy precisely in the years following the OPEC initiatives. Furthermore, in the context of the financial crisis of YPFB produced by the contradiction between the Caesarian and empire-buildings roles of the State, it seems that the universal role of the State had no impact. In the case of this enterprise the universal role would have concerned the further exploration for petroleum so as to buttress existing reserves and, naturally enough, any success in this field would have fortified the resource base of both the enterprise and the Nation.

BOLIVIA: CHARACTERISTICS OF INTERNAL AND EXTERNAL DEBT OF YFPB, 1979 a/

(Millions of dollars)

Source	Amount contracted	Year	Maturity b/	Interest rate c/	Balance	Use
1. External Financing						
a) Transnational Banks						
1. Bank of America d/	35.0	1975	8.5	L + 2.1	14.2	Expansion Cochabamba refinery
2. Bank of America d/ e/	25.0	1975	7.5	L + 1.9	7.3	Refineries: Santa Cruz, Cochabamba
3. Anthony Gibbs & Sons	16.2	1976	9.5	7.5	12.2	Refineries and lubricants plant
4. Bank of America d/ e/	15.0	1976	6.5	L + 2.0	15.0	Back taxes
5. Bank of America d/ e/	1.9	1976	5.5	L + 2.3	0.8	Airplane for president
6. Bank of Montreal d/ e/	5.0	1976	6.5	L + 2.0	5.0	Back taxes
7. Bank of America	15.0	1977	7.7	L + 1.6	15.0	Tita - Santa Cruz pipeline
8. Citicorp d/	75.0	1977	7.5	L + 1.6	75.0	Refineries: Santa Cruz - Cochabamba
9. Citicorp d/ e/	5.9	1977	6.5	L + 2.0	5.9	Back taxes
10. Texas Commerce Bank	15.3	1978	10.0	L + 1.5	15.3	Expand Santa Cruz - Yacubá pipeline
11. Arlabank d/	47.0	1979	11.5	L + 1.4	47.0	Exploration, improve reserves
12. BIE/Swiss Bank Corp.	5.0	1979	1.0	PR + 1.0	5.0	Refinery expansion
b) Other sources f/						
1. IDB - 275/OC-B0	114.7	1970	20.0	8.0	88.4	Santa Cruz - Yacubá pipeline
2. IDB - 221/SF-B0	21.8	1970	25.0	6.0	15.9	Sucre - Monteagudo pipeline
3. IBRD	23.3	1971	21.0	6.5	2.8	Santa Cruz - Yacubá pipeline
4. New York State C.R. Fund	14.0	1971	21.0	7.0	15.1	Santa Cruz - Yacubá pipeline
5. IDB 255/OC-B0	46.5	1975	18.0	8.0	7.5	Refinery - Cochabamba
6. IDB 448/SF-B0	1.2	1975	10.5	6.0	44.8	Technical Assistance
7. Cie. Generale Geophysique	2.0	...	10.0	7.5	0.3	Seismic studies
8. Seismic Services	1.2	...	9.0	6.5	0.2	Seismic studies
9. Worthington Pump.	1.4	1979	6.0	7.0	0.9	Pumps, etc.
2. Internal Financing						
a) Banco Central de Bolivia (BCB)						
1. D.S. 13210	50.6	1975	4.5	L + 2.0	20.7	Increase working capital
2. From IMF	35.4	1978	4.5	4.0	19.6	Back taxes
b) Other Sources						
1. Comite Obras Públicas	15.2	1970	15.0	L + 1.0	1.1	Monteagudo - Sucre pipeline
2. US AID - Bolivia	1.3	...	20.0	4.0	0.7	Purchase supplies
3. Caja Petrolera	12.4	...	12.5	-	0.3	Debt adjustment
	1.5	...			0.1	

Source: ECLAC on basis of YFPB, Estado de la deuda-plazo, tasas de interes y saldo, 1/31-12-79, 1980 and other information provided by YFPB and the Central Bank of Bolivia.

a/ This table is based on information provided principally by the State petroleum company. In some instances the information provided differed from that of the data base for this study due to the fact that some contracts were subsequently modified, sometimes the enterprise introduced commission payments into the interest rate charged and in some case a Central Bank commission raised the effective cost for the enterprise.

b/ Includes grace period.

c/ L = LIBOR, PR = prime

d/ Syndicated loans

e/ Loans contracted by the Central Bank, the amount corresponds to the part allocated to YFPB

f/ By 1979, the accelerated payment of the Gulf Oil nationalization (US\$78 millions) had been completed.

ii) The State mining company (COMIBOL) and the State mineral smelter (ENAF)

Traditionally, the principal link between the Bolivian economy and the international economic system has been the export of only one mineral: tin. However, the growth of international trade in tin has been relatively slow, which explains the efforts of the principal tin-producing countries to diversify their exports. In part, due to the slow growth aspect of international trade in tin, there has been a marked increase in direct State participation in the mining and smelting activities of the principal producers. Distinct from the case of most metals, tin is mined and refined to a very large extent (in 1977, 88 percent of total mining capacity and 72 percent of total smelting capacity) in developing countries. In this context, Bolivia had a large lead over other producers in nationalizing tin production, which it did in 1952; nonetheless, Bolivia was the last principal producer to close the national smelting capacity gap,^{11/} as Table 47 indicates.

In 1977, Bolivia possessed more than 15 percent of the world tin mining capacity, 12 percent of global known tin reserves but only 6 percent of world tin smelting capacity.^{12/} Compared to the other principal producers--Malaysia, Thailand and Indonesia--Bolivia was considered a high cost and low efficiency producer whose low metal content tin reserves put it at considerable disadvantage from the perspective of international competition. In spite of these difficulties,^{13/} Bolivia invested considerably in expanding its smelting capacity during the 1970s so as to be able to smelter the sum total of national production of tin concentrates by the year 1980.

Two factors, more than others, explain this apparent anomaly during the 1974-78 period when most of the major investment decision-making and execution took place. First, COMIBOL managed to substantially increase its average annual

Table 47

BOLIVIA: CURRENT DEFICIT IN TIN SMELTING CAPACITY,^{a/} 1970-80
(Thousands of metric tons)

	Tin concentrate production			ENAF			Current deficit in smelting capacity
	COMIBOL	Others	Total	Concentrate acquired	% National production	Total Installed capacity	
1970	19.2	10.9	30.1	...	...	...	100
1971	20.3	10.0	30.3	6.6	22	7.5	75
1972	21.5	10.9	32.4	7.1	22	7.5	77
1973	20.8	7.8	28.6	8.1	28	7.5	74
1974	20.1	9.1	29.2	7.7	26	7.5	74
1975	21.0	11.0	32.0	7.9	25	7.5	77
1976	20.6	9.7	30.3	10.0	33	11.5	62
1977	23.3	10.3	33.6	14.4	43	20.0	41
1978	21.4	9.5	30.9	15.5	50	20.0	35
1979	19.0	9.2	28.2	15.6	55	20.0	29
1980	18.6	8.7	27.3	17.8	65	30.0	-

Source: COMIBOL, ENAF and Banco Central de Bolivia, Memoria Anual, 1979.
^{a/} Difference between the real production of tin concentrate and the installed smelting capacity.

production of tin and several other minerals, as Table 48 demonstrates. Second, the international price of various of these minerals and metals reflected very favorable conditions for exporters. Figure 10 shows the enormous increment in the price of Bolivian tin exports during the 1970s. Thus, although Bolivia continued to be a relatively inefficient producer of tin, the ability to produce and refine more tin held out the possibility of a really exceptional export bonanza, the duration of which was not at all clear. Nonetheless, things soon turned problematic and the explanation of that result has more to do with the internal contradictions of the State which became manifest in the national elitist orientation to development strategy during 1972-78 than to other factors.

Before entering into more detailed analysis, the reader is advised that the available statistical information on the activities of the principal State enterprises in the mining and metallurgical sectors is woefully incomplete and inadequate. Given the vertical integration of many of these activities and the competition between COMIBOL and ENAF, it is sometimes virtually impossible to statistically isolate the enterprises or to avoid double counting. The information available for certain economic and financial aspects of these State companies, such as taxes paid, investments made and debt pending, at times simply do not square. The reader, therefore, must take the statistical information available and that presented here with a grain of salt.

The internal contradictions of the State found in the mining sector did not differ substantially from the situation in the petroleum sector, especially as regards the treatment given COMIBOL; however, the relation between the economic team and ENAF was more muted, given that the new

Table 48

COMIBOL: AVERAGE ANNUAL PHYSICAL PRODUCTION OF SELECTED MINERALS, BY
PERIOD, 1952-79

(Thousands of fine metric tons)

Period	Tin	Zinc	Silver <u>a/</u>	Lead	Wolfram
1952-1964	19.9	11.3	142.5	8.0	0.8
1965-1973	19.2	12.4	117.1	9.0	0.7
1974-1978	21.3	34.5	155.8	12.7	0.8
1979	19.0	30.2	148.5	9.5	1.2

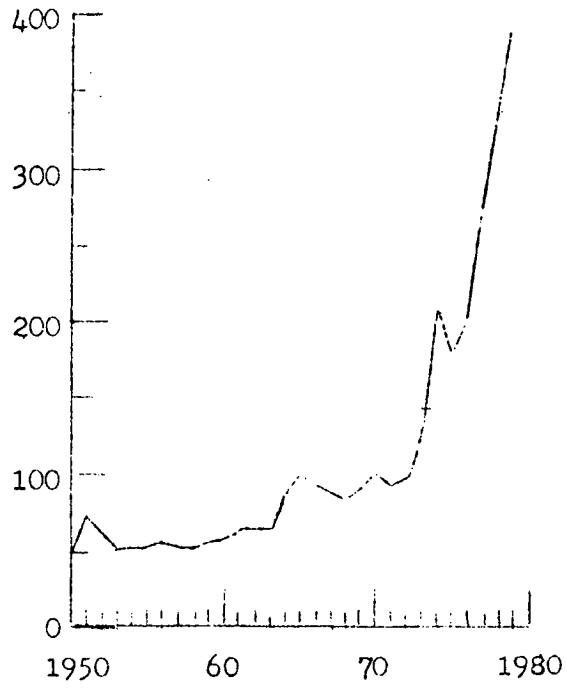
Source: COMIBOL.

a/ Kilograms.

Figure 10

BOLIVIA: EXPORT UNIT VALUE INDEX FOR TIN

(1970=100)



Source: International Monetary Fund,
International Financial Statistics,
1980.

smelting capacity was considered an important national priority by the military government. An important difference, nevertheless, was the peculiar twist given the empire-building role of the State manifest in the contradictory and conflictive relationship between the State mining company and the State mineral smelter.^{14/} On the one hand, COMIBOL was submitted to the same policy of financial drainage by way of increased taxation of the export boom funneled through the State Mining Company to the National Treasury. On the other hand, the important investment program of ENAF was stimulated via tax relief, capitalization of profits, special earmarked resources and direct contributions of the Government. This distinct treatment created rivalry and contradictory reactions to the economic policy. For example, the spectacular increase in the tax rate between 1972 and 1974 provoked a conflictive reaction from COMIBOL. ENAF appeared to stand apart from the conflict between COMIBOL and the economic team; however, the truth of the matter is that ENAF became the retention agent for the Central Government, at COMIBOL's expense.^{15/} Another example concerns the ENAF claims that private smelters were practicing a kind of dumping by offering low prices with which it could not compete. Given that ENAF's charge to COMIBOL was directly related to this private sector price, COMIBOL simply showed no interest in supporting ENAF's claims to the central government.^{16/} In other words, the particular interests of each state enterprise tended to diverge and therefore the empire-building roles of the State employed in each case tended to contradict and conflict, which greatly complicated not only their vertical integration but the overall welfare of the whole mining sector.

With respect to the tax policy applied to the mining sector, Table 49 indicates unequivocally that the Bolivian industry was among the most heavily taxed of all major producers and, as Table 50 makes clear, the weight of the new tax burden introduced in Bolivia during 1972-74 fell more heavily on COMIBOL

Table 49

BOLIVIA: COMPARISON OF TAX BURDEN OF TIN INDUSTRY,
SELECTED COUNTRIES, 1974-5
(Percent of sales receipts)

Tin price (dollars per pound) <u>a/</u>	Bolivia	Malaysia	Thailand	Indonesia
3.08	27.4	12.9	21.8	10.0
4.00	31.7	12.9	22.6	10.0
5.00	35.0	13.3	24.1	10.0

Source: International Development Institute, Harvard University, quoted in World Bank, 1976.

a/ Relevant price range.

Table 50

BOLIVIA: PRINCIPAL TAX PAYMENTS IN MINING SECTOR, BY AGENT, 1970-1974
 (Millions of 1970 pesos a/)

Agent/tax	1970	1971	1972	1973	1974	Compound annual rate of growth
1. COMIBOL	100.8	59.0	121.1	228.7	289.5	30.2
Royalties	100.8	59.0	62.8	128.9	188.9	
Export tax	-	-	58.3	99.8	100.6	
2. Medium sized enterprises	118.2	42.4	22.2	100.6	118.4	0.1
Royalties	118.2	42.4	19.5	63.5	81.0	
Export tax	-	-	2.6	37.1	37.9	
3. Small sized enterprises	56.0	17.4	32.4	67.5	78.5	8.8
Royalties	56.0	17.4	14.8	27.6	46.1	
Export tax	-	-	17.5	40.5	32.5	

Source: International Development Institute, Harvard University, quoted in World Bank, (1976).

a/ Deflated by GDP deflator.

than on medium- or small-sized producers of the private sector. Viewed from the perspective COMIBOL's unit cost of production of one pound of tin over 1972-78, the proportion related to extraction expenses declined, that linked to transportation, insurance and smelting remained constant and that going to pay taxes and royalties more than doubled. It is clear that the financial drainage of the State mining company via fiscal policy proved to be an efficient means of transferring the mineral export boom directly into the National Treasury during the 1970s.

Viewed in the light of the overall welfare of the mining sector, this fiscal policy of financial drainage proved to be prejudicial. According to the World Bank study (1976) of the sector in Bolivia, the conclusion drawn was that taxes had become the most serious obstacle to mining expansion. The government had apparently based its income requirements too firmly in the mining sector, that sector which only a few years previously had been the sole major exporter of the Bolivian economy. A steadily increasing tax burden proved to be the straw that broke the camel's back, in spite of the international export price boom experienced during the 1970s.^{17/} As Musgrave had concluded in his report to the Bolivian authorities,^{18/} the principal effect of the export tax was to reduce the profits of the principal producers thereby weakening their investment programs. COMIBOL is a case in point.

Table 52 offers available information on diverse aspects of the economic and financial situation of the State mining company. Notably, during the decade of the 1970s net profits as a proportion of gross income declined from 9 percent in 1971-73 to 3-4 percent for the rest of the decade and tax and royalty payments jumped from 14 to 23-5 percent over the same lapse. One would assume that such a situation would represent a severe limitation for COMIBOL's investment program; however, typical of the mentioned internal contradictions of the State, the opposite took place due to COMIBOL's ability to obtain

Table 51

COMIBOL: UNIT COSTS FOR EACH POUND OF TIN PRODUCED, 1970-8
(Dollars and percentages)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(2) + (3) (5)
Extraction costs	Export tax	Royalties	Transportation, Insurance & Smelting	Total cost	Market price ^{a/}	Apparent profit	Taxes & royalties as % of total production cost
1970	0.16	-	.26	1.48	1.67	.19	11
1971	.14	-	.31	1.54	1.59	.05	9
1972	.18	.08	.35	1.64	1.71	.07	16
1973	.37	.23	.48	2.13	2.18	.05	28
1974	.24	.81	.59	3.24	3.71	.47	32
1975	.21	.55	.67	3.02	3.11	.09	25
1976	.28	.72	.78	3.80	3.46	-.34	26
1977		1.48	.95	4.50	4.89	.39	33
1978		1.69	1.09	5.20	5.81	.61	33

Sources: Minerals Yearbook, COMIBOL, IMF - IFS, 1980.
a/ Average price in the London Metals Exchange.

Table 52

COMIBOL: FINANCIAL ASPECTS OF THE COMPANY, 1971 - 1979

(Millions of 1970 pesos)

Aspect	Annual averages 1971-1973	1974	1975	1976	1977	1978	1979
1. Gross income	1 591	1 693	1 406	1 576	1 847	1 773	1 697
Exports (including those via ENAF)	1 555	1 624	1 387	1 551	1 832	1 751	1 644
Other	37	70	19	25	15	23	53
2. Total Expenditure	1 443	1 578	1 459	1 530	1 775	1 719	1 636
Smelting, export expenses	444	425	427	446	482	454	392
Taxes and Royalties	216	386	274	274	453	429	405
Salaries & Benefits	372	303	289	304	300	284	296
Purchases: minerals	153	155	128	137	160	146	137
materials	125	104	130	150	151	125	115
General Administration	39	35	35	41	44	42	42
Financial Services	41	59	62	74	70	66	62
3. Net profit <u>a/</u>	149	115	-52	46	72	55	61
4. Total assets	1 637	1 603	1 809	2 015	2 000	1 817	1 797
Fixed assets	535	461	504	555	605	696	677
Stocks: minerals <u>b/</u>	508	467	443	589	606	560	502
materials <u>c/</u>	310	337	474	491	481	317	280
Other	284	337	389	380	308	244	338
5. Total Debt	405	372	519	820	737	686	594
Long term	286	280	464	712	689	543	386
Short term <u>d/</u>	118	92	55	108	49	143	208
6. Number employees (000s)	23.6	24.6	24.9	24.6	24.6	25.2	26.2
<u>Memo items (%)</u>							
1. Net profit/gross income	9	7	-4	3	4	3	4
2. Export & Smelting Costs/gross income	28	25	30	28	26	26	24
3. Taxes & Royalties/gross income	14	23	20	17	25	23	24

Table 52 (Concl)

COMIBOL: FINANCIAL ASPECTS OF THE COMPANY, 1971 - 1979

(Millions of 1970 pesos)

Aspect	Annual averages 1971-1973	1974	1975	1976	1977	1978	1979
4. Net profit/taxes and royalties	69	30	-19	17	16	13	15
5. Fixed assets/total assets	33	29	28	28	30	38	38
6. Stocks/Total assets	50	50	51	54	54	48	44
7. Short-term debt/total debt	29	25	11	13	7	21	35
8. Total Debt/Fixed assets & investments	30	29	37	50	44	44	41

Source: COMIBOL, Memoria, various, plus diverse internal documents such as "Volumen y valor de las exportaciones anuales de concentrados de COMIBOL, gestión 1970-1979"; "Estado de la deuda externa e interna, 1975-1979"; and "Número de trabajadores clasificados por niveles ocupacionales, 1963-1980."

a/ Before distribution.

b/ Includes minerals in liquidation.

c/ Includes subsidized consumption in company stores.

d/ The 1970-74 and 1975-79 series are not strictly comparable; nonetheless they reflect the observed tendencies.

finance. Between 1974 and 1976, COMIBOL's outstanding debt more than doubled, the value of stocks of materials blossomed and then were transformed into fixed assets, both of which reveal an important investment effort (which, nonetheless, should not be exaggerated). Most likely, COMIBOL similar to YPFB found investing in fixed assets to be an instrument useful for converting liquid or free resources into something which could not be drained from the enterprise to the National Treasury. This also explains the lack of liquidity, which is not usually associated with exploration activities, the consequence of which was the fall in proven reserves. All in all, a case very similar to that of the petroleum sector.

Given the noted integration of State activities in the mining/metallurgy sector, the COMIBOL investment program will be more satisfactorily analyzed after the following consideration of the general characteristics and situation of the State metal smelter, ENAF. Still, it makes sense to note certain key features of the external financing and overall debt of COMIBOL, here, due to the fact that this represented the linchpin which precipitated all the numerous difficulties associated with the transnational bank commercial loans to Bolivia during the 1974-78 period. Thus, after noting COMIBOL's difficult debt situation, the general characteristics and situation of ENAF will be analyzed before returning to the consideration of COMIBOL's investment program.

Table 53 presents the available information on COMIBOL's outstanding debt as of December, 1979, by source of financing. This information highlights two important characteristics of the structure of COMIBOL's debt. Similar to the case for YPFB and other principal State enterprises, COMIBOL was rapidly weaned off concessionary credits from the bilateral and multilateral institutions which had provided the bulk of its external finance during the 1960s. The

Table 53

COMIBOL: CHARACTERISTICS OF THE INTERNAL AND EXTERNAL DEBT, 1979 a/
(Millions of dollars)

Source	Amount contracted	Year	Maturity b/ (years)	Interest rate c/ (percent)	Outstanding balance d/ Use
1. External Finance	<u>231.8</u>				<u>131.1</u>
a) Transnational Banks	<u>148.4</u>				<u>113.7</u>
1. Bank of America	8.0	1972	9	7.5	2.7
2. Comp. Luxembourgeoise e/	24.0	1975	8	1 + 1.75	Indemnitization Mina Matilde
3. Citicorp	16.0	1976	5	1 + 2.0	Mining projects (bismuth refinery)
4. Bank of America	12.0	1976	5	1 + 2.0	Mining projects (Centaurus block)
5. Citicorp f/	15.0	1977	4	1 + 2.0	Investment
6. Manufacturers Hanover Trust e/	25.0	1977	7	1 + 2.25	Increase production
7. Marine Midland	12.5	1978	Short term	...	Increase production (volatization)
8. Libra Bank	9.0	1978	Short term	...	...
9. S.F.E. Banking Corp.	20.0	1979	Short term	12.0	...
10. Mercator Panama	2.9	1979	Short term	...	Conect bridge loan to BCB
11. Swiss Bank Corp.	4.0	1979	Short term	...	...
b) Others	<u>60.9</u>				<u>4.0</u>
1. U.S.A. - PL 480	5.0	1963	20	0.8 - 2.5	21.3
2. U.S.A. - AID	11.9	1965	...	...	1.5
3. U. S.A. - AID	1.1	1968	...	...	2.5
4. U.S.A. - PL 89-808	1.8	1969	20	2.0 - 2.3	0.2
5. Soviet loan	29.4	1972	10.5	3.0	11.0
6. Medicor (Hungary)	1.3	1973	8.5	6.0	0.1
7. Ind.Dev.Corp.South Africa	7.9	1974	10	6.0	3.2
8. British loan	0.9	1975	25	-	0.7
9. Andean Development Bank	0.4	1976	6	5.0	0.3
10. Puutalo	1.2	1976	6	8.0	0.8
2. Internal Finance	<u>22.5</u>				<u>16.1</u>
Banco Central de Bolivia					
BCB	7.5	1975	...	...	1.1g/
BCB	15.0	1979	Short term	...	15.0g/
					Treasury Bonds
					Bridging credit

Source: COMIBOL, Statistical Department.

a/ See note a/ of Table 56.

b/ Includes grace period.

c/ L = LIBOR

d/ Capital payments, does not include interest or commissions

e/ Syndicated loans

f/ Includes that part of loans contracted by Central Government which was allocated to COMIBOL.

g/ Behind in their payments in 1980.

shift to commercial credits from transnational banks held spectacular consequences in terms of the cost of its external credit: the average rate of interest rocketed from about 2 percent (fixed) to about 14 percent in 1979 (a 2 percent spread over the LIBOR rate which oscillated between 10 and 14 percent); maturities on average fell from 20 years to the 4-7 year range in 1976-7 after which solely short term credits (\leq 1 year) were available. Willing to contract such expensive credits, COMIBOL obtained free disposition loans directly from the transnational banks or via similar credits placed with the Central Government. This access to transnational bank commercial credits continued while the export boom for minerals remained strong; however, at the first sign of its weakening, transnational banks converted outstanding loans to short term credits. Table 5⁴ throws more light on the short term credit situation of COMIBOL. This information would seem to confirm the suspicions raised in Chapter IV, that is, that Citicorp initiated the stampede of transnational banks out of Bolivia, in the sense that it attempted to reduce its exposure in accelerated fashion.^{19/} Citicorp, therefore, was the first of the major lenders to express its lack of confidence in the Plan Quinquenal, (1976-1980) investment program. The following quote captures the character of COMIBOL's relationship with Citicorp:^{20/}

"It was Citibank that brought the whole house of cards down says a rival US banker. All those loans to COMIBOL at 90 and 180 days, which they often dressed up as pre-export financing, were really financing the purchase of badly needed machinery that Citibank should have been financing over four or five years."

By 1980, Bolivia had overdue short term credits in the order of US\$170 millions,^{21/} COMIBOL directly accounted for over \$30 millions (the Central Bank had 77 millions, over 14 million corresponded to the Banco del Estado and YPFB only represented about 2 million)^{22/}. According to the governments'

Table 54

COMIBOL: SHORT TERM CREDITS FROM EXTERNAL SOURCES, 1975-1979

(Millions of dollars)

Source	1975		1976		1977		1978		1979	
	Disbursed	Repaid	Disbursed	Repaid	Disbursed	Repaid	Disbursed	Repaid	Disbursed	Repaid
1. Citicorp	8.0		17.9	11.0	12.0	18.9	-	8.0	-	-
2. Dresdner	4.0	3.7	2.0	0.3	-	1.0	-	1.0	-	-
3. Bank of America					5.0	5.0				
4. Manuf. Hanover Trust					1.8	1.8				
5. Marine Midland							12.0	2.0	0.5	7.5
6. First National-Dallas							14.0			14.0
7. Libra Bank							7.0		2.0	
8. S.F.E. Banking Corp.									20.0	
9. Mercator Panamá									2.9	
10. Swiss Bank									4.0	
<u>Total</u>	<u>12.0</u>	<u>3.7</u>	<u>19.9</u>	<u>11.3</u>	<u>18.8</u>	<u>26.7</u>	<u>33.0</u>	<u>11.0</u>	<u>29.4</u>	<u>21.5</u>
Amount Outstanding a/		8.3		16.9		9.0		31.0		38.9

Source: COMIBOL, "Préstamos a corto plazo desde el año 1975 al 1980", La Paz, 19 February 1981.

a/ Excludes interest and commissions.

1980 study of the situation of the mining/metallurgy sector, COMIBOL's overall financial deficit was in the order of US\$200 million.

Evidently, given the financial drainage it was subject to, the low return from its investments (analyzed further below) and the additional cost associated with the transnational banks' (especially Citicorp's) recycling outstanding credits into short term maturities, COMIBOL soon entered into a very touchy financial and economic situation. This state enterprise can be considered the first victim of the internal contradictions of the State which debilitated most of the principal State enterprises of the productive sector and precipitated the grave liquidity and solvency problems faced by the Nation at the close of the 1974-78 experiment with the national elitist orientation to development strategy.

Compared to the financial drainage that COMIBOL was subjected to, the relatively favorable treatment given the State metal smelter, ENAF, should have been sufficient to convert it into one of the most prosperous and solvent of the Bolivian public enterprises. The closing of the smelting capacity gap during the 1970s coupled with high international tin prices resulted in a ten-fold increase in the value of its tin production, as Table 55 indicates. The original tin smelter completed in 1971 (7.5 thousand metric tons per year capacity), was enlarged in 1976 (to 11.6 thousand MT/year) and again in 1977 (to 20.0 thousand MT/year). Furthermore, in 1976 a new antimony smelter came on stream. Finally, in 1980 a new smelter for low metal content ores (10 thousand MT/year) was put in operation and 1981 promised the completion of the large Karachipampa project, a ENAF-COMIBOL venture for silver and lead refining. In sum, in the short space of ten years ENAF blossomed from a minor State enterprise into one of the principal ones operating in the export sector.

Table 55

ENAF: TOTAL PRODUCTION, 1971-1980
(Fine metric tons & dollars)

	Volume		Value	
	Tin (Fine metric tons)	Antimony	Tin (Millions of US dollars)	Antimony
1971	6 869	-	23.8	-
1972	6 226	-	23.1	-
1973	6 953	-	32.2	-
1974	7 091	-	57.5	-
1975	7 430	-	49.7	-
1976	9 185	1 964	68.4	5.2
1977	12 785	3 431	131.5	3.3
1978	16 184	2 790	194.9	5.2
1979 <u>a/</u>	15 313	3 370	228.0	7.8
1980 <u>a/</u>	15 300	4 600	240.0	13.1

Source: ENAF, Memoria, various.

a/ Preliminary figures.

Table 56 reveals that, in spite of the phenomenal growth in the value of ENAF's sales and assets during the 1970s, profitability increased only marginally and the debt/assets ratio deteriorated notably (and one might add that the debt figure appears to be seriously underestimated). In 1976, for example, a hefty loss would have been registered if not for the extraordinary income from the Central Government.

There seems to be little doubt that ENAF encountered serious difficulties in putting into operation the big investment projects which came on stream during 1976-77, thereafter, however, the situation seemed to have improved remarkably.^{23/} In 1979, ENAF was able to pay off over US\$30 millions in back taxes owed to the Central Government.^{24/} Preliminary estimates of the overall financial deficit of the enterprise for 1980, nonetheless, surpassed US\$80 millions, suggesting that, in fact, ENAF was really on a debt tread mill applying 'band-aids' to immediate problems without implementing any clear medium to long term strategy.

Tables 57 and 58 capture aspects of the central problem facing ENAF during this period. One noteworthy factor was the apparently excessive effort to advance the Karachipampa silver/lead refinery project (with COMIBOL) at virtually any cost (given the financial deficit noted for the year 1980). This large investment project would seem to represent a clear example of disharmony between the technical/productive and the financial/administrative elements of the project.^{25/} The project appeared to better reflect suppliers' prerogatives than national priorities. Second, in terms of the external finance obtained, it is true that the blend of transnational bank, suppliers and bilateral credits did result in less expense than purely TNB credits; nonetheless, all of these sources of external credit raised the price of their loans toward the end of the 1970s. The inability to

Table 56

ENAF: FINANCIAL ASPECTS OF THE ENTERPRISE, 1971-1978

(Millions of 1970 pesos)

	Annual average 1971-1973	1974	1975	1976	1977	1978
1. Total Sales	297.4	418.3	332.8	446.5	750.7	978.5
Exports	297.1	417.4	330.5	444.9	739.6	960.0
Local sales	0.3	0.8	2.3	1.6	11.0	18.5
2. Total Expenditure	301.8	416.6	330.1	437.3	731.6	951.9
Purchase of concentrates	312.5	370.0	312.1	494.0	684.7	734.2
Financial expenditure	2.5	1.7	2.7	9.2	19.1	26.7
Others	(13.2) <u>a/</u>	44.9	15.4	(65.8) <u>a/</u>	27.7	191.1
3. Profits <u>b/</u>	(4.4)	0.2	2.3	9.4	14.6	23.7
4. Total assets	360.7	445.8	472.4	617.4	1 186.0	1 141.8
Fixed	174.1	230.0	275.8	342.6	586.1	569.4
Stocks	99.8	135.0	117.1	178.4	310.6	248.1
Others <u>c/</u>	86.7	80.7	79.5	96.3	289.3	324.3
5. Total debt <u>d/</u> (net)	118.0	149.4	199.8	272.3	463.4	427.9
Short term	-	-	14.4	16.1	52.0	...
Long term	118.0	149.4	185.4	256.3	411.3	...
6. Employees (000s) <u>e/</u>	...	...	...	106.4	147.7	162.5
<u>Memo Items %</u>						
1. Profit/sales	-1	...	1	2	2	2
2. Concentrates/sales	105	88	94	111	91	75
3. Financial costs/total expenditures	1	...	1	2	3	3
4. Fixed assets/Total assets	48	52	58	55	49	50
5. Stocks/total assets	28	30	25	29	26	22
6. Short-term debt/ Total debt	-	-	7	6	11	...
7. Total debt/Fixed assets and stocks	43	41	51	52	52	52

Source: ENAF, Memoria, various.

a/ Includes extraordinary contributions of Central Government (e.g. deferred taxes and royalties according to D.S.08916 and 09360).

b/ Before start-up cost calculations (20%).

c/ Mainly receivables.

d/ Apparently excludes the low one content smelter (Vinto).

e/ Smelters only.

Table 57

ENAF: CHARACTERISTICS OF THE EXTERNAL AND INTERNAL DEBT, 1979 a/
(Millions of dollars)

Source	Currency	Amount contracted	Year	Maturity (year) b/	Interest Rate c/ (%)	Amount outstanding	Use
1. External Finance		124.9				87.9	
a) Transnational Banks		41.4				31.6	
1. Dresdner	DM	6.1	1973	7.0	L + 1.0	7.0	Vinto: high ore content tin smelter
2. Dresdner d/	US\$	8.0	1976	7.0	L + 2.4	7.0	Vinto: low ore content tin smelter
3. Dresdner d/	DM	11.6	1976	7.0	L + 2.4	10.2	Vinto: low ore content tin smelter
4. CITIBANK d/	US\$	5.5	1977	4.0	L + 2.0	3.0	Working capital
5. Bank of America	US\$	4.0	1978	8.0	L + 1.4	4.0	Klockner/Bergsoe price adjustment
6. Dresdner	US\$	6.2	1979	5.0	L + 1.4	6.2	...
b) Supplies		39.6				12.9	
1. Skoda exportaciones	Swiss francs	12.4	1971	11.5	7.0	5.3	Vinto: antimony smelter
2. Paul Bergsoe	Danish crown	1.8	1972	25.0	-	1.5	Tin anodes
3. Rodle Liesenfeld	DM	3.1	1976	4.0	9.5	0.1	Transport equipment
4. Paul Bergsoe	DM	6.3	1976	5.0	7.0	6.0	Vinto: low ore content tin smelter
5. Klockner	DM	16.0	1977	12.0	L + 3.5	f/	Vinto:
c) Others		43.9				43.4	
1. Kreditanstalt F.W.	DM	22.1	1974	30.0	2.0	22.1	Vinto: tin smelter
2. Corporación Andina de Fomento	US\$	2.2	1974	12.0	8.0	1.7	Vinto: tin smelter
3. Corporación Andina de Fomento	US\$	4.5	1977	12.0	8.0	4.5	Vinto: tin smelter
4. Kreditanstalt F.W.	DM	15.1	1979	9.5	7.8	15.1	Vinto: low ore content tin smelter
2. Internal Finance		55.4				> 50.0	
a) Banco Central (BCB)		1.8	1975	...	...	...	Skoda imports
1. BS 12378		3.6	1975	...	...	...	Vinto: antimony smelter
2. DS 12859		50.0	1979	...	...	50.0	Rotating credit
3. DR 16018		...				...
b) Others		...				...

Source: ENAF, Memoria, various y BCB, Memoria, 1979.

a/ See note a/ of Table 56

b/ Includes grace period

c/ LIBOR = L

d/ Syndicated credits

e/ Credits contracted by Central Government, amount shown is that allocated to ENAF.

f/ Replaced by loan 1. c) 4.

Table 58

SOCIEDAD ENAF/COMIBOL: CHARACTERISTICS OF THE EXTERNAL AND INTERNAL DEBT, 1979 a/
(Millions of dollars)

Source	Currency	Amount contracted	Year	Maturity (years) ^{b/}	Rate of interest (%) ^{c/}	Amount outstanding	Balance not disbursed	Use
1. External Finance		171.7				32.1	139.5	
a) Transnational Banks		86.2				20.0	66.3	
1. Soc. Generale de Banque	Fr. francs	58.7	1979	12	8.0	3.5	55.3	Machinery & eqpt. (Belgian) Karachipampa
2. Dresdner	DM	14.5	1979	7	L + 1.5	8.7	5.8	Karachipampa
3. Dresdner	DM	13.0	1979	7	L + 1.5	7.8	5.2	Karachipampa
b) Others		85.5				12.1	73.2	
1. Klockner	DM	34.4	1979	12	L + 3.5	d/	34.4	Karachipampa
2. Kreditanstalt F.W.	DM	23.2	1979	30	2.0	6.7	16.3	Machinery & eqpt. (German)
3. Kreditanstalt F.W.	DM	22.5	1979	14	7.5	-	22.5	Machinery & eqpt. (German)
4. Government of Belgium	B. francs	2.7	1979	30	-	2.7	-	Machinery & eqpt. (Belgian)
5. Government of Belgium	B. francs	2.7	1979	30	-	2.7	-	Machinery & eqpt. (Belgian)
2. Internal Finance		...	...	...	...	...	...
Banco Central (BCB)		...	...	...	...	...	...

Source: ENAF/COMIBOL, "Complejo metalúrgico Karachipampa, Fundación plomo-plata-Potosí", marzo 1979; BCB, Memoria, 1979.

a/ See note a/ of Table 56.

b/ Includes grace period.

c/ L. = LIBOR

d/ Replaced by 1. b)2 and 1. b)3.

foresee these changes and the strengthening of European currencies versus the dollar, at the time, led to significant financial consequences. Third, authorities had been forewarned by World Bank officials 26/ that the huge investments in the metallurgy sector might conceivably never generate large profits, considered from the perspective of the resources invested; nevertheless, the investments were all undertaken. In synthesis, an over-ambitious investment program apparently overwhelmed ENAF's financial and administrative capacities, which became quite apparent in the financial situation of the enterprise and the level of capacity utilization of the investment projects.

The progressively more difficult illiquidity of ENAF was further complicated by the actions of the transnational corporations which had traditionally refined Bolivian tin (Gulf Chemical and Copper Pass). Realizing that the investment program destined to close the Bolivian current smelting gap would leave them with excess capacity, they apparently began in 1979-80 to offer very reduced smelting charges to COMIBOL.27/ Given that these prices, considered "dumping" by ENAF, had a direct influence on the prices ENAF could charge COMIBOL, they naturally produced significant effects on ENAF current income stream, provoking worsened cash flow consequences for the enterprise.

In this fashion, quite distinct from the case of COMIBOL, in which it was the internal contradictions of the State which debilitated the company, in the case of ENAF, other problems were to blame, such as the administrative and financial deficiencies provoked by the over-ambitious investment program and the dumping practiced by the transnational corporations-controlled smelters. However, both enterprises shared a common factor which helps explain their investment projects encountered numerous problems and the return on investment

was not sufficient to cover the financing involved. The joint investment project --Karachipampa--between these vertically integrated State enterprises further complicated the conflictive relationship between the two, apparently to neither's advantage.

Even before the Plan Quinquenal, the World Bank had offered the following evaluation:28/

"... investment of the state mining and metallurgical sector was often haphazard, dependent upon available foreign financing and bearing little relationship to Government development plans."

It seem that this situation persisted, if not worsened, during the period which followed. Although the large investment projects of the metallurgy sector had a notable impact on the industrial structure, for example, according to the National Statistical Institute industrial group 3720--non ferrous metals--rose from 14.2 to 25.2 percent of the value of production of the non-artesanal manufacturing sector, the production targets of the Plan Quinquenal were not met, as Table 59 demonstrates. Unfortunately, the failure to meet production targets was not a result of postponed or reevaluated projects, it was mainly a consequence of the problems (especially of selection and execution), which virtually all of the projects encountered. For the most part the investments were made but the results, in terms of production, were disastrous.

Table 60 offers information on the principal investments made by COMIBOL during 1975-79 (excluding Karachipampa). At first glance one notes that COMIBOL's investments were heavily slanted in favor of mineral processing--via preconcentration, flotation and volatization--which left little room for improving established mines and virtually nothing for prospection and exploration. As a consequence,

Table 59

BOLIVIA: PRINCIPAL PRODUCTION TARGETS OF PLAN QUINQUENAL FOR MINING/METALLURGY AND REAL RESULTS

(Thousands of fine metric tons and percentages)

	(1) Production 1974	(2) 1980 Goal	(3) 1980 Production	Percent change (3/2)	Percent change (3/1)
Mining					
Tin	29.0	36.0	22.5	-38	-22
Antimony	13.1	13.2	12.6	-5	-4
Zinc	49.0	107.0	46.2	-57	-6
Silver	0.204	0.450	0.176	-61	-14
Copper	7.9	15.0	1.7	-89	-78
Wolfram	2.6	3.8	3.4	-11	+31
Bismuth	0.714	0.800	0.547	-32	-23
Smelting					
Tin	7.0	29.1	14.2	-51	+103
Antimony	-	7.5	4.6	-39	...
Bismuth	-	0.700	0	...	...

Source: Ministerio de Planeamiento y Coordinación de la Presidencia de la República, Plan Nacional de Desarrollo Económico y Social, 1976-1980, La Paz, 1976; Banco Central de Bolivia, Memoria Anual, various.

Table 60

COMIBOL: PRINCIPAL CAPITAL INVESTMENTS, 1975-1979
(Millions of US dollars)

Category/mine	Use	Amount
1. Mining projects		<u>Subtotal</u> 29.5
Coro Coro	Enlarge Cuadro Centauro	10.0
Colquirí	Enlarge Cuadro Victoria	1.0
Unificada	Enlarge Cuadro Bolívar	3.5
Huanuni	Enlarge Cuadro Antenor	6.2
Catavi	Enlarge Relaves de Kenko	6.0
Catavi	Enlarge Cuadro Nuevo Beza	1.1
Quechisla	Enlarge Cuadro San Juan	1.7
Others	Diverse	0.7
2. Processing projects		<u>Subtotal</u> 52.2
Unificada	Preconcentration plant Bailaviri	2.3
Caracoles	Preconcentration plant sección Argentina	1.2
Quechisla	Flotation plant Ing. Vetillas	2.3
Colquiri	Flotation plant Ing. Hornuni	1.1
Bolívar	Experimental flotation plant	1.1
La Palca-Potosí <u>a/</u>	Volatization	38.8
Machacamarca <u>a/</u>	Volatization	2.3
3. Others	Geological prospection, sampling, etc.	2.1
		<u>Total</u> 83.8

Source: CEPAL, on the basis of information supplied by COMIBOL.
a/ Unfinished projects as of 1980.

COMIBOL's discovered mineral reserves continued to decline. As has been mentioned this aberration resulted from COMIBOL's desire to bury their available resources in fixed assets which would not be subject to financial drainage. On top of this, project execution left a lot to be desired. For example, the principal investment in improving an existing mine --Cuadro Centauro-- resulted in the flooding of the mine and the total loss of the investment. More seriously, the La Palca volatilization plant was half destroyed by a mudslide during construction; presumably something that a seismological survey might have detected. Of course, there is always an element of simple bad luck in these phenomena, however, one must take the precautions warranted, as well. These difficulties naturally held consequences for the financial situation of the enterprise and the administration of its debt as a result of losses, delays and foregone production. The emergency lending of the Central Bank only compounded the existing problems, for the reasons mentioned previously.

Within the framework of the internal contradictions of the State, this unfortunate investment experience implied certain evident consequences for COMIBOL external creditors, especially Citicorp, which as Asheshov suggested initiated the short term debt treadmill by offering only short term credits for medium and long term investments. In this manner, indirect and cumulative, COMIBOL's illiquidity became progressively more uncontrolled. As has been mentioned, the financial deficit for 1980 approached US\$200 millions.

ENAF's investment program, did not suffer due to any financial drainage on the part of the Central Government rather the principal obstacles were project selection and execution and the administration of the debt. As early as the beginning of the 1970s, doubts about the antimony smelter project had been raised

in respect to the priority and projected return (both low) of the project. Although these doubts proved to be well founded, it seems that the relatively low cost of the project (US\$ 17.5 millions) explained its being undertaken. However, if one views a project such as Karachipampa, for example, in the same light, it is clear that it was impossible to justify in the same terms because it cost more than US\$150 millions, in good part financed externally. Whereas the antimony smelter simply created financial pressures which were eased by Central Government capital contributions to ENAF, the cost overruns, delays, and technological problems associated with the Karachupampa project produced an uncontrollable liquidity crisis in ENAF accounts which could not be cured by simple transfers from the Central Government. The last example reinforced the view that ENAF's investment program was simply too ambitious and, furthermore, ENAF did not possess the resources--financial or human--to see these projects through to fruition.

In the case of the high ore content tin smelter, the level of recuperation was quite low and that resulted in a reduced return on investment. Moreover, for reasons which remain unclear, the infrastructure needed for future expansions of this smelter was constructed during the first phase, which placed an even greater financial burden on the project. The antimony smelter had continuous technical problems which kept its capacity utilization below 40 percent for two years and, on top of that, the supply of concentrates became irregular due to international price movements such that even when the antimony smelter was finally in condition to use its full capacity, production had to be cut back, as happened in 1978. The low ore content tin smelter completed in 1980 faced supply problems due to the delays involved in COMIBOL's volatilization plant, La Palca. Here one has a perfect example of how failures in one vertically

integrated State enterprise have direct repercussions in another. The silver and lead smelter as has been mentioned, may be considered one of Bolivia's more evident white elephants. Table 61 gives an approximation of the cost overruns and delays endemic to ENAF's large investment program.

These grave problems, further complicated by transnational corporations' "dumping" with respect to smelter charges, the temporary strengthening of Eurocurrencies vis-à-vis the dollar, and shortcomings with respect to the administration of the State metal smelter's debt left ENAF with a financial deficit in the order of US\$80 millions and, notably, the Central Bank could only come up with US\$50 millions to come to ENAF's assistance.

Overall and in general, during this period of national elitist orientation to development strategy, the mining metallurgical sector was effected by a series of diverse, complex and conflictive factors associated with this orientation. Although the two principal State enterprises were treated quite differently by the Central Government; in good part the results were the same: illiquidity approaching insolvency. In differing degrees, the internal contradictions of the State, the separate empire-building roles adopted by these vertically-integrated State companies and severe problems of project selection and execution led to the undoing of these dominant public enterprises of the export sector.

b) The excessive Caesarian role undertaken by some sectors of the State: the example of the Agricultural Bank (BAB) and its "loans" to cotton growers

As was indicated in Chapter V (see Table 37) the specialized banks of the public sector absorbed about 18 percent of the net inflow of resources provided by transnational banks during the 1974-78 period. About a third of the proportion going to these specialized State banks went to the Bolivian Agricultural Bank (BAB). Thus, this bank stands out as an important recipient of transnational bank credits to the Bolivian public sector.

Table 61

ENAF: APPROXIMATION OF THE ADDITIONAL COSTS AND DELAYS RELATED
TO THE PRINCIPAL INVESTMENT PROJECTS

Project	Cost			Execution		
	Original estimate	Actual cost	Difference (%)	Original Completion Date	Actual Completion Date	Delay (Months)
Tin Smelter I: <u>a</u> / Smaller expansion	...	8.3	...	July 1975	December 1975	6
Tin Smelter I: <u>a</u> / Major expansion	...	31.0	...	July 1976	January 1977	7
Antimony Smelter	...	17.5	...	Jan. 1976	August 1976	6
Tin Smelter II: <u>b</u> /	48.4	83.0	+71	July 1978	January 1980	18
Silver & Lead Smelter	50.0	154.0	+208	Jan. 1981	August 1982 <u>c</u> /	19

Source: ECLAC, on the basis of ENAF publications.

a/ High ore content.

b/ Low ore content

c/ At this time, problems were still being experienced with the new technology.

Remembering that the Caesarian function of the State implies that the State or central elements of it define and implement concrete policy instruments aimed at favoring dominant groups of the private sector, the BAB represents a marked example of the problems which can result from the State providing unjustifiable advantages to a particular dominant group of the private sector; here, the cotton growers of the Santa Cruz area. It is worth mentioning that these cotton growers were among the first and principal of the groups which gave strong support to the military government which took over in 1971 and which defined and later implemented the national elitist orientation to development strategy. It seems that the cotton growers' rewards were paid by way of 'loans' from the BAB. In order to comprehend this peculiar phenomenon, it is necessary to analyze in more detailed fashion the situation of this bank.

Table 62 illustrates the point that, at the beginning of the 1970s, the BAB was not only the dominant financial institution placing agricultural credits (60-83 percent of total agricultural credit) but was one of the principal financial institutions of Bolivia, providing 18-22 percent of all bank credits. However, the 1970s generally witnessed the wasting away of the BAB on both fronts, that is, it dropped to half of an agricultural credit and less than 10 percent of all bank credit by 1980. For the most part, the initiation of a clear national elitist orientation to development strategy corresponded to the beginning of the deterioration of the BAB, as a principal financial institution.

Table 63 points out that in terms of loan placements, BAB was an institution in accelerated decline as of the close of the 1972-73 period of adjustment. Its total value of new loans declined from 177 million to 71 million (1970 pesos)

Table 62

BAB: ITS RELATIVE IMPORTANCE WITH RESPECT TO AGRICULTURAL AND TOTAL BANK CREDIT, 1971-1980 a/
(Millions of 1970 pesos)

	Agricultural Credit					Total Bank Credit (5)	(4) %
	Agriculture Bank (1)	%	State Bank (2)	Commercial Banks (3)	Total (4)		
1971	191.6	83	16.6	23.8	232.0	1 069.1	17.9
1972	217.5	77	17.4	46.7	281.6	1 258.7	17.3
1973	315.6	60	145.3	61.8	522.7	1 456.4	21.7
1974	301.8	54	169.4	90.9	562.1	1 459.5	20.7
1975	332.8	54	175.7	110.9	619.4	1 714.2	19.4
1976	354.4	55	166.6	119.5	640.6	2 148.0	16.5
1977	372.0	57	159.6	118.9	650.4	2 626.1	14.2
1978	343.0	58	114.1	132.8	589.9	2 865.5	12.0
1979	302.8	54	103.8	149.7	556.3	2 848.1	10.6
1980 b/	259.2	50	87.2	169.8	516.2	2 670.6	9.7

Source: ECIAC, calculated from Méndez Morales, A., February 1981.

a/ Value of loan portfolios.

b/ To September.

Table 63

BAB: NEW LOAN PLACEMENTS, BY PRODUCT GROUP, 1971-78
(Millions of 1970 pesos)

	Cotton	%	Sugar Cane	Vegetables	Other agricultural products	Cattle	Total
1971	15.9	24	16.1	-	19.9	14.7	66.6
1972	48.1	27	62.8	-	50.2	15.5	176.6
1973	82.6	47	7.5	11.2	52.2	21.7	175.2
1974	61.6	43	12.0	8.5	35.8	25.5	143.4
1975	49.0	42	22.8	1.3	15.1	27.5	115.8
1976	43.5	36	21.8	5.2	26.6	22.4	119.4
1977	22.7	26	9.9	9.9	24.1	22.1	88.1
1978	...		...	...	...	...	71.3

Source: BAB, Memoria, various.

between 1973 and 1978. A curious aspect of this decline was that coincided with a clear concentration of new loans with cotton producers. During 1972-1973 the proportion of the total value of new loans going to cotton growers blossomed from 27 to 47 percent (while the constant value of total new loans did not suffer alteration).

As Table 64 clearly makes manifest, by end-1977 the BAB was in dire financial shape with almost half of its loans being overdue or otherwise not performing. Most notably, it was precisely the loans to cotton growers which in worst shape --75 percent non-performing-- which demonstrates the core of the problem. Representing then only 35 percent of the total loans, they corresponded to almost 60 percent of all overdue ones. Evidently, the BAB underwent a serious decapitalization, which throws serious doubts on the rationality of the loan program cotton growers.

This is not to suggest that the policy was totally irrational. In fact, during the first years of the 1970s there was certain economic sense to the initiative. Figure 11 shows that between 1970 and 1974, the international price of cotton doubled. Furthermore, the Santa Cruz region possessed more or less ideal conditions--in terms of soils and climate--to rapidly increase local production ostensibly for the purpose of taking advantage (via exports) of the surging international price. Between 1970 and 1973 (Table 65), the area planted increased by a multiple of more than 7 and there was only a minor fall in productivity, from 0.61 to 0.55 metric tons per hectare. The value of cotton exports sextupled from US\$7.6 million in 1972 to almost US\$40 million in 1976. Nonetheless, by 1979-1980 the boom had turned into a disaster. Comparing 1979-1980 with 1973, one

Table 64

BAB: OVERDUE LOANS, BY PRODUCT GROUP, END-1977

(Millions of pesos)

	Total loans		Performing		Overdue		Overdue as % of Total	Overdue as % of each product group
	Number of loans	Value	Number of loans	Value	Number of loans	Value		
Cotton	435	482.7	142	114.4	293	368.4	58.8	76.3
Sugar cane	448	156.6	251	121.3	197	35.2	5.6	22.5
Agricultural in general	1 026	56.5	670	23.0	356	33.5	5.3	59.2
Cattle	1 964	455.7	1 445	321.3	519	134.5	21.5	29.5
Others	3 586	220.3	2 803	165.5	783	54.7	8.8	24.8
<u>Total</u>	<u>7 459</u>	<u>1 371.8</u>	<u>5 311</u>	<u>745.5</u>	<u>2 148</u>	<u>626.3</u>	<u>100.0</u>	<u>45.7</u>

Source: BAB, Memoria XXXIV - 1977.

Table 65

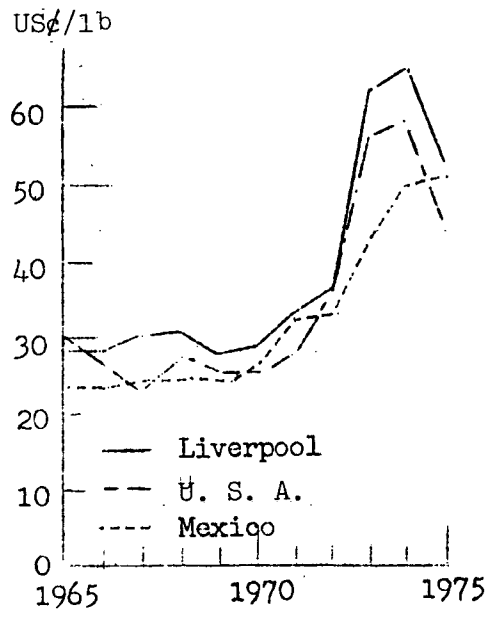
BOLIVIA: COTTON PRODUCTION, 1970-80

	Area planted (000s of hectares)	Production (000s of MT)	Production (MT per hectare)
1970	8.3	5.1	0.61
1971	16.6	9.8	0.59
1972	46.0	15.5	0.34
1973	68.2	37.6	0.55
1974	55.0	26.7	0.49
1975	53.5	22.0	0.41
1976	29.7	12.6	0.42
1977	39.8	15.3	0.38
1978	33.0	17.9	0.54
1979	34.0	14.0	0.41
1980	26.1	7.5	0.29

Source: Banco Central de Bolivia, Memoria Anual,

Figure 11

INTERNATIONAL PRICE OF COTTON



Source: IMF, IFS-1980.

see that the area planted had declined by more than 50 percent, production had to be cut to 20 percent, productivity was down to around 0.35 MT/ha and exports had collapsed to US\$10.6 million.

Evidently, there was a clear lack of knowledge as to how to take advantage of the export boom. The promotion of new cotton production was not at all coordinated with efforts at securing new export markets. Although the Ministry of Planning and Coordination recommended in 1973 that 30 000 hectares be considered the optimal level to be planted, that same year over 68 000 ha. were actually planted. Furthermore, ill-conceived efforts on the part of the Central Government authorities to fix a minimum export price (D.S.11016) simply resulted in lost export sales not in improved producers' incomes. Nevertheless, these policy failures must be considered insignificant in comparison to what turned out to be the heart of the problem: the credit policy adopted by BAB to assist the cotton producers.

Clearly, the cotton policy which the BAB was obliged to support put the bank in a severe dilemma. In 1973, it was authorized to charge no more than 6-10 percent interest on its loans, including those coming from external finance proceeds.^{29/} As an example, BAB in 1972 acquired its first external credit from a foreign bank, in this case the Banco do Brasil. It carried a rate of interest of 2 percent over LIBOR. In 1974, the LIBOR oscillated between 9 and 14 percent, thus the BAB was losing money, even without considering the credit or exchange risks involved in its own portfolio. In spite of the fact in its 1972-73 Report BAB had recommended "the avoidance of external credits due to the fact that their elevated cost presuppose losses for the BAB", the bank implemented the aforementioned initiative with the Banco do Brasil.

The 1975-78 period ushered in a much reduced LIBOR and the BAB apparently attempted to seize the opportunity to make up for past losses. Unfortunately, it was already too late as the cotton grower loans were becoming overdue with a progressively more rapid rhythm. In the end, the BAB not only ended up assuming the exchange risk of these credits to cotton-growers, it ended up paying off the major part of the corresponding external credits, decapitalizing the BAB in the process. Essentially, it seems that the BAB was sacrificed to the Santa Cruz cotton producers.

The Central Government prohibited the BAB from instituting legal proceedings versus to cotton growers with overdue payments, thus the BAB simply had to absorb the losses. A confidential internal study contained the following memorable appreciations of this situation:

"1. It is appropriate to point out that the causes of this situation of overdue payments which has determined the critical economic and financial situation of the institution originated basically in liberality, on one hand, and the official pressure put on certain BAB funcionarios, especially in the Santa Cruz and Montero regions as a consequence of the so-called cotton boom ... From there a large part of the BAB loans to producers were utilized for other purposes.

2. ...any Government must be conscious of the fact that you cannot adopt measures that favour privileged groups at the expense of the institutions at the service of general economic development of the country."

These commentaries leave no room for doubt that the BAB was utilized to favour certain private sector groups at the expense of the public institution and, therefore, represents an obvious example of an exaggerated or excessive Caesarian role of the State. Viewed from the perspective of the loan recipients, that is, the cotton growers, the situation is very clear. Without any risk at all, they could invest the proceeds from their BAB loans in a commercial bank, enjoying a comfortable income from the difference between the rate of interest they paid the BAB and the higher rate they received from savings deposits in the commercial banks. 30/

Furthermore, if they took the trouble to convert their BAB loans to dollars, as of 1974, DS 11 302 guaranteed savings and time deposits in foreign currencies against exchange risk and, on top of that, these deposits earned even higher rates of interest. 31/ In Santa Cruz, in 1974, the purchase of dollars was not a difficult operation. Finally, given that the domestic commercial bank loans in Bolivia carried real rates of interest of over 25 percent annually (15 percent for the bank, 10 percent in taxes), it is not at all inconceivable that the BAB loans may have been directed toward other purposes, such as imports, a much more immediately profitable activity during this period than growing cotton. Taken in the context of the economic shakeup implicit in the stabilization program of 1972-73 (including a 68 percent devaluation), the outbreak of inflation in 1973-74 and the unknowns involved in initiating cotton exports (markets, prices, harvests, etc.), the cotton growers conceivably would find it not only profitable but rational to attempt to direct their new loans toward other more secure activities of that period. This consideration, however, cannot explain their marked propensity to not repay the loans.

The evident result of all this was that the BAB entered into a grave crisis. The fact that four different auditors --Arthur Young & Cia (1974); Moreno, Muñoz y Cía (1975); Coopers y Lybrand (1976); and Augusto Ortega y Cía (1977)-- as suggested by their commentaries in BAB's Annual Reports, could not certify BAB's books for lack of sufficient information and documentation, demonstrates that things were not at all well in the bank. One can therefore appreciate that it was extremely difficult to put together the information contained in Table 66.

One can see that the BAB was rapidly decapitalized, from 80 million 1970 pesos in 1971 to 33 million (1970 pesos) in 1977. The constant value debt went up by a multiple of three over the same period. Financial costs increased by a

Table 66

BAB: FINANCIAL ASPECTS OF ITS OPERATIONS, 1971-1977

(Millions of 1970 pesos)

	30/6/71	30/6/72	30/6/73	30/6/74	31/12/75	31/12/76	31/12/77	31/12/78	13/12/79
1. Total income	28.0	29.2	24.9	30.0	40.3	46.2	39.6		
Interest received	18.9	19.5	19.1	20.5	30.2	38.1	37.0		
Collections	5.6	5.3	3.8	3.4	4.6	3.4	-		
Other	3.5	4.4	2.0	6.1	5.5	4.7	2.6		
2. Total Expenditure	29.3	31.0	31.6	35.1	44.2	50.3	51.2		
Personal services	12.0	11.4	9.9	7.4	10.2	17.1	20.2		
Financial costs	5.8	9.4	13.2	15.4	20.3	24.3	23.6		
Others	11.5	10.2	8.5	12.3	13.7	8.9	7.4		
3. Net profit	-1.2	-1.8	-6.7	-5.1	-3.9	-4.2	-11.6	-0.4	-16.5
4. Capital and reserves	99.7	82.6	63.1	31.8	43.0	50.3	...		
Net Capital	80.2	64.3	42.7	15.1	22.3	31.5	33.4		
Reserves: Social	5.3	5.2	3.6	4.3	5.1	8.0	...		
Financial	14.2	13.1	16.8	12.4	15.6	10.8	...		
5. Debt owed (including interest and commissions)	168.6	203.1	250.9	303.1	321.5	402.6	426.3		
Memo items (%)									
1. Interest received/total income	68	67	77	68	75	82	93		
2. Net profit/total income	-4	-6	-27	-17	-10	-9	-29		
3. Financial costs/Total expenditure	20	30	42	44	46	48	46		
4. Net capital/Total capital and reserves	80	78	68	47	52	62	...		
5. Debt owed/Capital & reserves	169	246	398	953	748	800	...		

Source: BAB, Memoria, various; Banco Central, Boletín Estadístico, various.

multiple of five. Net losses as a proportion of total income went from 4 to 29 percent and financial costs reached almost half of total expenditures. In other words, the BAB was effectively sacrificed to its debtors, primarily the cotton growers of Santa Cruz.

Finally, Table 67 contains information available on the status of BAB's outstanding debt at the end of 1978. Two things stand out. First, the BAB was accustomed to receiving not simply favorable but extremely favorable loans from bilateral and multilateral institutions, previous to their adventure with TNB commercial credits. It is quite possible, considering the dislocation of BAB personnel in the early 1970s, that the rapid transition to commercial credits simply overwhelmed the administrative capacity of the bank. A change from handling resources carrying less than 4 percent interest and maturities of 15 or more years, to handling ones carrying 10 - 14 percent interest (in 1978 the LIBOR generally was in the 8 - 10 percent range) and five years maturity requires a distinct mentality on the part of loan officers. The slim margins involved (when they were positive) could in no way compensate for the high level of loans which became non-performing. Second, excepting the first two credits of the Banco do Brasil, it is noteworthy that the TNBs did not locate their credits directly with the BAB, rather they placed them --as free disposition credits-- with the Central Government. This no doubt reflects the TNB opinion of the BAB during this period of national elitist orientation to development strategy.

In sum, the case of the BAB represents a good example of a clearly excessive Caesarian role of the State implemented by way of a public sector financial institution. The loans to cotton growers in the Santa Cruz region, financed through external credits available to the BAB, led to the accelerated decapitalization of the bank as a high proportion of those loans became non-performing. Unable to pursue the overdue payments, the BAB simply absorbed losses until it was a dim shadow of what it used to be.

BAB: APPROXIMATION OF THE EXTERNAL AND INTERNAL DEBT, 1978 a/

(Millions of dollars)

Source	Amount contracted	Year	Maturity (years) ^{b/}	Rate of interest (%) ^{c/}	Outstanding	Not Disbursed	Intended use
1. External Finance							
a) Transnational Banks							
1. Banco do Brasil	51.6	1972	5	L + 2.0	29.5	-	Loans to cotton producers
2. Banco do Brasil (CACEX)	6.0	1973	8	7.0	2.1	-	Credit lines
3. Antony Gibbs ^{d/ e/}	3.5	1975	5	L + 2.625	1.8	-	Free disposition
4. Crocker National ^{d/ e/}	8.0	1975	5	L + 2.25	4.6	-	Free disposition
5. Bank of Montreal (30) ^{d/ e/}	13.5	1976	5	L + 2.625	6.0	-	Free disposition
6. Citicorp (75) ^{d/ e/}	3.3	1976	5	L + 2.5	2.7	-	Free disposition
7. Banco do Brasil ^{e/}	11.4	1976	5	L + 2.0	7.7	-	Cattle loans Beni
8. Banco do Brasil ^{e/}	5.9	1976	5	L + 2.0	4.6	-	Cattle loans Beni
b) Other sources	95.7				53.7	32.2	
1. IDB 29/SF-B0	2.6	1963	15	4.0	0.8	-	Rural colonization
2. IDB 35/SF-B0	1.1	1964	15	4.0	0.1	-	Agricultural credit
3. USAID 511-L-028	2.1	1968	40	1-2.5	2.0	-	Agricultural credit
4. IDB 51/TF-B0	6.4	1968	25	1.25	3.0	-	Rural communities
5. IERD-ADI 107 B0	2.4	1968	50	0.75	2.4	-	Cattle loans - Beni
6. IERD-ADI 171 B0	1.6	1970	50	0.75	1.6	-	Cattle loans - Beni
7. IDB 242/SF-B0	4.3	1971	25	3.25	3.7	-	Cattle loans - Santa Cruz/Chaco
8. USAID 511-L-028	8.0	1972	40	2-3.0	8.0	-	Agricultural incentives
9. IERD-ADI 260 B0	6.8	1972	50	0.75	6.0	-	Agricultural development
10. USAID 511-T-050	9.7	1975	40	2-3.0	6.6	3.1	Colonization - Santa Cruz
11. USAID 511-T-052	8.0	1976	40	2-3.0	3.1	4.9	Refinancing of agricultural credit
12. USAID 511-T-053	9.2	1976	40	2-3.0	5.9	3.3	Food & cattle production
13. USAID 51-T-055	7.5	1976	40	2-3.0	3.2	4.3	Small farmer loans
14. Government of Venezuela	10.0	1976	40	1-2.0	4.0	6.0	Agricultural programs
15. IERD-ADI 561-B0	7.5	1976	50	0.75	3.7	1.3	Agricultural credit
16. IDB 518/SF-B0	8.5	1978	40	1-2.0	-	8.5	Agricultural research and extension
2. Internal Finance							
a) Banco Central de Bolivia (BCB)	...	...	...	...	11.4		Diverse programmes

Source: ECLAC, on the basis of official information supplied by World Bank, Interamerican Development Bank, Central Bank of Bolivia and the BAB.

a/ See note a/ of Table 56.

b/ Includes grace periods.

c/ L = LIBOR

d/ Credits contracted via Central Government.

e/ Syndicated loans.

c) Inconsistencies with regard to project selection and execution and debt administration

Throughout this study it has been reiterated that the principal problem of external financing via commercial loans from TNBs has been that the commercial terms of those credits greatly increase the risks of the investment projects, in the sense that the economic return of the project not only must satisfy the substantial financial costs involved but must do so within relatively short periods of time, thereby creating difficult cash flow requirements for the projects. This suggests that commercial loans from TNBs must be treated with extreme care from the perspective of project selection (i.e. restricting their use to only the most commercially-viable investment projects), project execution (i.e. restricting their use to only those projects which can securely meet the cash flow obligations) and debt administration (i.e. a responsible authority must supervise and oversee the mating of investment priorities and possibilities with the availability of distinct forms of external finance). In the case of Bolivia, the terms of the external finance from TNBs were very stiff during 1975-1979, for example, the average spread over LIBOR was 1.78 percent, the average maturity only 6.1 years and the average commissions reached 1.6 percent of the nominal value of those commercial loans. Those commercial terms clearly called for very careful project selection, project execution and debt administration.

In this part we examine various examples of problems --by no means the worst problems-- which have occurred with respect to the selection, execution and debt administration of the investment projects. That is, on top of the mentioned difficulties dealt with under the heading of the internal contradictions of the State and the excessive Caesarian role of the State, it is appropriate to add problems of an administrative nature.

i) Difficulties deriving from the use of free disposition TNB loans

As was suggested in Chapter VI, one basic complication for the new planning and debt control systems was that the External Finance Division (INDEF) was under extreme pressure to contract (more than control) all the external credits it could get its hands on and the national projects system (especially INALPRE) could not generate sufficient economically-viable projects, with the result that many of the expensive TNB credits spilled over to projects which did not meet the necessary conditions required of them. The free disposition loans, as their name suggests, were most susceptible to these practices, with the result that many projects which almost by definition could not meet the commercial conditions of the TNB commercial credits were financed by such.

Table 68 indicates the principal characteristics of the main free disposition loans contracted by the Central Bank, the foremost users of those credits, and the outstanding balance as of 22 August, 1980. One can see that almost two thirds of the total value of these credits were directed to State enterprises, such as COMIBOL, ENAF, YPFB, CBF and the specialized banks. Most of these enterprises have been analyzed in the preceding pages. Here, it is worth noting that over one third of the total value of these credits went to other entities which did not form part of these dominant State enterprises. Naturally, it is of interest to see if these other entities performed better with respect to meeting their external obligations via the Central Bank.

Table 69 points out that it was mainly the dominant State enterprises, especially COMIBOL, which accounted for the lion's share of the overdue payments as of the mentioned date. Apparently 'others' accounted for only 12 percent of those overdue payments on free disposition loans, which might lead one to conclude that they performed better. The truth is that these 'other' entities had invested

Table 68

BOLIVIA: FREE DISPOSITION LOANS PLACED WITH CENTRAL BANK BY TRANSNATIONAL BANKS WHICH WERE OVERDUE AS OF 22 AUGUST 1980. DISTRIBUTION BY FINAL USER a/
(Millions of US dollars)

Amount	Source	Year	State enterprise					Others	Total	Amount overdue	Amount overdue as % of amount disbursed	
			YFPB	COMIBOL-ENAP	CBF	BAB	BANEST					Subtotal
75.0b/	Citicorp c/	1977	5.9	20.5		11.4d/	6.3d/	44.1	30.9	75.0	13.9	18.5
50.0b/	Bank of America c/	1976	16.9	12.0			2.8	31.7	18.3	50.0	10.4	20.8
30.0b/e/	Bank of Montreal c/	1976	5.0		2.5	3.3	7.4	18.2	11.8	30.0	1.1	3.7
37.0	Dresdner c/	1978			25.0			25.0	12.0	37.0	8.8	23.8
13.5	Crocker National c/	1975				12.8		12.8	-	12.8	1.5	11.7
205.5	Total		27.8	32.5	27.5	27.5	16.5	131.8	73.0	204.8	35.7	17.4

Source: ECLAC, on the basis of information provided by the External Finance Division of the Central Bank of Bolivia.

a/ With more than US\$1 million overdue.

b/ These credits were refinanced (US\$155 millions) in 1978.

c/ Syndicated loans.

d/ In the banking sector the external finance was recycled into local currency loans, therefore the amount going to these entities was calculated as a residual.

e/ This loan was originally considered a project loan; however the evident differences between the intended use and actual use (see below) demonstrates that it must be considered a free disposition loan.

User	Intended use		Actual use	
	Percent	User	Percent	User
YFPB	57.1		24.7	Bco. Estado
Bco. Minero	19.0		16.7	YFPB
BAB	7.9		11.0	BAB
CBF	6.4		8.3	CBF
Munic. La Paz	6.4		12.7	Com. VIII Juegos Bol.
Bco. Estado	3.2		9.6	TASA (Teléf. Autóm. S.A.)
	100.0		8.2	Lloyd Aéreo Boliviano
			8.8	Others
			100.0	

Table 69

BOLIVIA: PRINCIPAL INSTITUTIONS WITH OVERDUE PAYMENTS RELATED TO FREE DISPOSITION LOANS CONTRACTED
BY CENTRAL GOVERNMENT, AS OF 22-VIII-80

(Millions of dollars)

Debtor	Original authorization	Credit line	Amount disbursed to debtor	Amount overdue	% of Total overdue	Use
1. State enterprises						
a) COMIBOL - Total			89.4	31.7	88.9	
i) COMIBOL	DS 13 774	50.0	27.0	20.8	58.3	Increase mining production
ii) COMIBOL	DS 14 405	75.0	12.0	9.3	26.1	Increase mining production and exports
b) CBF - Total	DS 15 178	37.0	25.0	6.9	19.3	Projects and back taxes
c) BAB - Total			25.5	3.3	9.3	
i) BAB	DS 12 750	13.5	12.8	1.6	4.5	Increase agricultural production
ii) BAB	DS 13 401	30.0	1.8	0.7	2.0	No information available
iii) BAB	DS 16 874	75.0	4.5	0.6	1.7	Cotton loans
iv) BAB	DS 15 774	75.0	6.4	0.4	1.1	Cotton loans
d) BANEST - Total	DS 14 708	75.0	11.9	0.7	2.0	Cotton loans
2. Others			28.0	3.9	11.0	
a) Armed Forces/Nat'l Treasury	DS 15 178	37.0	12.0	2.0	5.6	Transport aircraft
b) VIII Bolivarian Committee			16.0	1.9	5.4	
i) Comité VIII	DS 13 639	30.0	2.0	0.3	0.8	Sports stadium
ii) Comité VIII	DS 13 834	50.0	6.0	1.2	3.4	Sports stadium
iii) Comité VIII	DS 14 758	75.0	4.5	0.2	0.6	Sports stadium
iv) Comité VIII	DS 15 432	75.0	1.5	0.2	0.6	Sports stadium
Total			147.4	35.6	100.0	

Source: ECLAC, on basis of information supplied by External Finance Division of Central Bank.

mainly in non-commercial projects (i.e. the sports stadium for the VIII Bolivarian Games or transport aircraft for the armed forces) and the National Treasury was making the capital, interest and commission payments to the Central Bank, on account of these other entities. 32/ In other words, if the financial costs of these basically non-economic projects were being borne by the National Treasury, the fact that they were relatively less overdue in their loan payments really is not a relevant consideration. The fact of the matter is that the proportion of the overall value of free disposition loans going to these institutions simply was converted into a direct financial drag on the National Treasury and thereby, further complicated public finances. In the case of the dominant State enterprise, there was always some element of financial and economic return in play and, furthermore, the possibility of debt refinancing or restructuring more in tune with the cash flow of the principal investment projects existed, in theory at least, as a negotiating position. The debt of these non-economic projects of the 'other' entities could only be paid off by obtaining new free disposition loans; when that became impossible, the roof caved in on the Bolivian public finances. In this sense, these so-called investment projects were clearly a worse choice than even some of the white elephants of the dominant State enterprises and held worse consequences for the negotiating position of the Central Government vis-à-vis its external creditors by further weakening their appreciation of the Government's basic solvency.

In this opportunity, we have referred to only two of these other 'investment' projects financed via free disposition credits contracted by the State; nonetheless, both serve to underline two essential lessons from the experience. First, there is no economic logic in financing non-commercial projects with expensive external loans and sooner or later the National Treasury will not be

able to withstand the debt burden once service payments surpass the flow of new external credits. TNB commercial loans are not suitable financial instruments for building sports stadiums or buying transport aircraft: bilateral loans and supplier's credits, respectively, are obviously more suitable instruments. Thus, one can conclude that, in these two cases, the project selection for productively employing the contracted free disposition loans was clearly deficient.

Second, Table 69 did indicate that these projects were not so important as those of the dominant State enterprises from the perspective of the debt payment performance. However, it has been demonstrated that it was the National Treasury which was servicing the loans and that, at the bottom line, these projects represented a purely negative financial drag on public finances, whereas, the projects of the dominant State enterprises always held out the promise of some element of economic return however inadequate it may have been in the face of the debt burden. Here, we see that the deficient project selection resulted in a more or less impossible situation for the debt administration due to the fact that the projects implied no income and the National Treasury could not bear the additional burden.

In conclusion, if, indeed, free disposition credits were much sought after because they allowed governments great liberty of action, nonetheless, they are expensive external credits and their use must be carefully compatibilized with the contracted financial obligations. In the Bolivian situation in which the dominant State enterprises were getting further and further behind in the debt payments due to delays in bringing their investment projects on stream, inter alia, it might have been wiser to use more of the free disposition loans to keep up their debt service so as to maintain access to the sovereign lending market. At a minimum, the dominant State enterprises would have had more time to bring in their new income from the investment projects and, possibly, the Government would have had access to some new

credits. As it turned out, the directing of some of these resources to low priority projects of a non-economic character only caused the debt problem to snowball resulting in less time to bring economic investment projects on stream, public finance chaos and a swift winding down of the TNB sovereign lending exposure in Bolivia: the worst of all worlds.

ii) The Bolivian Promotion Corporation (CBF) and the expansion of the FANCESA cement plant

As was shown by table 37, the CBF was one of the principal beneficiaries of the external finance coming from the TNBs, receiving almost 9 percent of the total net receipts during the period under review. Most of these receipts were concentrated in the year, 1978, the same year in which the first disbursement of the large loan to the FANCESA cement plant was made. That same year, part of a free disposition loan contracted by the Central Government was used to cancel CBF's outstanding debt with the Central Bank. For these reasons, it makes sense to examine the FANCESA cement plant expansion in the general context of the economic and financial position of CBF.

The CBF was created in 1942 for the purpose of promoting the accelerated development of the country. In completion of this function, the CBF has seen the emphasis of its task alter with the times, as follows: 33/

1. 1942-1952: infrastructure projects, especially roads;
2. 1952-1964: sectoral distribution of its activities to include industry, agriculture, cattle-raising, forestry, etc.;
3. 1965-1971: preparing investment studies and providing credit, less direct investment;
4. 1972-1979: important direct investments in keeping with Central Government directives.

The 1972-79 period, which most concerns us, witnessed the concentration of the CBF's efforts in a reduced number of important projects, such as the expansion of the Guabira and Bermejo sugar refineries, the PIL milk product projects, the FABOCE ceramic tile plant, the Villamontes vegetable oils plant, the plate glass factory and the expansion of the FANCESA cement plant. In the context of the Plan Quinquenal (1976-1980), the CBF investments were appreciable, accounting for about one-third of the value of the industrial investments made by the public sector (Table 70), although they were not of the same dimension of the major projects of the export sector (i.e. the mineral smelters or the petroleum refinery). This investment effort on the part of CBF resulted in a notable increase in the domestic production of important items, such as sugar, alcohol, milk products, ceramic tiles, edible oils and cement; however, virtually all the projects encountered problems, especially delays in establishing production, which created difficulties not only for project administration but also for the CBF, itself.

Generally, the problems encountered by these new investments have several common features. First, for the most part, project selection was deficient due to the fact that most projects turned out to be overdimensioned and too expensive for the domestic market and they seemed to better reflect supplier's priorities than those of the planning system. Once production began, most suffered from low levels of capacity utilization. Many projects were not executed well and many suffered delays not of months but of years, which naturally severely complicated their debt administration. Few of the projects, in these circumstances, proved commercially feasible or capable of withstanding the debt burden implicit in the external finance they received. To the extent that these projects fell behind in their debt payments, the CBF began to pick up the tab playing for time so as to allow

Table 70

BOLIVIA: RELATIVE IMPORTANCE OF CBF INVESTMENTS IN CONTEXT OF PRINCIPAL INDUSTRIAL INVESTMENT
MADE BY OTHER STATE ENTERPRISES, 1976-79

(Millions of 1970 pesos)

	1976	1977	1978	1979	Total 1976-1979	%
I. CBF - total	<u>61.7</u>	<u>94.4</u>	<u>81.9</u>	<u>43.3</u>	<u>281.3</u>	<u>36.1</u>
FANCESA Expansion	-	15.9	69.0	32.4	117.3	15.0
PIL (all projects)	14.1	8.4	1.1	1.5	25.1	3.2
Plate glass factory	13.6	18.3	10.9	6.4	49.2	6.3
Villa Montes oils plant	12.6	24.9	-	-	37.5	4.8
Ingenio Guaribá Expansion	20.3	25.1	-	0.1	45.5	5.8
Others	0.9	1.8	0.9	2.9	6.5	0.8
II. Others a/	<u>118.4</u>	<u>186.8</u>	<u>112.6</u>	<u>79.1</u>	<u>496.9</u>	<u>63.9</u>
ENAF - low ore content tin smelter	(2.1)	(62.6)	(26.8)	(64.3)	(155.8)	(20.0)
ENAF - high ore content tin smelter	(34.8)	(62.2)	(44.2)	-	(141.2)	(18.1)
YPFB - lubricants plant	(76.7)	(59.9)	(28.2)	-	(164.1)	(21.1)
Total I + II a/	<u>180.1</u>	<u>281.2</u>	<u>194.5</u>	<u>122.4</u>	<u>778.2</u>	<u>100.0</u>
CBF + Total I + II	<u>34.3</u>	<u>33.6</u>	<u>42.1</u>	<u>35.4</u>	<u>36.1</u>	
FANCESA + CBF Total	-	16.8	84.2	74.8	41.7	

Source: ECLAC, on basis of information provided by Ministry of Planning and Coordination

a/ This information seriously underestimates total industrial investment due to fact that major projects such as YPFB's Santa Cruz and Cochabamba refineries, COMIBOL's La Palca volatilization plant, etc. are not included. Nonetheless, it does indicate that the CBF projects held certain important during this period.

for the projects to begin production; however, soon the CBF, itself, could no longer stand the financial strain and it obtained Central Bank support. Thus, difficulties at the project level soon were transformed into financial difficulties for the CBF before snow-balling to involve the Central Bank as well.

Table 71 reflects the deterioration of the financial situation of the CBF during 1973-78. This information captures several of the basic characteristics of the institution. Total income mainly from product sales, rose from an average of 250 million pesos (1970 values) in 1973-75 to 350 million pesos in 1976-78 (the decline during 1977-78 was a consequence mainly of low international sugar prices). During 1974-78, total expenditures increased at a rate superior to that of total income which helped to reduce profits as a proportion of income from 25 to 3 percent. Increasing expenditures of note were administrative costs (50 percent) and interest payments (300 percent), the latter reaching 11 percent of total expenditures in 1978. Interest payments continued to rise in spite of the fact that the total debt of the enterprise was declining --until 1978-- when it shot up by 60 percent. There is little doubt that the newly contracted external loans were being converted to assets, given that investments went up four-fold, stocks tripled and fixed assets nearly doubled over this period. During the 1974-78 period the outstanding debt as a proportion of fixed assets declined from 70 to 51 percent, suggesting that although CBF's profitability declined, this could be explained as a temporary phenomenon linked to the broad investment program which had yet to produce the projected return. Unfortunately, that explanation does not proved adequate because the projects ran into so many problems of an avoidable nature.

Virtually all the projects suffered serious delays which were reflected in their inability to withstand their corresponding debt burdens. For example, in 1977 the edible oils plant, Villa Montes, was utilizing only 16 percent of its

Table 71

CBF: FINANCIAL ASPECTS OF ITS OPERATIONS, 1973-1978
(Millions of 1970 pesos)

	1973	1974	1975	1976	1977	1978
1. Total income	247.1	265.8	252.4	355.8	344.1	336.9
Sales	223.8	253.0	234.5	340.8	327.1	310.5
(sugar)	...	...	(150.9)	(221.4)	(191.4)	(178.8)
(electricity)	...	...	(34.7)	(50.2)	(61.9)	(59.9)
(milk products)	...	...	(26.7)	(35.7)	(43.3)	(45.9)
Interest, commissions, dividends	12.2	8.3	8.9	8.9	6.7	6.8
Others	11.1	4.5	9.0	6.1	10.3	19.6
2. Total Expenditure	208.0	198.3	216.8	314.2	327.7	325.5
Operations	136.0	130.5	140.8	199.1	200.2	192.3
Administration	51.5	52.8	54.0	82.6	85.4	81.5
Interest	13.3	11.4	14.8	22.5	28.0	35.9
Other	7.2	3.6	7.3	9.9	14.0	15.9
3. Profits	39.1	67.6	39.2	42.9	16.4	11.4
4. Total Assets <u>a/</u>	989.2	821.4	965.8	1 204.7	1 380.2	1 372.1
Fixed assets <u>a/</u>	575.3	408.8	516.2	629.3	782.5	772.0
Stocks	87.3	39.5	100.2	111.6	117.6	134.6
Investments	52.1	50.1	117.9	162.6	178.2	193.8
(Mixed firms)	(20.2)	(13.3)	(16.2)	(16.2)	(15.1)	(17.3)
Others	274.5	323.0	231.5	301.2	301.9	271.7
5. Total Debt	615.8	574.3	498.0	483.0	437.0	694.2
Internal	105.4	71.0	128.5	168.4	177.6	333.6
External	510.4	503.3	369.5	314.7	259.4	360.6
6. Number employees	3 321	3 308	3 159	4 908	5 383	4 844
<u>Memo Items</u>						
1. Sugar sales/Total income	...	...	59.8	62.2	55.6	53.1
2. Profits/Total income	15.8	25.4	15.5	12.6	4.8	3.4
3. Interest/Total income	5.4	4.3	5.9	6.3	8.1	10.7
4. Fixed assets/Total assets	58.2	49.8	53.4	52.2	56.7	56.3
5. Investments/Total assets	5.3	6.1	12.2	13.5	12.9	14.1
6. External debt/Total debt	82.9	87.6	74.2	65.1	59.4	51.9
7. Total debt/Fixed assets	62.3	69.9	51.6	40.1	31.7	50.6

Source: CBF, Memoria Anual, various.

a/ Includes ENDE.

installed productive capacity because of domestic supply problems. It should be mentioned that utilizing 45 percent of its capacity it totally supplied the domestic market, so, lacking solid export prospects, one could question the magnitude or dimension of the investment project. A complex problem of insufficient domestic inputs severely weakened some of the PIL milk products initiatives. The Guabira sugar refinery was obliged to purchase low quality domestic sugar cane which caused losses on some of its operations. Again, in 1977 just 65 percent of capacity of the Guabira sugar refinery satisfied the local market and, facing dismal international sugar prices export prospects were not particularly good,^{34/} In the case of the plate glass factory, a modification introduced in the furnaces set the project back 2 years. Table 72 shows the outstanding debt of these investment projects for selected years during 1974-80 which suggests the magnitude of the problems faced by CBF's enterprises and the mixed enterprises.

One sees that the CBF employed an apparently intelligent policy of shifting from external to internal sources of credit for its investment projects during 1974-77; however, this is a questionable evaluation. It seems that, to the degree that the CBF's projects ran into difficulties which surpassed their debt payment capacity and, eventually, that of the CBF, itself, the institution had the Central Bank bail it out. Soon, CBF's and other State enterprises' problems exceeded the Central Bank's debt capacity and the Central Bank contracted external credits to pay off the CBF debt (with itself) and charged the CBF with the new external loans, similar to the case of YPFB mentioned earlier. In CBF's books, this operation was registered as internal credit although it was obviously from external sources. To clarify the situation, Table 72 presents both the internal and external debt situation of the CBF during this period. The net effect was that the CBF's external debt made up primarily of supplier credits was converted through a strange operation into a free disposition loan from TNBs carrying a 1.5 percent spread over LIBOR

Table 72

CBF: BALANCE OF INTERNAL AND EXTERNAL DEBT, BY ENTERPRISE AND PROJECT, SELECTED YEARS, 1974-80
(Millions of US dollars)

	1974		1976		1978		1980		Overdue 1980									
	Internal	External	Internal	External	Internal	External	Internal	External										
	Total	%	Total	%	Total	%	Total	%	Internal	External								
A. Wholly owned																		
1. Ing. Azucarero Guabirá	1.6	18.1	19.7	24.4	4.0	15.2	19.2	24.1	20.8	10.6	31.4	20.9	25.4	6.8	32.2	21.5	7.6	0.8
2. Fca. Cerámica FABOCE	1.2	1.7	2.9	3.6	1.4	1.5	2.9	3.6	0.8	3.0	3.8	2.5	0.4	1.6	2.0	1.3	...	0.2
3. Fca. Aceites Villa Montes	1.2	17.0	18.2	22.5	5.7	10.3	16.0	20.1	12.5	9.3	21.8	14.5	18.3	5.6	23.9	15.9	12.1	0.5
4. Fca. Vidrios Planos	0.9	4.9	5.8	7.2	1.8	4.4	6.2	7.8	2.1	4.0	6.1	4.1	4.2	4.2	8.4	5.6	0.5	1.5
5. PIL - total	0.1	0.5	0.6	0.7	1.6	4.3	5.9	7.4	1.6	12.2	13.8	9.2	1.3	12.8	14.1	9.4	0.6	-
6. CBF: Ofic. Centr./Financ.	0.4	8.4	8.8	10.9	2.7	5.4	8.1	10.2	2.8	3.8	6.6	4.4	0.4	1.3	1.7	1.1	0.1	...
7. Prog. Castaña	0.3	-	0.3	0.4	3.7	-	3.7	4.6	3.1	-	3.1	2.1	4.5	-	4.5	3.0	1.0	-
8. Prog. Oleag. y Maíz	0.4	0.4	0.8	1.0	1.9	0.3	2.2	2.8	1.4	0.2	1.6	1.1	0.9	0.2	1.1	0.7	0.3	-
9. Others	0.4	1.6	2.0	2.5	0.2	1.3	1.5	1.9	2.7	0.3	3.0	2.0	1.4	0.1	1.5	1.0	-	-
Subtotal	6.3	52.6	58.9	72.8	23.0	42.7	65.7	82.3	46.2	43.4	89.6	59.7	56.8	32.6	89.4	59.6	22.2	3.0
B. Mixed Enterprises																		
1. Ing. Azucarero Bermejo a/	1.5	7.5	9.0	11.1	3.1	3.9	7.0	8.8	23.9	3.1	27.0	18.0	28.7	0.9	29.6	19.7	6.5	-
2. Fca. Cemento COBOCE	1.8	9.2	11.0	13.6	0.8	5.0	5.8	7.3	2.0	3.5	5.5	3.7	1.2	2.1	3.3	2.2	-	0.7
3. Fca. Cemento FANESA	-	0.3	0.3	0.4	-	-	-	-	-	28.1	28.1	18.7	-	27.5	27.5	18.3	-	1.4b/
4. Others	0.4	1.2	1.6	2.0	...	0.5	0.5	0.6	-	-	-	-	0.1	-	0.1	0.1	-	-
Subtotal	3.7	18.2	21.9	27.1	4.9	9.4	14.3	17.8	25.9	34.6	60.6	40.4	30.0	30.5	60.5	40.3	6.5	2.1
Total	10.0	70.9	80.9	100.0	27.8	52.0	79.8	100.0	72.1c/	78.0	150.1	100.0	86.8	63.1	149.9	100.0	28.7	5.2

Source: ECLAC, on basis of information supplied by CBF, and CBF, Memorias, various.

a/ Mixed enterprise as of 1978.

b/ Estimate based on official information.

c/ Includes portion of free disposition loan contracted by Central Bank to pay off CBF's back taxes.

with a 7.5 year maturity: both interest rate and maturity being considerably stiffer than the conditions of the original suppliers credits. Enterprises already unable to shoulder their debt burden suddenly saw it increased. Although this solution helped out the Central Bank, the CBF enterprises of the manufacturing sector were negatively affected by the rapid shift from relatively favorable terms on their external debt to strictly commercial ones. 35/

At the end of 1971, CBF's outstanding overall debt reached about US\$ 16 million with three quarters being external debt. The Interamerican Development Bank had provided most of this external credit on extremely favorable terms, usually carrying less than a 4 percent nominal rate of interest with a 15 year maturity. Most of the local credit came from the Central Bank with more severe terms, usually 7 percent interest with less than a 2 year maturity. 36/ Table 73 indicates the situation at the end of 1978. The major changes were the explosion of suppliers credits and later TNB loans, each implying successively more severe terms, and the rapid growth of the internal debt. Thus, in a quite short period of time, the CBF's infant industries were obliged to behave like consenting adults.

As an example of the difficulties produced through the mating of costly forms of external finance with projects of questionable priority, the case of the FANCESA cement plant will be summarily examined. As has become the norm, certain deficiencies of projection selection and execution, as well as debt administration, were characteristic of this case.

The National Cement Factory Inc. (FANCESA) was created by public decree 5139 of 1959, as a corporation whose shareholders were all public sector entities: CBF (33.4 percent), the San Francisco Javier University of Chuquisaca (33.3 percent) and the Municipality of Sucre (33.3 percent). 37/ The company began operations in 1960 with an annual installed productive capacity of 30 thousand metric tons. At the

Table 73

CBF: CHARACTERISTICS OF THE EXTERNAL AND INTERNAL DEBT, END 1978 a/
(Millions of US dollars)

Source	Currency	Amount contracted	Year	Maturity (years) ^{b/}	Interest rate (%) ^{c/}	Balance	Use
1. External Finance		142.2				98.2	
a) <u>Transnational Banks</u>		73.5				56.0	
1. Banque de Paris et des Pays Bas	French francs	4.8	1974	5.5	6.1	2.9	Expand Guabira sugar mill
2. Banque de Paris et des Pays Bas	US dollars	1.4	1974	5.0	2.5	0.2	Local costs Guabira sugar mill
3. Banque de Paris et des Pays Bas	US dollars	3.0	1974	5.0	7.5	2.8	Distillation plant: Guabira
4. Banco do Brasil	US dollars	1.5	1974	5.0	2.0	0.4	Guabira sugar mill
5. Dresdner d/e/	US dollars	25.0	1978	7.5	L + 1.5	25.0	Debt with Central Bank
6. Bayerische Soc. Generale	US dollars	7.5	1978	5.0	L + 1.75	7.5	FANCESA expansion
7. Bayerische Vereinsbank	DM	9.6	1978	10.0	7.75	4.3	FANCESA expansion
8. Soc. Generale de Banque	Belgian francs	11.8	1978	10.0	8.0	4.0	FANCESA expansion
9. Bank of America	US dollars	7.9	1978	< 1.0	L + 1.5	7.9	Guabira & Bermejo sugar mill
10. First International	US dollars	1.0	1978	< 1.0	L + 1.0	1.0	Debt with Bank of America
Others		68.7				42.2	
1. IDB 120/SF - EO	US dollars	7.6	1968	15.0	3.25	2.6	General economic development
2. IDB 109/SF - EO	US dollars	2.1	1968	16.0	3.25	0.7	Preinvestment studies
3. Impianti SPA.	US dollars	8.7	1969	10.0	6.5	3.6	COBOCE cement plant
4. PAASCH SILKEBORG	Danish crowns	1.0	1971	8.0	4.0	0.9	PIL - Cochabamba
5. Frago Invest	Swiss francs	3.0	1972	8.0	6.0	3.0	FABOCE
6. C. ITOH y Compania	Yen	8.8	1973	8.0	7.5	3.0	Bermejo sugar mill
7. D'SMET	Belgian francs	13.8	1974	11.0	8.0	8.9	Villa Montes oils plant
9. Polimex CEMOP	US dollars	5.6	1974	10.0	5.0	4.0	Plate glass factory
9. Fives Lille do Brasil	US dollars	5.1	1974	9.0	7.0	3.7	Guabira sugar mill
10. Andreoli D'Alessandro	US dollars	1.4	1974	5.5	7.5	0.5	INMETAL supplies
11. Danish government	Danish crowns	11.6	1975	25.0	-	11.3	PIL projects
Internal Finance						58.4	
a) Banco Central (BCB)	Pesos	...	1974-1978	...	3.0-13.0	50.4	Investment projects
b) Banco del Estado	Pesos	7.0	...	5.0	13.0	7.0	Guabira & Bermejo sugar mills
c) National Treasury	Pesos	...	1974	5.0	-	1.0	Debt with Ministry of Finance

Sources: CBF, Memoria, various; BCB, Memoria, various.

a/ See note a/ of Table 56.

b/ Include s grace period.

L = LIBOR

d/ Credits contracted via Central Bank.

e/ Syndicated loans.

beginning of 1963, the CBF began its attempts at obtaining the financing necessary to raise annual productive capacity to 100 thousand tons. After four years of red tape with the Interamerican Development Bank the resulting loan only covered one-third of the estimated cost of the planned expansion. In 1967, FANCESA was declared a national priority project and approval was given a suppliers credit from C. Itoh of Japan. The expansion was operational 21 months later, in February of 1969. 38/ Viewing the growth in demand of the domestic market and the increasing levels of importation (Table 74), a new expansion project for FANCESA (to 300 thousand tons) was presented to the National Planning Council and the project, and its estimated cost of US\$ 23.6 millions, were approved by public decree 14002 of October, 1976. After delays in the tendering of contracts the firm Polysius was eventually selected over Buhler Miag, mainly because it offered an even more elevated total productive capacity (364 thousand MT/yr) at what was considered a relatively minor increment in the total cost (to US\$ 31.1 million). In September of 1977, public decree 14925 approved the pertinent financing (noted in Table 73) and authorized the State guarantee.

The delays, the devaluation of the peso in 1979 and the strengthening of European currencies vis-à-vis the US dollar created liquidity problems for FANCESA as well as throwing the expansion 8 months off schedule. In May of 1980, the Central Bank had to make a US\$ 1 million payment on FANCESA's behalf, followed by another of US\$ 0.4 million in June of that year. By August, FANCESA was petitioning a new credit for US\$ 3 millions in order to meet its contractual obligations; however, no new deal was concretized.

In theory, the FANCESA expansion seemed to be justified, in spite of the problems which resulted. As Table 75 demonstrates, the firm had a history of high capacity utilization and, as Table 74 made manifest, the domestic market was firm.

Table 74

BOLIVIA: APPARENT CEMENT CONSUMPTION, 1964-1980

(000s of MT)

	Production	Imports	Exports	Total
1964	65.2	7.0	-	72.2
1965	59.0	7.0	-	66.0
1966	64.7	11.0	-	75.7
1967	65.4	32.4	-	97.8
1968	70.8	45.0	-	115.9
1969	80.5	51.6	-	132.1
1970	116.1	-	-	116.1
1971	128.1	-	-	128.1
1972	147.1	-	-	147.1
1973	165.8	-	6.1	159.7
1974	202.1	-	9.2	192.9
1975	226.3	10.0	-	236.3
1976	219.1	28.5	-	247.7
1977	267.1	38.4	-	305.4
1978	257.5	71.6	-	329.1
1979	250.7	75.0	-	325.7
1980	318.2	29.0	2.0	345.2

Source: Central Bank of Bolivia, Memoria, various.

Table 75

BOLIVIA: THE CEMENT INDUSTRY AND FANCESA'S SITUATION, 1960-1980
(000s of MT and percent)

	Total Production	Market Shares			FANCESA	
		(%)			Installed capacity	Utilization
		FANCESA	VIACHA	COBOCE		
1960	34.7	33	67	-	30	41
1961	44.7	40	60	-	30	60
1962	49.4	45	55	-	30	74
1963	58.3	44	56	-	30	86
1964	65.2	50	50	-	30	108
1965	59.0	52	48	-	30	102
1966	64.7	53	47	-	30	114
1967	65.4	54	46	-	30	114
1968	70.8	52	48	-	30	124
1969	80.5	69	31	-	60	92
1970	116.1	61	39	-	88	80
1971	128.1	60	40	-	88	87
1972	147.1	49	42	10	88	82
1973	165.8	36	30	34	88	68
1974	202.1	33	31	36	88	76
1975	226.3	37	31	32	88	96
1976	219.1	31	33	36	88	78
1977	267.1	33	29	38	88	100
1978	257.5	33	25	42	88	97
1979	250.7	33	27	40	88	97
1980	318.2	25	37	37	88	92

Source: Banco Central, Memoria Anual, various; CBF, Memoria, various.

Moreover, FANCESA had been recognized for the quality as well as the price of its cement in comparison to the other major producer (VIACHA). 39/ Nevertheless, a severe problem of project selection occurred. A relatively new public sector producer, COBOCE, had begun operations in 1972 with an installed capacity of 100 thousand MT/yr. FANCESA was now reaching for 364 thousand MT/yr installed capacity. Suddenly, VIACHA had an expansion improved, which would raised its installed productive capacity from 60 to 240 thousand MT/yr. In spite of favorable market conditions, a total combined expansion of productive capacity from 260 to 670 thousand MT/yr. simply held no realistic relationship to local demand. Again, it seemed that local promoters and foreign suppliers had overly influenced the definition of the investment project and the selection function of the national planning system. Furthermore, a simple consideration of the transport costs involved would have clarified the fact that any export hopes were severely limited. Thus, the example of the FANCESA expansion suggests that the selection of the project was deficient and resulted from fundamental lack of coordination of governmental authorities.

As was the case of many of CBF's bigger investments, the FANCESA expansion suffered costly delays. Part of the problems resulted from the firm which was contracted to transport the new machinery and equipment to Sucre. Contractual safeguards might have prevented or compensated errors resulting from third parties. Another problem stemmed from the fact that the furnaces proved too big for the Potosi-Sucre railway connection. A small amount of foresight could have prevented the delays resulting from that error. Generally, poor project execution was highlighted by these delays which amounted to 8 months.

Finally, it must be added that the debt administration shown during the FANCESA expansion was not by any means ideal. Practically the whole project was

externally financed which was a fatal precedent. By 1978, there was little doubt that the external situation of Bolivia had worsened and that a devaluation of the peso was a distinct possibility. Furthermore, large loans in German marks and Belgian francs, at the time, demonstrated little consideration of relative currency movements for a country in a dollar-dominated trading region. 40/ Generally, deficient debt administration compounded the lack of harmony between the cash flow of the project and the commercial terms of its external finance.

In synthesis, the expansion of the FANCESA cement plant demonstrates all the weaknesses inherent to the CBF's investment program: questionable project selection, difficulties in executing the project and deficient debt administration. In this fashion, as happened with the majority of the CBF's major investment projects, the rapid rise in the value of its assets, especially fixed ones, became simply a reflection of its overdue debt rather than a manifestation of a healthy and stable investment program.

3. State/TNB Negotiations: Opportunities Lost

Placed in the context of the modern history of Bolivia, the 1972-78 period could be characterized as perhaps the most propitious for the attainment of accelerated growth. For the first time, the basic factors favorable for accelerated growth came together in positive fashion: political stability, a clear and well-defined orientation to development strategy, a new system for investment planning, a favorable international economic conjuncture and sufficient financial resources to get the job done. Moreover, the conditions were created not only for accelerated growth but for the possibility of increasing and consolidating the decision-making capacity of the State and thereby augmenting its autonomy, due to the solid base for the State's negotiations with foreign participants.

As has been demonstrated in detailed fashion, the result of this apparently unique opportunity was not accelerated growth and increased autonomy, rather by the end of the 1970s the result was the reverse: less growth and less autonomy. The State had in fact weakened its own bargaining power and its own internal contradictions had strangled economic growth. The economic policy of the 1972-78 period was based on a mistaken appreciation of the State and the failure to correctly fathom the multidimensional character of the State produced its internal contradictions, the excessively Caesarian role of the State and the noted inconsistencies in project selection and execution and debt administration with the result that a huge public investment program produced increasingly less growth. A multidimensional State which contradicts itself obviously loses its capacity to consistently negotiate with other major participants, especially foreign ones. In such situations, the financial crisis associated with the payment of the external public debt can snowball into a general economic crisis (if not chaos). The result is that negotiating power swings heavily to the side which has the decision-making capability to lend more and soften the crisis or not to lend and therefore condemn the economy to turmoil. In this sense, the TNBs acquired the capability of defining the level of sacrifice that Bolivia was to suffer as a consequence of the TNBs demands with respect to any refinancing scheme which they might offer. Mainly as a result of its own contradictory nature in the Bolivia setting, the State lost its place at the negotiating table.

Notes

1/ Undated study produced by INDEF, entitled External Debt by Source of Credit, 1974-78.

2/ Requena, P., J.C., p. 21.

3/ The alternative is to save foreign exchange by way of the substitution of imports. However, the Latin American experience demonstrates that this concept is susceptible to various interpretations and practices and generally ends up being more ambiguous than directly earning more foreign exchange via exports.

4/ Requena P., J.C., p. 170.

5/ Obviously, it is difficult to predict interest payments when dealing with a spread over a variable base rate (i.e. LIBOR). The huge increase in the LIBOR during 1979-80 was a surprise even for reknown financial analysts of the industrialized countries.

6/ One must recognize that the capital/output ratio is not a very precise measure. In Annex 3 of Myrdal's text this point is discussed in relation to developing countries. Also see McClelland, Chapter 5.

7/ Given that the majority of Bolivian exports are primary commodities and their prices are established by the international market or via international agreements, it is likely that the overvalued exchange rate did not much influence the international demand for those exports. However, the State enterprises had to convert their export earnings at the overvalued rate (less pesos per dollar) to pay their local expenditures, especially salaries and infrastructural costs for their investment projects. Obviously, these enterprises were casualties of this policy which weakened their financial situation and disincentivated their exports.

8/ For the details of this agreement, as well as that of 1975, see YPFB, Memoria Anual, 1978, p. 49. Also consult Chapter 3 of this study for an analysis of the general commercial conditioning associated with external finance, especially that of the TNBs.

9/ See the data in YPFB, Gestión 1978, p. 22. According to the Latin American Economic Report, (August, 1977, p. 127), the internal price of gasoline was only US 10 cents per liter.

10/ Information supplied by the Ministry of Planning and Co-ordination.

11/ See UNIDO (1979), p. 56.

12/ Ibidem, pp. 57-59.

13/ Given that the International Tin Council sets production quotas, the competitive disadvantages of Bolivia result in its receiving lower net income in comparison to other producers. This natural limits its investment resources.

14/ The tension between COMIBOL and ENAF began with the creation of the latter in 1966. COMIBOL was upset that a separate State enterprise be created for a task which if felt corresponded to COMIBOL, itself. In 1969, COMIBOL was authorized to construct a small bismuth refinery at Telamaya, which caused ENAF to claim that it had exclusive refining rights which they apparently felt included the preparation of concentrates. Public decree 09478 gave ENAF the right to fix concentrate prices and public decree 18950 gave them the right to demand supplies from producers of concentrates. The internal contradictions of the State which became pronounced after 1972 further complicated the strained relations between these vertically integrated State enterprises.

15/ See the World Bank Report (1976), p. 19, which suggests that ENAF may not have acted correctly in charging smelting costs to COMIBOL. Effectively, non-existent costs for transportation, and contamination, as well as inflated petroleum expenses, seem to have found their way into the accounts. As well as contributing to the decapitalization of COMIBOL, these practices further strained an already conflictive relationship between COMIBOL and ENAF.

16/ See CEPAL (E/CEPAL/R.249), July, 1981.

17/ World Bank (1976), p. 29.

18/ See Musgrave, 12 September, 1977, pp. 2-15.

19/ The medium-term credit of Citicorp in 1977 which appears in Table 63 was a free disposition loan to the Central Government, part of which was transferred to COMIBOL. As was pointed out in Chapter 4, after the refinancing loan of 1978, Citicorp, unlike other major lenders, accelerated the reduction of its Bolivian portfolio.

20/ Asheshov, p. 63.

21/ Ibidem, p. 63.

22/ Banco Central de Bolivia, Diagnóstico, 1980, anexo 4.

23/ Seemingly, the ENAF Annual Reports only sporadically mention some major investment projects. For example, the 1978 Report has an outstanding debt figure which represents only a minor proportion of the actual one. Unexplained accounting practices seem to have been utilized in the Annual Reports.

24/ ENAF, Memoria, 1977-1978, pp. 17-18.

25/ See ENAF, August, 1979.

26/ World Bank, (1976), Annex II.

27/ CEPAL, July, 1981, p. 57.

28/ World Bank (1976), p. 28.

29/ See BANCEPAC.

30/ For example, in 1973, the BAB charged an annual interest of 6-10 percent on its loans, while commercial banks paid 11.75 percent on term deposits. See BANCEPAC and Galbis, p. 30.

31/ Between 1971 and 1979 foreign currency deposits in commercial banks grew by over 40 percent (over 50 percent during 1974-78), in real terms, whereas term and sight deposits grew by only 6 percent or less. Calculated from IMF, International Financial Statistics, 1980, using the implicit GDP deflator.

32/ There were examples of earmarked taxes, for example beer consumption carried a tax which was directed toward the financing of the VIII Bolivarian Games Committee.

33/ CBF, March, 1979.

34/ Information from the Ministry of Planning and Coordination, in respect of the evaluation of the Plan Quinquenal.

35/ The only advantage for these enterprises was the shifting out of European currency denominated debt which was then appreciating; however, the stiffer terms of the new dollar denominated debt wiped out that advantage once grace periods lapsed.

36/ CBF, March, 1972.

37/ Most information on this project came from an internal CBF memorandum.

38/ The shift from a fuel-oil to a gas furnace reduced the real productive capacity to 87.5 thousand metric tons a year.

39/ CBF, Memoria-Gestión 1971, p. 52.

40/ Once again, luck becomes an important element in the external financial position. At the beginning of the 1980s the US dollar strengthened considerably vis-a-vis European currencies. It is not known to what degree this favorable development for FANCESA offset the penalty clauses in its external loan contracts.

Chapter VIII

SUMMARY AND CONCLUSIONS

In the preceding chapters we looked at the process of external indebtedness from two standpoints, that of Bolivia as a borrower and that of the transnational banks as lenders. Because we have covered so much ground, it now seems wise to attempt a final summary. Moreover, the Bolivian experience enables us to draw conclusions that may be useful to the country itself, to other countries in similar circumstances, and to the banks. For the sake of clarity, we shall first consider each agent separately; to this end, we shall look at the significance of this experience for Bolivia, and then analyse the behaviour of the transnational banks. In the third and final section of this chapter, we shall briefly discuss the final reflections to which this study gives rise.

1. Bolivia: a wasted opportunity

In the modern history of Bolivia, the experience of the period 1972-1978 stands out as the best opportunity the country has had to achieve accelerated development. During those years, at least four factors which are fundamental to the development potential of a country worked together favourably for the first time.

Firstly, in a country which has been troubled by constant political instability and the lack of a clear orientations for its development, the period between 1972 and 1978 was one of unusual stability and a time when the economic team had devised a clearly defined development strategy with a definite national élitist otientation. Moreover, this orientation was structured within an institutional framework and a planning system that were apparently sound. In brief, it may be said that the period in question was characterized by a well-defined and apparently coherent political project.

Secondly, the international economic situation at the beginning of this period was clearly positive. The markets for almost all Bolivian exports (minerals, metals, petroleum and agricultural products) were very advantageous for the country, especially as far as prices were concerned, and this allowed for an appreciable increase in export revenues. Also, the diversification of exports was promising in that it would reduce the external vulnerability that had always been associated with Bolivia's position as a monoexporter of minerals, especially tin concentrates. In other words, as the period 1972-1978 began, the export sector was in a strong position.

Thirdly, partly as a result of the exceptional position of the export sector, for the first time in the postwar period, financial resources for development reached a level consistent with the plans envisaged. Initially, they were based on an increase in export revenues; nevertheless, external credit, mainly from the transnational banks, soon became the main source of financing. Even though this gave rise to some of the paradoxes of development, such as the fact that one of the poorest countries of Latin America was paying the highest prices for its external loans, it meant that Bolivia did have access to external resources, a circumstance which had not previously obtained. Thus, during the period 1972-1978, financing was adequate for the country's defined development aspirations.

Fourthly, perhaps one of the most significant advances of this period was that the authorities established conditions for genuine foreign participation in national development. They created the necessary institutional machinery and legal means to promote an increase in such participation, which was to materialize as a result of direct negotiations between the State and the foreign agents. The new legislation on hydrocarbons and other investment (which set aside

the main provisions of Andean Group Decision 24, on foreign investment and technology, which had recently been adopted) helped clarify the rules of the game for foreign investment. In a country where such investment had often been at the mercy of the politics of the moment and subject to the risk of nationalization, foreign participants viewed this as a sign of maturity on the part of the Bolivian authorities. In future, foreign participation was to be based on commercial negotiations between peers. In this regard, it became evident, during the period under study, that the Bolivian authorities had adopted a new attitude in their negotiations which must have attracted potential foreign investors.

Each of these factors is important in itself and the fact that they all coincided meant that circumstances were very propitious for the country's development. Indeed, during a good part of this period, the Bolivian economy experienced a boom. Between 1972 and 1976, the rate of growth of the gross domestic product averaged somewhat over 6% per year, a high figure for Bolivia, whose economy was one of the fastest growing ones of Latin America.^{1/} Thus, a nation which up to then had been excluded from the international capital markets saw its credit rating soar, to the point that in 1975-1977, it was enthusiastically welcomed by many transnational banks. Foreign investors again became interested in the country and expectations for the petroleum sector looked promising. This favourable situation could only be maintained by steady economic growth, and that did not materialize: the economy began to suffer serious problems in 1977, then stagnated and towards 1979, began to decline without there being any sign of recovery in the following years. What had begun as a relationship in which there seemed to be a clear quid pro quo between the State and the transnational banks had degenerated into a situation in which the State's bargaining position was extremely weak.

Among the factors which led to this situation, three are worth mentioning:

i) The choice of an extreme variant in the development strategy, together with an erroneous view of how the State apparatus should operate, led to internal contradictions which were reflected in inconsistencies in the economic policy.

ii) The public sector's lack of administrative capacity to respond to the challenge represented by the new project was reflected in deficiencies in the planning function, in excessively ambitious investment programmes for the main State enterprises and, generally in a risky external debt policy.

iii) The multilateral international financial mechanisms proved to be inadequate, forcing the country to resort to commercial sources of financing.

Although it is difficult to weigh the influence of each one of these factors, given the interrelationship among them, it may be said, that the fundamental factor which precipitated Bolivia's crisis was that of the internal contradictions of the State and that this was in itself sufficient to lead to a crisis. Because of the important role they played in the dynamics of the national élitist orientation adopted by the Government, the transnational banks further complicated and aggravated the situation. We shall now discuss each factor individually.

a) The multidimensional State and its internal contradictions

In the context of the new "national élitist" orientation to development strategy, in 1972, the main aim of the economic authorities was to shift the centre of attention of their policies from the promotion of public enterprises to the promotion of private enterprises; the latter were supposed to provide the basic impetus of production for the development process. In the opinion of the authorities, the results of the national populist orientation previously in

force had not been satisfactory; they therefore considered it necessary to promote an extreme variant of the national élitist scheme and tried to persuade the national private sector to become the new moving force of the development process, expanding their economic activities through accelerated investment. The harsh stabilization programme of 1972-1973 was designed to restructure and reorient the national economy decisively towards private industry, both national and foreign. The function of the institutional framework and the planning system established was to centralize and technify the public sector's decision-making process, in order to place it more directly at the service of the new régime. Public finance was reorganized in such a way as to favour the private sector, partly at the expense of the major public enterprises (e.g., domestic credit was preferentially oriented towards the private sector and higher taxes were levied on public enterprises of the export sector). The emphasis on the efficient allocation of resources through private investment was meant to promote increased and more suitable foreign participation. By establishing numerous review and monitoring mechanisms, e.g., project selection, monitoring of the debt, etc.), the authorities wished to demonstrate their maturity and sense of responsibility in the handling of negotiations. The idea was that the problems which had arisen in the past could be avoided by encouraging foreign participation based on negotiations between the State and the foreign agents, monitored by the new official machinery.

Within this context, the new capacity for obtaining increasingly large amounts of external financing from the transnational banks paved the way for what might be called the calculated risk taken by the persons newly in charge of economic policy, i.e., they chose to try to accelerate development by

channelling almost all domestic credit towards the private sector, leaving the public sector to seek financing abroad (at whatever cost). The gave three reasons for this option. In the first place, the transnational banks did not seem to be willing to provide financing directly to the private sector; rather, they preferred public-sector investments, especially in the lucrative field of exports. In the second place, the authorities were convinced that the exceptionally favourable treatment given to the private sector would lead to immediate and steady investment in production, which would in turn speed up the domestic economic growth rate. Finally, the absolute cost of foreign bank credit was relatively low in real terms, during that period.

The strategy adopted did indeed entail certain risks. Any unfavourable development in the export sector or in the area of investment, in either the public or the private sector, could considerably increase the burden of external indebtedness on the national economy,^{2/} thus weakening the country's bargaining position vis-à-vis the foreign participants. During the early part of this period, the economic successes of the stabilization programme, the export boom and the resulting improvement of public finance, the possibility of obtaining new oil resources and the rise in the level of private sector investment greatly enhanced the application of the new strategy. Under such circumstances, any possible risk involved in the great increase in external participation through loans from transnational banks appeared to be negligible.

There is no question that this new orientation had its rationale; indeed, the history of capitalist development shows that many countries have managed to industrialize through the dynamic participation of the private sector and with the help of a substantial amount of external investment and credit.

Moreover, as was shown in chapter 5, there is reason to believe that Bolivia's previous experience with the national populist orientation was frustrated by an inadequate material economic base. Nevertheless, in formulating the new development strategy, the economic team did not adequately assess the asymmetries that can arise between the unidimensional aspect of foreign participation and the multidimensional character of the State, which created serious internal contradictions and inconsistencies in economic policy.

One of the unique aspects of the new orientation was that foreign participation virtually took only one form (that of foreign loans) and had only one source of financing (the transnational banks).^{3/} In general, when the desired level of foreign participation is diversified (direct foreign investment, external financing, granting of licences for the transfer of technology, management contracts, etc.) and comes from different sources, it tends to help stabilize local development. The new form of foreign participation in the development of Bolivia, however, turned out to be a destabilizing influence, not only because of its magnitude, but also because of its unidimensional nature.

Another unique feature of this phase of the development of Bolivia was the size and the great relative importance of the State's participation in the economy, which was disproportionate for a government that wished to emphasize the role of private enterprise in development. This does not necessarily mean that there is contradiction between the State and private enterprise, but it makes the possibility much more likely. From 1952 onwards, the State had played an increasingly important role in domestic development; it had become multidimensional in nature and could not easily be changed to adjust to the new orientation to development strategy. Moreover, the State had come to reflect many opposing

forces and influences and these were evident in the various functions it assumed. From this point of view, one may consider that the attempt to reformulate the State's functions rapidly and vigorously, in keeping with the new orientation, was yet another factor of disequilibrium and destabilization and showed up the many serious internal contradictions of the State.

In order better to understand the multidimensional character of the State, let us think of it as being made up of at least three main elements i.e.,

- i) the team responsible for economic policy, linked to the régime in power;
- ii) the career staff of the State bureaucracy, and iii) the public enterprises.^{4/}

During the period 1972-1978, the economic team and the public enterprises seemed to be moving in opposite directions, and this created serious tensions in the economic structure of the country which subsequently give rise to serious economic and political conflicts that are still unresolved. Moreover, the State's Caesarian function (i.e., its action in representing dominant local private groups) appeared to be openly incompatible with its empire-building role (i.e., the action of public enterprises on behalf of their own interests); thus, there was very little margin for it to carry out its important functions with regard to the universal role (i.e., its interest in the general well-being of Bolivian society). Thus, the growing antagonism between the various functions of the State gradually became an obstacle to the economic growth of the country.

Some of the paradoxes and inconsistencies of the Bolivian experience become evident if we consider the following:

- i) A public policy that was committed to free enterprise and a private sector that was impatient to receive the benefits of large-scale public investment programme, even if it came with a new planning system;

ii) The implementation of complex planning and external debt-control systems went hand-in-hand with a breakdown in the decision-making process and a crisis of public external indebtedness;

iii) Although many incentives were offered it, the private sector did not seem prepared to take advantage of them in order to become the moving force of development through productive investment;

iv) There was an unprecedented opportunity for almost unlimited access to foreign exchange (by way of exports and external indebtedness); however, not only this did not bring economic prosperity, but, on the contrary, it led to a serious crisis.

The disruptions that hindered the work of the public sector were fundamentally due to the fact that on many occasions, economic policy respected neither the spirit nor the objective of some public enterprises. The public sector seems to have been used, to a large extent, to support private-sector activities which were not always in harmony with long-term development objectives.

Thus, a heavy tax on production was levied on the State enterprises, especially YPF and COMIBOL, with no consideration being given to their cost structure. The resulting transfer of resources naturally helped support the government's economic policy, which was aimed at firmly supporting the private sector. Price controls were also imposed on the State enterprises; the most striking example was the fixing of the sales price for YPF gasoline, which reduced costs to the private sector and damaged the financial stability of the State enterprise. The policy of maintaining the exchange rate, while helping to reduce the cost of imported goods and inflationary pressures, brought about serious financial disequilibria within the public enterprises, which were obliged to convert their export earnings from dollars into pesos,

thus delaying oil prospecting activities, for example. Considering the State enterprises account for virtually all the country's exports, it is not surprising that the export coefficient fell so dramatically during this period.

Public policy also gave the public sector greater access to external credit by enabling State enterprises to contract debts abroad with the transnational banks. As has already been mentioned, this strategy might seem adequate, since State enterprises can obtain external credit on more favourable terms than the private sector. However, there was a serious contradiction as regards repayment capacity, since other measures were applied simultaneously which undermined the financial equilibrium of the State enterprises. Hence the situation became unbearable.

The subordination of the productive function of State enterprises to the expansion of the private sector created its own contradictions. The main public enterprises realized that the financial drain created by the public sector's policy endangered their own stability and tried to convert the bulk of their financial resources into physical assets (stocks and capital equipment) in order to avoid rapid decapitalization. These measures put in operation opposing forces within the State apparatus, and this reduced their effectiveness.

In theory, most of the public investment programme may have seemed commercially viable and well-suited for financing by the transnational banks. The enterprises concerned (YPFB, ENAF, COMIBOL and others) were all very large and were involved in the petroleum and petroleum by-products, metals and mining sectors, all of which could be very lucrative, given the favourable prices then prevailing on the international market. However, precisely because of the aforementioned internal contradictions of the State, they were obliged, in executing their programmes, to adopt many non-commercial decisions.

As the public enterprises' concern about the weakening of their financial position increased, they realized that the only way they could maintain their empire-building role was to continue expanding their physical assets. Their financial weakness was no obstacle to the financing of their investments, since the transnational banks were prepared to grant them credit on the basis of a guarantee of the government of Bolivia and were less and less concerned about the viability of the enterprise itself. Thus, for example, for the small size of the market, there was an excessive growth in the scale of refineries, smelters and even cement factories. Stocks and materials grew disproportionately to the financial flows generated by the projects. In their zeal for converting resources into physical assets, they often began to invest before having completed the relevant preliminary studies (e.g., inventories of material resources, seismographic studies and basic infrastructure) or, as in the case of ENAF, their investments were way out of proportion to the original project. A good example of such a situation is that of the costly projects involving the Santa Cruz and Cochabamba refineries, conceived in the euphoria created by the prospect of expanding national petroleum production; as this expansion did not materialize, the facilities had to function at less than 50% of their nominal capacity.

Since the debts contracted by the enterprises had the guarantee of the Bolivian government, it was the latter which was in the last analysis responsible for their service. The enterprises concentrated their attention on obtaining the greatest possible amount of financing at the greatest possible speed, without paying much attention to the terms of the loans. Therefore, most of the debts were contracted at maturities of 5 or 6 years, which was barely enough

time for the projects to produce results. It then became necessary to resort to rescheduling, a system which can be risky and uncertain when the obtaining of new credit depends on the decisions of private banks.

The State enterprises followed this strategy partly as a matter of tradition however their co-ordination with the sectoral ministries was so deficient that they enjoyed considerable autonomy as regards their financial and investment decisions. On the other hand, their practice was not at all incompatible with the Government's goals. If one bears in mind that the major State enterprises were engaged in activities that should have been profitable, from the commercial point of view, in the field of petroleum and mining, and that many commercial banks preferred to finance this type of activities and projects, it seems only logical that public enterprises should play a leading role in Bolivia's efforts to establish its creditworthiness on the international capital markets. This not only attracted foreign exchange for financing imports; once Bolivia achieved a certain prestige on these markets, it also paved the way for obtaining other loans that benefited the private sector more directly, such as the loans granted to the State mainly for support services to the private sector and those granted to State banks that could guarantee private sector loans (e.g., the Banco del Estado, which guaranteed the loans for the new Sheraton Hotel in La Paz), or obtaining credit directly and then lending to the private sector (as did the BAB with regard to credit for cotton growers). Actually, the enormous amount of free disposition credit that was granted by the transnational banks shows how tenuous was the correlation between the purpose of a loan and the final destination given to the resources borrowed.

Undoubtedly, other non-commercial circumstances also influenced foreign investment. Some of the most important government officials had held high executive positions in local financial institutions and had strong ties with the transnational banks. Consequently, they may have been excessively enthusiastic in their efforts to demonstrate the extent of their contacts abroad and arranged for an excessive amount of new credit with foreign banks. It should also be borne in mind that the debt-control and national planning systems were not working properly; economic circles are very small in Bolivia and tremendous pressure was generated in support of direct or indirect foreign indebtedness to back private investment.^{5/}

The overall development strategy might have been more successful if the private sector had responded by investing productively. After a brief period of activity in 1973-1974, however, private investment fell sharply. Moreover, as is shown in the study made by Asheshov, the private sector was engaged mainly in activities of a dubious character from the standpoint of the long-term development of the country; it seemed to have been more interested in distributing the benefits of development than in generating them. Although it is difficult to explain conclusively what factors influenced this behaviour, some theories have been advanced which seem reasonable. It might be worthwhile to discuss them in greater depth.

It used to be quite common to attribute the lack of enthusiasm of private capital in the developing countries to the absence of a native entrepreneurial capacity; it was thought that national entrepreneurs, instead of investing and generating surpluses in the country, preferred ostentatious consumption and placed their capital in Swiss banks. If that were true, however, one would have to say that, under similar conditions, capitalists in the central

countries and in the peripheral countries would behave very differently from each other, a view which is difficult to support. As Baran pointed out some time ago, the problem of entrepreneurial capacity in the underdeveloped countries is not so much a matter of the inadequacy of the supply of entrepreneurial capacity as of the use which is made of it within the existing economic and social order.^{6/} It is possible that national entrepreneurs, conditioned by the uncertainty of Bolivia's economy, simply took the risk factor much more into account in their decision-making, and decided to concentrate on unproductive, short-term, but highly profitable activities, such as the importation of consumer goods, speculation in real estate, and so on.

This reasoning does not however, explain the minor investment boom of the period 1973-1974 or its subsequent decline. One possible explanation might be that the prevailing euphoria and confidence in the prospects of the private sector vanished after the commotion caused by the collapse of the cotton market. One must also bear in mind the change in interest rates on domestic credit, which, after having been decidedly negative in real terms between 1974 and 1975, turned positive in 1975-1976. If investors were expecting real interest rates to remain negative during this period, this change may have affected their confidence. Moreover, it is interesting to note that the decline in the rate of investment in the private sector more or less coincided with the initiation of the public sector's investment programme. In this regard, it must be borne in mind that the State generates a large share of the gross domestic product and that, although many of its activities are capital-intensive, it also plays an important role in intermediate industries --such as cement factories, sugar refineries, dairy production, edible oils, plate glass factories--, which might have attracted private investors. As the public sector,

which was already large, continued to grow, the initially high expectations of the entrepreneurial sectors may have been frustrated and they may have begun to mistrust the Government's intention of revitalizing private enterprise.

In brief, within the context of the aforementioned internal contradictions of the State, the absence of clear rules with respect to the role that the private sector was supposed to play may have fatally jeopardized the success of the national élitist approach to development. On the one hand, the private sector was trying to invest; on the other, the State enterprises, in order to protect their own interests, sought to expand their participation in the economy. Noting these inconsistencies, the private sector may have once again questioned the true intentions of governmental policy and sought to protect their own interests by engaging in activities that would ensure quick profits. These activities pressured the State to guarantee a domestic and external indebtedness that was used for lucrative activities that were not always consistent with the goals of economic development. All this was further complicated by the excessive Caesarian role played by the multidimensional State.

b) The limitation of administrative capacity and inexperience in negotiating with foreign participants

As we have seen in the preceding chapters, the internal contradictions of the State were concretely reflected in the planning function, the public investment programme and the negotiations with foreign participants. As regards the first aspects, the plans exceeded the country's capacity for managing its public administration. As regards the negotiations with foreign participants, most of the problems which arose in connection with the debt policy were due to the country's lack of experience with such matters.

i) The limitation of administrative capacity

We have already mentioned that the application of the new national élitist orientation led to several irregularities in the development of Bolivia. In general, the structuring of the new development planning system went hand in hand with loss of consistency in the decision-making process; this became evident as the discrepancies between established goals and actual results grew. The great effort put into the public investment programme brought increasingly poor results. The irregularities in the country's development were indeed related to the internal contradictions of the State, i.e., the different components of the State apparatus were not working in the same direction. As far as the actual operation of the planning system and the implementation of large scale public investment projects are concerned, however, the irregularities are due to the fact that the State's administrative capacity was limited vis-a-vis the magnitude of the tasks it had undertaken and not to administrative deficiencies as such.

As was mentioned in chapter VI, the new Government set up a new and more rational planning system in order to implement its national élitist orientation. The decision-making process was centralized in institutions that were closely linked to the Office of the President (e.g., CONEPLAN) and the Ministry of Co-ordination (subsequently the Ministry of Planning Co-ordination) was created. The new system was filled out by the laws establishing the National Planning System, the National Projects System, the National Investment Institute (INI), the National Preinvestment Institute (INALPRE) and the National External Financing Institute (INDEF), some of which were to monitor the generation of public investment projects (INALPRE) and the management of the public external debt (INDEF). These structures seemed to be what was needed and the

Five-Year Plan (1976-1980) was drawn up precisely on the basis of this new institutional framework. In practice, however, all these institutions proved to be deficient, to different degrees, and the Five-Year Plan itself was characterized by a complete divorce between the objectives set and the results obtained. Administrative capacity proved to be limited and very vulnerable to pressure from highly influential groups which distorted the planning function in general and the results of public investment in particular.

The discrepancy between the implementation of public investments and the corresponding impact of economic policy has been discussed in chapter VII, where several case studies were mentioned. As regards public enterprises in the export sector, the financial drain, by contrast with the large public investment projects, was partly responsible for the financial failure of the main projects. The YPF refineries, operating at less than 50% of installed capacity, were oversized in the context of the national market and the availability of crude oil. The installed capacity of the new ENAF smelters was way out of proportion to COMIBOL's real capacity to supply them with ore, even taking into account its new investments in volatilization, flotation and preconcentration plants. In brief, the costly investment projects carried out by these enterprises tended to cause imbalances in the sector concerned, because of the difference between the resources provided by the mining industry and the installed refining capacity; This situation had an adverse effect on the financial stability of the enterprises. The latter, apparently in order to palliate the financial drain to which the economic policy was subjecting them, resorted to investing in large-scale refining projects at a time when it would have made more sense to use resources for prospecting, exploration and production.

The case of the Banco Agrícola seems to be an example of what happens to a public enterprise that does not have sufficient means to deal with the impact of the excessive Caesarian role of the State. The institution was obliged to place the bulk of its portfolio in private-sector activities (e.g., cotton in Santa Cruz) which turned out to be unprofitable and hard to justify. The situation of the Santa Cruz cotton growers became so difficult that a great many of them refused to pay their debts to the Banco Agrícola. The Government decided not to resort to the usual legal measures. For the bank, this meant decapitalization and the loss of its ranking as one of the major financial institutions of the country.

The case of CBF in general --and especially its mixed enterprise, the cement factory FANCESA, which under normal circumstances might have been a very sound public investment-- gives a clear picture of the whole problem of limited administrative capacity as regards project selection and administration, and debt management. Undoubtedly, a fourfold increase in the productive capacity of FANCESA would have been an attractive project in a sound market. At the same time that this expansion was approved however, the officials authorized the expansion of two other national cement plants, so that the total installed capacity of the three enterprises was completely out of proportion to the needs of the national market. In addition to this problem concerning the selection of the project, its execution was also somewhat unsatisfactory and led to costly delays. After these delays went beyond eight months, the enterprise was obliged to resort to the Central Bank to try to cover its external obligations, thus initiating a typical vicious circle.

In brief, both planning and public investment were characterized by limitations of administrative capacity and this, in the context of the economic policy of the

period (1972-1978), was one of the factors responsible for the poor results obtained. Evidently, in those years the economic policy was based on an erroneous view of the multidimensional nature of the Bolivian State, thereby producing the adverse consequences already mentioned. Moreover, it affected negotiations with foreign investors, particularly as regards the need to reschedule the outstanding public external debt.

ii) Lack of experience and an inadequate negotiating strategy vis-a-vis the transnational banks

As mentioned above, during the 1970s, Bolivia, for the first time in this century, had full access to the private international capital markets; it thus had an exceptional opportunity to speed up its growth and achieve sustained development. As we have seen, the authorities' policies was explicitly aimed at attracting a large volume of financing from the international capital markets, which at that time had great liquidity. In addition, the policy of significantly increasing foreign participation in order to accelerate development, by its very nature, represented a calculated risk that the authorities took. However, a sine qua non condition for the success of such a strategy --in other words, for maintaining uninterrupted access to credit at a reasonable economic and political cost-- was that there be a balance between the bargaining position of the debtor and that of the transnational banks. What actually happened, however, seems to have been that the approach taken by the economic authorities actually had the opposite effect. The country's negotiating position deteriorated rapidly, contributing to the failure of the political project and giving rise to the worst economic and political crisis in the modern history of the country.

The authorities certainly never intended for Bolivia's bargaining position to deteriorate that way. Why then did the country lose its

footing vis-à-vis the banks and thus lose one of the fundamental tools for pushing ahead with the development programme? There are several possible explanations; undoubtedly, one of the most important is the inexperience of the borrower, who apparently did not realize what conditions were necessary to maintain a strong bargaining position and thus ensure an adequate flow of foreign capital to the country. As we mentioned in the Introduction, Bolivia is one of the least developed countries of the region; it did not have access to private foreign capital during most of the postwar period and consequently, international bank loans were an almost unknown instrument for most of the public officials. Moreover, towards the mid-1970s, there were very few publications and studies on the phenomenon of private banks and their insertion in the periphery. The country seems to have had to learn through experience, with all the difficulties and frustrations that that entails.

The commercial banks usually show great interest in new arrivals on the credit market, provided they are solvent countries with little or no commercial debt. The newer a country is as a borrower, the less is the risk for the bank and the more willing it is to grant credit, even in times of market restrictions. As we have said before, in 1974-1975, when Bolivia began to incur debts, it was resorting to the international private capital market practically for the first time in the contemporary period; this help explain the relatively good reception it was given as a debtor. As a country's share in a bank's portfolio increases, however, bargaining power (within certain limits) may gradually shift towards the bank, since, in the interest of diversifying its portfolio and its risks, it will be much more reluctant to take on new commitments. 7/ The weakening of a debtor's bargaining power because of considerations linked to risk may

theoretically be offset, entirely or in part, by improving the country's creditworthiness vis-à-vis the creditor. Likewise, the liquidity situation on the international markets may influence the volume and the terms of loans granted by the transnational banks. When dealing with a bank that wishes to place its loans, it is wise to apply a "defensive" and rational indebtedness policy that takes into account the fact that the volume of credit these financial institutions can grant is limited by the principle of diversification of portfolio and risk. In taking into account the importance of a good credit rating for maintaining a strong bargaining position, a debtor will also want to be sure that the volume of loans it obtains is compatible with an efficient allocation of resources and the maintenance of domestic monetary stability.

It seems that the Government did not adequately assess the real risks involved in becoming indebted on the international capital market.^{8/} Instead of establishing a defensive or selective indebtedness strategy in order to ensure that the opening up of the credit market would be used for the benefit of the country and using it to maintain uninterrupted access to credit on suitable terms, it tried to obtain the largest possible volume of short-term credit without seriously taking into account the problems of absorption that this would entail. By acting in this way, it incurred excessive debts, both from the standpoint of volume and from that of the cost of foreign capital. In such circumstances, foreign capital does not generate a greater economic surplus; instead, it fosters a poor allocation of resources, an increase in consumption, speculation and inflation, as well as a flight of capital. This process in turn reduces the debtor's borrowing capacity and prevents it from having uninterrupted access to private foreign credit. From this point of view, it may be said that the Government clearly underestimated the inflationary

implications of large-scale external indebtedness. The country was accustomed to a shortage of external capital and when it suddenly became a viable debtor on the international credit market --at the same time that commodity exports increased-- it was faced with an unprecedented challenge as far as the management of liquidity and domestic inflation were concerned. As we mentioned before, (see table 1), the 1973-1974 boom in commodity exports brought a massive increase in price levels, partly by way of imported inflation, in a country which had been accustomed to relative stability. Immediately after this, there were new pressures to expand the liquidity generated partly through the creation of domestic credit and partly through the accumulation of foreign assets, given the country's easy access to external credit. Inflation fell sharply after 1974 --despite the exceptionally high level of domestic liquidity-- but the success of the stabilization effort seems to have been more related to the introduction of new measures, such as price controls (including controls on the exchange rate), wage controls, and the use of an outdated weighting system for calculating the consumer price index.^{9/} The artificial containment of inflation contributed, in turn, to a false sense of security, both on the part of the country as a borrower and on the part of the foreign creditors. Actually, the measures taken to check inflation only brought temporary relief; the resulting distortions generated other problems, which led precisely to an undermining of the creditworthiness which the anti-inflationary policies had helped improve. Prices could have been controlled more effectively and directly by fostering a controlled expansion of external credit; as well as of domestic credit.

This excessive indebtedness seems also to have had played a direct role in the poor allocation of resources. As a country, Bolivia seemed to be

Table 76

BOLIVIA: DATA ON LIQUIDITY AND DOMESTIC PRICES

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
	<u>(Growth rates)</u>									
Money supply (M_1)	12.6	15.3	25.1	34.3	43.4	11.8	36.5	20.9	12.4	16.7
	<u>(Billions of pesos)</u>									
External assets (net)	0.3	0.2	0.7	0.2	2.5	1.7	2.9	2.9	0.5	2.6
Domestic credit	2.1	2.5	3.2	4.2	4.1	5.7	8.2	11.2	15.1	21.3
	<u>(Average annual percentage change)</u>									
Consumer prices	3.9	3.6	6.5	31.6	62.7	8.0	4.5	8.1	10.4	19.7

Source: International Monetary Fund, International Financial Statistics, 1980.

accustomed to a rather paternalistic behaviour on the part of bilateral and multilateral credit institutions; in the short span of two years, however, it had entered fully into the liberal atmosphere of private international finance. Finding itself relatively free from the strict rules and regulations applied by official financing agencies, the Government contracted all the loans that the market was able to grant without taking into account its capacity for efficiently absorbing the resources. Moreover, an unusually high percentage of these financial resources were obtained in the form of free disposition loans.

Used wisely, this type of loan can be a very useful economic policy tool in countries such as Bolivia, which have great difficulty absorbing resources; moreover, it can help strengthen the balance of payments during times of deliberate economic reformulation with a view to subsequently increasing absorption capacity. In the context of a developing country, however, free disposition loans contracted under harsh commercial terms can only fulfil this objective in a very limited way. Moreover, when the volume of such loans is very high, as was the case in Bolivia, they may lead to a poor allocation of resources; as free disposition funds accumulate in foreign accounts, they begin to be the object of political pressures and to be used for activities that cannot finance the commercial debt service. This, of course, does not have to be the case, but unfortunately a fairly undeveloped economy is usually inserted in a broader and more permissive atmosphere in which inconsistencies in national policy do not seem to be a sporadic matter. A debtor who was aware of the risks of incurring a heavy external debt would have realized that it was wiser to obtain a minimum amount of free disposition loans and to do so in the context of a well-planned set of economic reforms. Instead, the large inflow of credit

to the country was subject to pressures from various domestic groups and only served to aggravate rather than mitigate the deficiencies in the economic structure and policy.

The national policy not only fell victim to bankers' enthusiasm as regards the volume of credit, but it also allowed for the relatively stringent cost structure that prevailed, during 1975-1977, in a tight credit market. As soon as the country saw positive signs on the international financial markets, it requested all the resources that were offered to it, despite the fact that, as a result of negative international cyclical conditions, the banks that controlled the market were the very large ones and hence the negotiated cost of credit was in itself very high. A more cautious approach towards indebtedness would have enabled the country to achieve the same goal of consolidating its position on the international capital markets, and the Government could have waited for the market to change and for credit terms to improve. Most importantly, however, a cautious indebtedness strategy would have facilitated an efficient absorption of resources and helped the borrower demonstrate wisdom, thus encouraging the banks to offer a more permanent supply of credit.

In its refinancing strategy, the country also demonstrated an apparent lack of knowledge about the methods of the international capital markets. In 1978, when market conditions became more favourable, it could have refinanced its commercial debt on better terms. Apparently, the Government heeded the warnings made by certain bankers to the effect that any refinancing above and beyond the large US\$155 million loan granted in 1978 would not be well viewed on the market, particularly since the commercial banks had let it be known that they did not look favourably on such operations. However,

the authorities may not have realized that, to the consternation of most of the bankers, experienced borrowers had been actively refinancing their debt by taking advantage of the conditions offered by the market. It would have been useful if the Bolivian Government had realized that to a large extent, bankers grant credit on the basis of a country's economic situation, which improves substantially when debts having high margins above the base interest rate and short maturities are converted into new loans with lower margins and longer maturities.

Finally, the borrower seems to have fallen in the same trap during the rescheduling negotiations of 1981.^{10/} Bolivia initiated its negotiations with the international banks with a view to restructuring its commercial debt very shortly after the Nicaraguan Government had finished negotiating the rescheduling of the debt contracted by the previous régime. Nicaragua had set a precedent as regards the conditions under which such a transaction could be carried out. Before this arrangement, rescheduling agreements with borrowers who had problems, such as Zaire, Peru, Turkey and others, had provided for very harsh or openly punitive commercial terms.^{11/} In its negotiations, however, Nicaragua held that because it was an insolvent debtor, it should be granted repayment terms that were compatible with its limited economic capacity.^{12/} After difficult negotiations, Nicaragua's argument prevailed and repayment conditions were established that were unquestionably concessionary. Why did Bolivia not try to take advantage of the favourable terms obtained by Nicaragua in its agreement, signed only a few months before?

Although in practice it is very difficult to distinguish between insolvency and a lack of liquidity,^{13/} there is every indication that Bolivia --although less spectacularly than Nicaragua-- showed many signs of

insolvency, a condition which should have made it eligible for similar concessionary treatment. There were many indicators of insolvency, including the negative net reserve position of the Central Bank and the fact that projects in progress, such as the petroleum complex built at a cost of US\$250 million, had not yet begun to bear fruit. Also, there were other large projects in the mining and smelting sector which were real white elephants administered by CBF, and many loans from state development banks were unpaid. Another rough, but nonetheless eloquent, indicator of insolvency was the sharp increase in the capital marginal product ratio of the economy in 1979-1980. Bolivia actually increased its investment effort without obtaining the results that might have been expected.

It is true that the objective situations of Bolivia and Nicaragua were very different, especially considering that the Nicaraguan Government had risen from a popular revolution, a fact which undoubtedly affected its bargaining power vis-a-vis the transnational banks. However, the asymmetry between the execution periods and the amortization periods of the major Bolivian projects, along with the prevailing political uncertainty, would have been sufficient grounds to justify a refinancing on much more advantageous terms than those which the country obtained under the agreement it signed.

It is well known that the international financial circles realized that Bolivia was prepared to accept an arrangement at any price; if it had negotiated more energetically and quietly made it known that its economy was in a state of crisis, and that it might consciously have to accept the risks of noncompliance, it would undoubtedly have obtained better financial terms. Once again, in this case there seemed to have been an erroneous interpretation of the banks' behaviour and the country's bargaining power.

It seemed that a politically insecure government wished to gain prestige in international circles and was prepared to pay the price. But it was doubtful whether it would have been able to do this by accepting rescheduling terms that were so harsh for the country and so favourable for the transnational banks. With respect to its prestige in international political circles, an agreement with transnational banks (and, implicitly, with the IMF) would have mattered very little, since it was known that the basic source of friction, especially as regards relations with the United States, was the sharp increase in the drug traffic. Moreover, although the rescheduling agreement was necessary, it was not enough to re-open the doors of the international banks, since the country's economic situation would have had to improve notably and this agreement complicated it even more.^{14/}

The application of a relatively firm but serious and responsible bargaining strategy during rescheduling negotiations would have irritated the banks. Experience shows, however, that in granting loans, they are more concerned about the country's political and economic situation and barely remember the difficulties encountered in previous negotiations.^{15/} And there is no question that a rescheduling agreement on more favourable terms would have helped improve the economic situation.

c) Commercial loans, an inadequate international mechanism for financing the development of less developed countries

The deficiencies of international development financing mechanisms were also partly responsible for Bolivia's crisis. While it is true that the country incurred an excessive debt, it is no less true that it had a legitimate need for foreign capital to support an investment programme for development.

A country which up to then had depended on bilateral and multilateral official

mechanisms to finance its development suddenly had to resort to a new source of credit --the transnational banks-- with which it was not very familiar. And it did so not necessarily because it wanted to, but because the official credit institutions, as a result both of the slowness of their own practices in delivering resources and the reluctance of the OECD and OPEC countries to give them financial support, had encountered serious difficulties in meeting the financing needs of the less developed countries during the 1970s. The international commercial banks, on the other hand, benefiting from the ever-growing common fund of Eurocurrencies, had become the only truly elastic source of resources for development. Thus, whereas in the early 1970s, almost 70% of the country's external debt was made up of official loans and credit from multilateral agencies, with virtually no participation from the commercial banks, in 1978 the official proportion of the debt fell to a little over 50%, whereas the share of the commercial banks rose to one-third.^{16/} The debt profile changed dramatically; indeed, the proportion of the debt that matured in less than 10 years more than tripled and the percentage that bore an average interest rate of more than 9% rose from almost nothing in 1971 to 28% in 1978.^{17/}

The change in the composition of the debt, along with certain deeply rooted peculiarities in the behaviour of the international commercial banks, which will be discussed later on, seriously complicated the economic administration of the country and its development aspirations. With all this in mind, one can only wonder whether it is advisable to halt too abruptly the granting of concessionary loans to a developing country with a very low level of income. The country had no choice but to resort to bank capital to finance its ambitious development programme. The lack of viable alternatives for development financing is one of the fundamental weaknesses of the international financial system. These questions will be discussed in greater detail in the following section.

2. The transnational banks: much profit and little risk

In the preceding section, we pointed out some of the deficiencies of Bolivia's economy policy. There is no doubt that external indebtedness had something to do with the errors that were made in allocating resources and became a real problem in itself. We must consider, however, that the Government did not contract debts only through its own action, but also thanks to the reception the banks gave it. Therefore, Bolivia's unfortunate experience in the 1970s cannot be considered in isolation from the behaviour of these transnational institutions. Consequently, it seems useful to discuss the banks' credit strategies and their implications for Bolivia, as well as the general subject of development financing.

a) Assessment of creditworthiness

Bolivia's experience raises serious questions about the method used by the banks to assess creditworthiness. Much has been written about solvency and how the banks assess it, but the case of Bolivia suggests that the method they use is still very elementary and that the banks actually assess the overall potential for obtaining profit rather than the risk entailed in each particular loan.

Apparently, the commercial banks made the same error of judgement that some Bolivian policy makers did, i.e., they were excessively optimistic about the duration of the political project, the duration of the 1973-1974 export boom and the prospects for exporting large volumes of petroleum. Although the commercial banks are not prepared to assume a risk without expecting to make a good profit, it seems that the decision to grant such large amounts of credit was not based on a serious assessment of the country's repayment capacity. In this regard, the bankers actually contributed to,

rather than moderating, the excessive enthusiasm prevailing in Bolivian economic circles.

Some indicators seemed to suggest, at first sight, that Bolivia had finally overcome its difficulties and entered into a stage of sustained economic growth and political stability. However, there were other factors that suggested that it was still on very shaky ground. It was known that the Government did not have the support of large sectors of Bolivian society and this meant that there was a strong element of uncertainty as regards the political and economic programme.^{18/} The export boom was almost exclusively a result of the enormous increase in the international prices of minerals and petroleum; favourable prices of commodities tend to be a passing phenomenon and are not always a sound basis for sustained economic growth. The volume of exports, which is one of the most important indicators of a country's prospects for growth, only looked promising during the period 1972-1974; after that, there was a volume of exports virtual collapsed and this precisely at a time when the banks had begun to grant copious loans to the country (see chapter 1). At the same time, the commercial banks' expectations that large petroleum deposits might be found proved to be unfounded; apparently, they were based on studies that were quite inadequate.

Thus, although there were certain conditions that might have led one to think that the prospects for Bolivia's economy would improve, there were also many others which apparently were overlooked by the banks in their zeal for placing their credit. The error becomes even more clear when one considers the enthusiasm with which the international banks welcomed Bolivia, precisely at a time when they were trying to solve serious repayment problems in Peru and Zaire, both countries which had become excessively indebted in the early 1970s. In the case of those countries, the banks had also held high expectations with regard to a temporary boom in commodity prices. Although it seems ironic,

in the case of Peru, a neighbor of Bolivia, its the enthusiasm was based to a large degree on uncertain expectations concerning the possible existence of large petroleum deposits in the Amazone jungle.

One might think that, given the economic circumstances of the period 1971-1974, the banks could have been objectively justified in granting a certain amount of credit; considering the volume of credit that entered the country; however, it is apparent that their reaction was out of proportion to the economic situation of Bolivia and its capacity to absorb the resources efficiently. It seems that the banks, in seeking to place their credit, did not pay much attention to the borrower's repayment capacity. As will be seen later on, the banks inability to assess creditworthiness adequately, or their lack of interest in doing so, had more serious implications for the debtor than for the creditors.

b) Asymmetries in negotiations between debtor countries and credit institutions

One might advance the hypothesis that beyond assessing a certain very general level of solvency, commercial banks do not make a great effort to establish seriously the repayment capacity of their debtors. Once a country shows certain basic results as regards political and economic matters, the banks are more concerned with marketing their credit than with how wisely they place them. To protect themselves from the risk of non-payment, they do not care so much about a debtor's creditworthiness or how he will use the funds as they do about diversifying their credit portfolios and collecting premiums on their loans. Thus, they can loan large volumes without greatly jeopardizing the overall viability of their international credit strategy. This may help explain how Bolivia managed to obtain a large volume of foreign credit despite its persistent political and economic weaknesses.

If this theory is correct, the implications of the procedure for the borrowing developing countries are serious, especially for reasons of scale. The Euromoney market is a common fund in which resources are accumulated which, in 1979, amount to US\$1.3 trillion.^{19/} The main international credit institutions that deal in this market, as well as the national financial markets, are very large in size. For example, in 1979, Citicorp, the third largest international bank, had assets worth US\$94 billion.^{20/} Unquestionably, most of the developing countries are very small not only for the international financial markets but for the major lenders as well. Bolivia's gross domestic product for the year 1980 was only US\$6 billion at current prices.^{21/}

When there are hundreds of groupings of international commercial banks, all competing with each other, limited only by the diversification of their investment portfolio, and not adequately assessing the creditworthiness of borrowers, it might well be that the availability of resources would overwhelm the borrowers and, although it seems ironic, destabilize their development processes.

The problem is further complicated by two other factors. Firstly, the technical infrastructure backing the loans from commercial banks is negligible or nonexistent. In many cases, the banks grant loans for projects without seriously studying the viability of the project or establishing guidelines for monitoring its execution and progress. Naturally, the commercial banks have the guarantee of a sovereign state; nonetheless, the borrower receives only the resources without being offered any technical support. In many cases, technical support is the key to the success of an investment programme and the creation of a repayment capacity in a developing country.

Secondly, the more dynamic commercial banks are more than willing to grant free disposition loans. When competitive market forces concentrate on a new debtor, the commercial banks, anxious to attract a new client, will often be willing to grant free disposition loans, since many borrowers do not have enough real investments to make room for the supply available on an active international credit market. Thus, a debtor's real absorption capacity is not enough to effectively contain the placement of credit in the developing countries.

In theory, it is up to the developing countries to decide on the volume of resources that they really need. As may be seen from the above, however, the political and economic situation of the developing countries is far from being an optimum one and there are no a priori reasons for expecting that their leaders will always have the experience and the political power necessary to resist the heavy marketing pressures of the international bankers. Some countries have managed to do this; Colombia, perhaps, is the best example.^{22/} Nevertheless, in view of the difficult social and economic situation in which most of the Third World countries find themselves, as well as their lack of knowledge of the intricacies of international commercial finance, a dynamic credit-marketing strategy on the part of the transnational banks can destabilize their development financing. Bolivia is not the only country which has been offered credit far beyond its absorption capacity. An earlier ECLAC study carried out on the transnational banks shows that the same thing happened in Peru and that similar situations have arisen in Zaire, Jamaica, Turkey and Nicaragua, to mention only a few. Bearing in mind that the transnational banks have concentrated their lending on a relatively small group of developing countries, the list of debtors who are in difficulty is too long

to allow us to think that debt-service problems are isolated incidents. The interaction between the countries concerned and the commercial banks is too similar to allow us to attribute the problems solely to poor administration of the economy; an excessive demand for external financing does not materialize unless there is a source of supply that is willing to meet it. The asymmetry between the size and absorption power of the debtors and the marketing efforts of the international banks continues to present a dilemma when debt-payment problems arise.

In an indebtedness crisis situation, the international commercial banks are in a relatively strong bargaining position. Most of the them have diversified their investment portfolios and the loans they have granted to individual debtors represent only a small fraction of their total portfolio. In many cases, for example, Bolivia's total outstanding debt with a particular bank represented no more than one month, or, at the most, one quarter, of its net income; consequently, the bank could, if necessary, absorb the damage caused by an interruption or delay in repayment. Thus, a debtor's crisis in practice may cause irritation, but it does not jeopardize a transnational bank's overall profits.

From the debtors standpoint, however, the refusal of the financial institutions to renew their loans has a disastrous effect on the country's balance of payments and on its capacity to grow and develop. It is not easy to decide to suspend payments, after all, the banks control lines of credit that are vital to both the public and the private sectors, i.e., they make it possible for suppliers to give credit through the discounting of drafts and in addition,

they have strong political links with the governments of the countries of their parent companies and with official financial agencies. Moreover, the entire financial system is legally interrelated through the reciprocal non-compliance clause which is included in most loan agreements. Consequently, a debtor is not likely to want to risk suspending payments; if this happens, the government can survive politically if it has very strong support within the country or is authoritarian in nature, but it will have difficulty finding the new capital it needs to restore the balance of payments and finance growth.

In practice, debtors have tended to give in to the banks' demands, although it is obvious that it is not in their interest to set a precedent of non-compliance. Borrowers have often accepted harsh rescheduling and restructuring agreements which, in turn, cause other domestic problems --usually via IMF stabilization programmes--23/ in order to guarantee the flow of foreign exchange necessary to pay the debt. The Government of Nicaragua was the first one to break this rule (in 1980); it used as a weapon its insolvency, the possibility of suspending payment and evidence of the dubious credit practices applied by the banks during the previous régime. Bolivia chose to go along with the traditional rules, thus re-establishing the principle whereby the commercial banks are allowed to shirk their responsibilities with regard to the indebtedness problems of the developing countries and avoid sharing the cost of programmes designed to remedy the situation. Consequently, the debtor continued to pay the consequences of the transnational banks' carelessness or negligence in granting the credit.

c) The cost and maturity structure of loans

The cost and maturity structure of the loans granted by commercial banks undoubtedly imposed considerable demands on a developing country such as Bolivia.

As regards costs, during most of the 1970s, world interest rates were negative in real terms; therefore, the cost of external credit in terms of interest was relatively low.^{24/} The base interest rate, however, is variable, and debtors may have underestimated the risk that interest rates might again increase. That was precisely what happened as a result of the United States policy which led to the recent enormous rise in interest rates on the international financial market.^{25/} The average interest paid by Bolivia on new bank loans contracted in 1976 would have been only around 7.3% ^{26/} (compared with a world inflation rate of 11.1%).^{27/} In early 1981, however, these same loans, as part of the existing debt, would have paid approximately 18.5% ^{28/} (compared with a world inflation rate of approximately 15%).^{29/} Even if the domestic profitability of investments had made it possible to finance those higher interest rates (which probably was not the case in Bolivia, given the number of investments which were either not entirely justified or were excessively large), the sudden rise in variable interest rates still represented an unexpected surcharge, in terms of foreign exchange, which wreaked havoc with the management of the debt and the balance of payments. In other words, in a developing country which was short on experienced economic managers, excessive dependency on commercial bank credit represented an additional burden on the Government. Indeed, it created a new source of instability for the balance-of-payments current account which was already unstable as a result of world fluctuations in commodity prices and problems with domestic supply.

The country's excessive dependency on commercial bank credit also created difficulties for its leaders because of the relatively short maturities offered by commercial banks. Bolivia had to finance a substantial portion of its development programme with six-year loans. Very few economic development projects begin to bear fruit in such a short period, as was evident in Bolivia; even the strictly commercial enterprises can, in practice, suffer delays or experience other difficulties that prevent their projections on the flow of funds from materializing.

Consequently, the very shortness of maturities was in itself an exogenous source of difficulties. This further complicated matters for the authorities inasmuch as the accumulation of payments due had to be refinanced. Such transactions call for new and different skills; in their negotiations, the debtor countries must overcome the banks' obvious reluctance to grant new terms for the repayment of unpaid debts and the outcome of such negotiations is never certain. It is possible that experienced negotiators, representing a country having a very good credit rating that seeks refinancing in a debtors' market may obtain new loans on reasonable terms. If this is not the case, and since the final decision is up to the banks, the results may be very unsatisfactory and even detrimental to the economic prospects of the debtor.

In 1978, when the country's economic difficulties became quite evident, the commercial banks decidedly discouraged the country from refinancing its debts by taking other loans having less stringent terms, although if that had been done on a large scale, it would have helped solve the balance-of-payments problems which Bolivia later experienced. Later on, when the country was going through a serious economic crisis and was not solvent enough to attract new creditors, the banks reached an agreement among themselves and

accepted a rescheduling arrangement which did not, however, take into account the dimension of economic development, rather, it dealt with the need to cover the payments that were in arrears. Moreover, the commissions and interest margins applied to those loans were punitive and the maturities and grace periods too short in relation to the country's problems. It was only then that the authorities realized how costly it was to resort to the transnational banks; this was an aspect they had underestimated during the borrowing boom of the mid-1970s, particularly as regards penalties.

Given Bolivia's limited bargaining power, the banks charged whatever the country would agree to pay, being guided only by their commercial instinct. They obtained an interesting overall rescheduling agreement which established obligatory interest margins that were very high for the debts to be rescheduled over the next few years. Bolivia obtained, at a very high cost, some temporary relief by means of a rescheduling arrangement that was basically meant to cover the payment of overdue balances rather than to contribute to the development effort. Considering the apparent structural weakness of the economy and the balance-of-payments situation, as well as the country's domestic political problems, it seems unlikely that Bolivia will even be able to meet the payments stipulated in the debt-restructuring agreement. For the banks, non-compliance would only mean new commissions and new rescheduling. For Bolivia, a rescheduling agreement that does not take into account development needs could mean serious economic sacrifice and an unnecessarily prolonged stagnation.

d) Differences in the behaviour of various banks

The case of Bolivia clearly shows that the commercial banks cannot be viewed as a homogeneous group, and that there are substantial differences in their credit strategies. This may seem quite obvious, but it is not obvious

from the publications and economic studies that have been made on the subject of debt and development in the Third World. There is a tendency to think that the banks are a group and to analyze their loans in an aggregate manner, perhaps because contemporary economics leans towards global conceptions. This may also be due, however, to the fact that most studies on the subject have been carried out in the centers and that the economists of the central countries look at the risks of non-compliance from the northern point of view; hence, it does not seem important to them to establish, differences among the banks. Heterogeneity, however, is very important when one looks at the question from the peripheral point of view, since a knowledge of each institution's behaviour and strategies can help the peripheral countries improve their bargaining position.

The world of official financing in which Bolivia move had previously was quite simple. There were no more than six major institutions and the rules of the game and behaviour in credit matters followed certain established standards. The international banks, on the other hand, were an unknown quantity and a much more complex one. There are hundreds of institutions that are in a position to grant credit, following many different strategies, and their role and influence in the international financial market may vary widely. Moreover, they are more interested in profit than in the economic development of a borrowing country.

Bolivia had 118 commercial creditors and yet only a few institutions had granted loans that were large in terms to absolute value; most of them (91%) assumed limited commitments which amounted to less than US\$20 million during the entire decade of the 1970s. In this regard, it may be said that, from the standpoint of the banks' lending capacity, the market was highly disaggregated.

Bolivia's main creditors were the Bank America Corp. and Citicorp; these banks granted the largest amounts of credit and, in fact, opened the doors of the international market to the country. Even greater than their importance in Bolivia was their importance in the particular structure of the international market, where resources are mobilized by banks acting as agents; both institutions played a major role in organizing syndicated credit for Bolivia. The credit mobilized through syndicates by the Bank America Corp. and Citicorp --together with other organizing banks which acted as medium-sized agents (Dresdner Bank; Loeb, Rhoades & Co.; UBAF and Leslie, Weinert & Co.)-- represented over 80% of the total amount of credit mobilized in this way. Thus, despite the great diversity as regards the total number of creditors, Bolivia was and continues to be extremely dependent, for its access to credit on a few key institutions. The Bank America Corp., and Citicorp are particularly important because, in addition to granting loans and organizing syndicated credits, they --especially the Bank America Corp.-- led the 1981 negotiations concerning the restructuring of the commercial external debt. It would have been very useful for Bolivia to have been familiar with the special credit strategy and the characteristics of the Bank America Corp. and Citicorp as corporations; its dependence on these institutions is clearly similar to its situation in the 1960s, when the country's balance of payments depended, to a large extent, on the decisions of a few official creditors, such as AID, IMF and IDB.

The different preferences shown by the transnational banks could have helped guide the country of origin; this could have made them more flexible in negotiations linked to project financing. Other banks appeared more disposed towards meeting the demand for refinancing and for free disposition loans. Consequently, a classification of institutions on the basis of their apparent preferences could have helped improve the terms and volumes of credit.

Moreover, the banks that had subsidiaries or other agencies in Bolivia looked at that countries situation differently than the banks that did not know it so well. It is no coincidence that the five banks that conducted business in the country were the first to act when the Bolivian market was opened up to international finance. Given the country's long history of political and economic difficulties, it was only natural that it should have trouble overcoming that reputation. Apparently, as has been mentioned before, the euphoria regarding the soundness of the authoritarian political régime, the export boom and the prospect of finding new petroleum deposits were transmitted more rapidly and more easily to the banks that had offices in Bolivia than to the institutions which acted on the basis of second-hand information. Moreover, two of the banks that operated in the country --Bank America Corp. and Citicorp-- were large enough and had enough international prestige that, in organizing syndicated loans, they were able to persuade other banks to grant credit as well. The presence of foreign banks in the local economy seems to have produced at least one tangible benefit, i.e., it helped facilitate Bolivia's access to international capital.30/

The banks that acted as agents applied different strategies, and these had different repercussions in Bolivia.

The largest banks, such as Citicorp, Bank America Corp. and Dresdner, were able to mobilize enormous amounts of resources in a single transaction, precisely because of their size and their international prestige. It may be advantageous to a borrower to obtain large sums at once; however, these established international banks seem to avoid price competition and Bolivia's dependency on them may have had something to do with the relatively high negotiated cost of their loans to the country. It is more likely that the banks that had

recently entered the international scene or those which had chosen a dynamic credit-expansion policy were more disposed to grant reductions in organizing syndicated loans. Unfortunately, Bolivia acted in the market during a time of restrictions, when the more dynamic institutions had cut back on their operations and the market belonged almost entirely to the large, well-established international banks.

As was also mentioned, some banks specialize in the organization of credit that does not interest the large banks; this was the case, for example, with the investment banks, Loeb, Rhoades and Co. (later bought by another investment bank, Shearson) and Leslie, Weinert and Co. At a time when Bolivia did not seem very interesting to the international banks, these smaller institutions provided more specialized services and enthusiastically sought out institutions that would agree to grant credit to the country. As intermediaries, they obviously charged for these services, and thus, the loans cost more than they would have had the syndicates been organized in a more normal fashion. This disadvantage was offset by the country's gaining access to credit it would not have obtained otherwise. The investment banks were also willing to serve as intermediaries, as Leslie, Weinert and Co. did in 1977, in bringing debtor and creditors together in an effort to find a solution to the possible suspension of payments on a bank loan granted to the Hotel Sheraton and guaranteed by the Banco del Estado. These services also had a cost which, in the example mentioned, was extremely high for the borrower.

In granting credit to Bolivia, the banks established at least a medium-term relationship. Some of them, however, seem to have committed themselves more than others. In this regard, Citicorp is one of the most

noteworthy examples. This institution provided a very high proportion of the credit granted to Bolivia during the 1970s, but, for unknown reasons, in 1978 it decided to reduce its risks in the country substantially and apparently used tactics to conceal this decision from the competing banks who were also Bolivia's creditors. It is important to stress the difficult situation with which borrowers are faced when current loans from commercial banks are frozen and there is no net increase in their investments; the effect of a substantial and rapid reduction of the investment portfolio, as in the case of Citicorp, can disastrously affect a borrower's payment capacity.^{31/} This means that a bank that reduces the volume of its investment so drastically in such difficult times is not a trustworthy creditor. Citicorp's action becomes even more regrettable when one considers that it withdrew precisely when the country was determined to establish a democratic government.

Finally, it is worth noting that a bank that has no clear direction can represent a threat both to the borrower and to itself, precisely because of the ambiguity of its action. It is well known that during the 1970s, Chase Manhattan Bank was viewed in banking circles as being excessively politicized and poorly managed. Unfortunately, Bolivia's experience with this bank in 1976, during the organization of a large Euromoney syndicated loan, only confirmed this opinion.

3. The lesson of experience

Several lessons can be learned from the case of Bolivia which may be useful for the future orientation of the country's policies and which may also give the transnational banks and the international financial community pause for thought.

From Bolivia's point of view, the need for consistency in the formulation of economic policy became absolutely obvious. As has been so convincingly stated

by Wilber and Jameson, the development process is a sinuous one and there is not a single direct path leading to prosperity.^{32/} Nevertheless, if its objectives are to be fulfilled, a development strategy must be consistent as far as policy formulation is concerned and must provide for financial discipline. Given the scope of this study, this is not the place to determine whether the goals of Bolivia's economic programme in the 1970s were compatible with its search for a broad-based development. All in all, we may conclude that, given the serious internal contradictions of the State apparatus, the basic requirements for a successful programme were not met; moreover, not enough importance was attached to the need for effective regulation of external finance and of State investments.

The strategy adopted did not live up to expectations and was extremely costly. The economic, social and political crisis which the country is currently going through is, to a large extent, a consequence of the strategy applied since the early 1970s. Despite the exceptional boom of the external sector, the country accumulated a huge external debt; the flows of financing did not lead to higher rates of sustained growth, or to greater equity in the distribution of income, or to a potential for future development.

External commercial credit provided the authorities with a unique, but sharp and two-edged tool; used with wisdom, it can contribute to the development effort, but used indiscriminately, it can conceal the weaknesses of domestic policy and lead to economic crisis. Therefore, it is an instrument that must be viewed with great respect and handled with great caution.

As regards the negotiations with the transnational banks, there is a paradox that is worthwhile remembering: the best way to maintain good relations

with the banks is to demand, in negotiating, the best possible credit terms. In the last analysis, what the banks are interested in is the borrower's solvency; better credit terms and sound economic policies give a country a good chance of staying strong and solvent. This attracts the banks, and improves the country's bargaining position.

The country's financing or external savings requirements should have been assessed ahead of time, with due account being taken of its real development potential and its real repayment capacity. A country cannot run the risk of contracting debt on the basis of uncertain future income; moreover, external financing is no substitute for a vigorous domestic effort to increase domestic savings and effectively invest any possible surpluses. Both national planning and the monitoring of external debt are a part of this process; however, not even the most complex systems will be useful if the authorities and public officials fail to monitor the effectiveness of controls.

Not all foreign capital is equally usefull. Because of the short maturities and the commercial costs of commercial bank credit, it cannot be universally applied to development. It may be useful in sound commercial enterprises that begin to earn profits quickly and it may even be used to support liquidity temporarily. There are great risks, however, in using it to develop a social infrastructure or solve medium-term balance-of-payments difficulties arising from structural problems. Also, it is clear that great wisdom must be exercised in taking free disposition loans, which must only be sought when their use is justified by concrete and well-defined policy considerations.

There is no reason to think that offering a State guarantee is the only way for State and private enterprises to obtain commercial credit abroad.

In the case of State enterprises, financial viability itself is sufficient to obtain loans from abroad; other countries have done so and there is no reason why Bolivia should not be able to. Efficient private enterprises may also obtain credit abroad through their own commercial banks; it is known that companies that are too small to obtain loans directly from foreign credit institutions may use development banks and private commercial banks in their own country as intermediaries. Often a State guarantee on a loan for a State of a private enterprise only opens the way for an unsuitable investment and, in the case of the banks, for carelessness in assessing the viability of the transaction. If national enterprises are not able to attract external commercial bank credit on their own, they will have to resort to other sources of financing or else not get into debt.

It is very useful to study the behaviour of the main commercial creditors. A country's bargaining power increases when it knows the creditor's weak and strong points; if necessary, it can seek the help of outside financial specialists. Likewise, it is worthwhile to study, together with other developing countries, the possibility of establishing a joint information system that will enable them to analyze the fundamental data contained in credit contracts, as well as other institutional information on the banks, in order to keep the participating countries informed about the behaviour of each commercial bank. As was mentioned in the ECLAC study on Peru (p.199), such a system, while guarding the confidentiality of individual transactions, would provide an overall picture of the banks' credit strategy that would not be available to each debtor separately. In negotiations, this system would also help offset the advantages which the banks have as they exchange information on debtors when organizing a syndicated loan.

As far as the transnational banks are concerned, the conclusions of this experience are more complex; there is a certain incompatibility between their private commercial instinct and the broader social criteria on which the development process is based. The transnational banks are not philanthropic institutions; they are moved by the profit motive and tend to analyze the debtor's situation superficially on the basis of its loss and gains situation for the year concerned. If an institution were to consider granting a longer maturity and if it took into account a country's development needs, it would quite probably be displaced by one of its hundreds of competitors.

The fundamental problem lies in the fact that there is not a great diversity of financing sources. Despite the inconveniences involved in dealing with them, and their own particularities, the commercial banks play a very important role in financing development; however, they cannot meet all the needs for this type of financing. When they do cover the entire spectrum of development needs, as happened in the 1970s, they complicate the economic management of less-developed countries such as Bolivia and this can lead to critical situations. It would be better if the countries could obtain an adequate combination of commercial loans and concessionary loans in order to satisfy their needs. It would also, be useful if technical assistance were provided in connection with many types of loans. The developing countries cannot obtain this at present, because official financing has not kept pace with their financing needs and has been subject to monetaristic conditions which, according to many, do not take into account national development priorities; hence, this financing does not adequately solve many structural disequilibria which have come to light since the beginning of the 1970.^{33/} Consequently, it is in the interest of development and of all those concerned

that official financial resources, especially from multilateral sources be increased, and that more reasonable and ideologically pluralistic conditions be applied. Some progress has been made in this direction in the last two years,^{34/} but much remains to be done.

It is true that commercial considerations place certain restrictions on the banks; within that parameter, however, the banks do have an opportunity to contribute to the economic development of a country. In the first place, they would have to recognize explicitly that development must be taken into account when a country has repayment problems. There is no doubt that the banks should demand what is due to them, but this does not justify all their impositions. They do have reserves to cover their losses and they charge premiums for the risks they take; therefore, they can afford to hold back on imposing too many conditions for debt restructuring. It is not a question of recommending that they be philanthropic; by taking into account investment and development needs when restructuring a debt they would actually be improving their prospects for placing new loans and maintaining a commercial relationship with the client concerned.^{35/} As things now stand, restructuring based on commercial considerations aggravates the crisis, eliminates the possibility of placing new loans and means that the bank loses a potentially valuable customer.

The banks might also assess each transaction more carefully and, in granting loans, take into account the country's real possibilities instead of relaying solely on the guarantee of a sovereign State. In the markets of their country of origin, the banks try to project an image of responsibility and consideration for their client's interest. The principle of deliberately

rationing the amount of credit is useful both to the bank and to the borrower; it is also useful to make a careful study of the investment process. Although it is difficult to apply this principle when a sovereign State is involved, and there are pressures from the competition, such action could help mitigate the crisis of the debtor countries and reduce tensions in the commercial world in which the banks operate.

The banks might also be more cautious about participating in certain financial fields for which they do not have the necessary mechanisms. Giving direct support to help solve problems arising from a structurally weak balance of payments is beyond the scope of the commercial banks; these institutions, which are more familiar with private business, are not in a position to bear the pressures of the somewhat turbulent atmosphere created by adjustment policies in the developing countries. Granting loans on commercial terms to finance social infrastructure expenditures or arms purchases may, in many cases, be unwise from the standpoint of the debtor's repayment capacity.

In certain circumstances, the banks may wish to reduce their portfolio in a country, and this is legitimate. On Wall Street, it may be all right to do this suddenly and without prior notice, but in the periphery, it creates excessive difficulties and has a negative effect on millions of persons, while at the same time it frustrates legitimate development aspirations. Therefore, when a major creditor bank decides to reduce its risks in a given country, it should take into account the implications of its action for that country and discuss the matter with the international financial institutions.

This leads us to consider the question of responsibility. The banks are the first to recognize that their presence in the financing of developing countries has been very positive, as they have not only contributed to

investment efforts, but have also helped in the process of recycling petrodollars. In difficult cases, however, the banks have carefully shirked their responsibilities; they seem to think that loans are only granted in response to a "demand" by a debtor, and attribute any difficulties that arise to poor administration of the economy. They then require that they be paid first and foremost among private creditors, even to the point of subordinating the purchase of essential goods such as petroleum, foodstuffs and pharmaceuticals to the service of the bank debt.^{37/} This position may be reasonable where the industrialized countries are concerned, as borrowers and credit institutions negotiate on more or less equal footing. However, in the case of developing countries that have very little experience in international finance and are burdened by enormous internal economic and political pressures, the banks cannot evade their responsibility. A country does not decide to incur a debt unless the commercial banks have shown an interest in granting credit; the process is a reciprocal one and both parties bear a great deal of responsibility for what happens. As Weinert has pointed out, in national markets, debtors who have problems usually enjoy legal protection vis-à-vis their creditors' demands and the banks usually adjust new repayment conditions to a company's financial capacity (as in the case of the famous REIT in the United States).^{38/} It is time to apply the same terms at the international level, especially where the developing countries are concerned.

Notes

1/ During this period, the regional average was 6.07. However, this figure was heavily influenced by the unusually high rate for Brazil (9.97 in 1977-1978). See ECLAC Economic Survey of Latin America, 1978, tables 1 and 61, and World Bank, 1980, p. 374.

2/ The public external debt/gross national product ratio ranged from 54% to 93% between 1973 and 1978 (see IDB).

3/ In the early 1970s, some new direct foreign investments were channeled towards exploration activities in the petroleum sector; however, these were not successful and the participating companies withdrew (see chapter 2).

4/ An institutional aspect that has not been touched in this study is that of how various institutional sectors (e.g., the armed forces) take part in different segments of the State apparatus.

5/ The seriousness of this situation is explained quite clearly in the article by Asheshov.

6/ See Baran, p. 236, and the first chapter of Hirschman.

7/ This may not be exactly what happens in an economy of continental size, which can effectively absorb such a large amount of resources that a limit would be exceeded beyond which the bank would fear the effect which a debtor's non-compliance might have on its own solvency. In this case, there is a situation of mutual dependency in which the bank will have an incentive to continue lending even when it has doubts about the debtor's solvency. Naturally, the vast majority of developing countries cannot presume to apply this strategy. It is worthwhile adding, however, that this reservation is quite relative, since Brazil --a continental country which has become enormously indebted with the transnational banks-- seems, in recent years, to have lost a great deal of its bargaining power with the banks. Although it has not suffered an indebtedness crisis, it is paying relatively high margins over LIBOR and has had to hold back its economy considerably in order to meet the requirements of its foreign creditors (see Caplan).

8/ This is a general observation. The article on Bolivia in Euromoney (January 1982) indicates that the International Monetary Fund issued warnings about the country's indebtedness policy and that some government technocrats heeded this warning. However, the general public was never aware of the problem.

9/ See ECLAC, Economic Survey of Latin America, 1977, p. 78.

10/ Naturally, in 1981 the military Government had changed, but many of the policy makers and Government advisors were the same persons who had held those responsibilities during the period 1975-1978.

11/ Information on these agreements is given in the appendix to the Friedman article (1981). It should be noted that the banks did not consider the rescheduling terms to be punitive and felt that any extension of the original maturity should be compensated for by a higher interest margin and higher commissions. As will be seen later on in this chapter, this argument is not at all convincing.

12/ See Weinert (1981).

13/ Lack of liquidity is a relatively temporary situation and may supposedly justify the application of commercial conditions for financing, while insolvency is a longer term problem which merits the granting of

concessionary financial terms. See the analysis of the difference between lack of liquidity and lack of solvency in the articles by Aliber and Roberts.

14/ Before signing the agreement, Bolivia had already suspended amortization of the debt and the rescheduling agreement. When it obtained a grace period of two years, this merely legitimated an existing situation. But Bolivia had to accept the greater cost represented by higher interest margins and new commissions. It also made the mistake of undertaking to pay very high interest rates in 1982 and 1983; it would have done better not to have fixed the interest rate on the third quota, leaving it open to negotiation. The margin, at 24% interest, was very high; by reopening negotiations in 1982, it would have been possible to establish a lower margin and it would have been very improbable to reach a margin higher than that figure.

15/ The bankers may have had their worst experience in the negotiations which Peru in 1976-1978. In 1980, however, when the economy improved, they were quite willing to offer new credit to that country.

16/ See ECLA, Economic Survey of Latin America, 1978, table 77.

17/ Ibid., table 75 and 76. Certainly, part of the increase in the average interest rate was due to world inflation.

18/ Although there were obstacles to the democratic process in 1978-1980, presidential elections were held. The results obtained by advocates of the programme at least partly confirm the argument that it did not enjoy broad political support.

19/ This is the gross amount. The net volume of the market amounts to approximately US\$670 billion. See Goodfriend, p.13.

20/ See Citicorp.

21/ IMF, International Financial Statistics, June 1981.

22/ See Ensor.

23/ As regards the Fund's role in Bolivia, see Euromoney, (January 1982).

24/ The interest rates on external loans also tended to be lower than those on domestic loans.

25/ See 1981 Annual Report, The Bank for International Settlements.

26/ In 1976, the average margin over LIBOR for Bolivia was 2.02% and the basic average LIBOR was 6.13% (see table 29).

27/ IMF, International Financial Statistics, 1980.

28/ To the average margin of 2.02% in 1976 is added the half-yearly LIBOR of 16.45% for January-May 1981, as recorded in Morgan Guaranty Trust, World Financial Markets, June 1981.

29/ IMF, International Financial Statistics, May 1981.

30/ Naturally, this single benefit is not enough to justify authorizing the foreign banks to operate in an economy; such a decision must be based on broader cost-benefit considerations. See the study by Jorge Crespo, which present a thorough analysis of the role played by the foreign banks in the economy of Bolivia.

31/ For COMIBOL, this meant that the debt become a short-term liability, thus weakening the enterprise, and signaling the beginning of the collapse of the development strategy for 1972-1978.

32/ See Wilber and Jameson.

33/ This question is discussed in greater detail in the United Nations publication (1979) cited in the bibliography.

34/ See Economic Survey of Latin America, 1979, Part One, section 5.

35/ If debt restructuring were based on development needs, a provision could also be included to the effect that payment of the debt would be accelerated should the borrower's situation improve more rapidly than envisaged at the time of the original negotiation.

36/ UNCTAD had recently been studying new guidelines for debt restructuring, See the summary of the relevant conclusions in the study by Mowzard and Williams, pp. 25-26.

37/ See Friedman (1980).

38/ See Weinert (1981).

Annex 1

METHODOLOGICAL NOTES

For the collection and analysis of the commercial bank loans to Bolivia, a pattern model methodology was used following the norms established in the first ECLAC study on the subject, as was mentioned in chapter 1. */ Data collection was carried out using the forms first published in the Project Manual, which laid the groundwork for subsequent case studies. **/ Aggregate figures for all medium and long term financing contracted or guaranteed by the State during 1966-1979 were gathered to produce a relevant context for the analysis of the commercial bank loans. Thereafter, detailed information on commercial bank loans was extracted from the original loan contracts stored in the Central Bank, using form 21 of the Project Manual as a guide. This loan information was aggregated and checked against other sources of aggregate information so as to work out any "bugs" in the informational system. ***/

*/ This pattern model aims at various levels of generalization. To the degree that the number of case studies increases, it becomes more feasible to define and comprehend the underlying general trends which will not only assist in constructing a functional theory on the phenomenon but will also simplify the corresponding policy formulation required of sovereign borrowers. In this spirit, this study has carefully followed the methodology of the first study--to promote comparability--the only changes being positive ones, in the sense of deepening the analysis of the State. For more information on the methodological considerations underlying this study, see Diesing and Wilbur and Harrison.

**/ Consult Devlin (1980).

***/ For obvious reasons, loans for arms purchases were excluded from the analysis.

The information gathering activities proved very positive and 125 loan contracts involving 401 individual transactions for a total value of 1.2 billion dollars formed the data base for the study. Given the large size and dispersion of activities of the Bolivian public sector, it could be that the total universe of commercial bank loans was not included; nonetheless, this data base represents an excellent approximation of it.

Using the information of Form 21, a file was opened on each creditor and that data base permitted the analysis of the differential behaviour of individual TNBs. Factoral analysis of the diverse information collected produced a consistent and solid picture of the overall nature of TNB participation in Bolivia's external finances for the period under study.

Other Aspects of the Methodology

In order to provide the reader with a complete understanding of the data presented in this study, listed below are some of the more pertinent definitions and norms used in the data manipulations:

a) credit institutions which were subsidiaries of other TNBs were consolidated into the head office in cases where the latter possessed more than 50 percent of the former's shares.

b) for syndicated credits, they were disaggregated in order to apportion to each bank its corresponding share of the overall value of the loan.

c) the US dollar was used for all loan values due to the fact that 87 percent of the total value of these loans was denominated in this way. For other currencies, the conversion was made using the relevant exchange rate for the date on which the contract was signed.

d) in the case of variable interest rate loans, a weighted average was calculated for the life of the loan or, in the few situations that this was not possible, the loan was divided up into components with different interest rates.

e) the commissions and charges were calculated as a percentage of the value of the loan. In relevant cases they were averaged similar to manner described in d).

f) in reaggregation exercises, the figures were weighted according to the relevant amounts, maturities and other quantifiable aspects of the same loans.

Finally, as shall become evident to the reader, this second ECLAC study on TNBs incorporates a detailed analysis of the use of these commercial loans by the entities of the public sector. Numerous case studies of individual State enterprises were elaborated at considerable effort in order to offer the reader a comprehensive picture of the nature of TNB participation in Bolivia's external finances.

Annex 2

LIST OF BANKS INCLUDED IN THIS STUDY

USA

Allied Bank International
American Express International Banking Corporation
American Security Corporation
Bancal Tristate Corporation
Bank America Corporation
Citicorp
Commerce Union Bank
Crocker National Corporation
Charter New York Corporation
Chemical New York Corporation
First Chicago Corporation
First International Bankshares
First National Boston Corporation
First Pennsylvania Corporation
First Washington Securities
Girard Company
Industrial National Corporation
Leslie, Weinert & Co.
Loeb, Rhoades & Co.
Manufacturers Hanover Corporation
Marine Midland Bank Incorporated
Mellon National Corporation
Merryll Lynch International
Morgan Guaranty Trust Co.
National Bank of Washington
National City Corporation

North Carolina National Bank

Northwest Bancorp

Security Pacific Corporation

Shawmut Corporation

Texas Bankshares

Union Commerce Corporation

United Virginia Bankshares

Wells Fargo and Co.

JAPAN

Bank of Tokyo Ltd.

Bank of Yokohama

Banque Européene de Tokyo S.A. */

Hokkaido Takushaku Bank

Japan International Bank Ltd.

Kyowa Bank Ltd.

Nippon Fudosan Bank

Sanwa Bank Ltd.

Tokai Bank Ltd.

*/ Mixed bank the capital of which is entirely made up by Japanese banks.

CANADA

Bank of British Columbia
Bank of Montreal
Bank of Nova Scotia
Banque Canadienne Nationale
Canadian Imperial Bank of Commerce
Mercantile Bank of Canada
Royal Bank of Canada
Toronto Dominion Bank

UNITED KINGDOM

Anthony Gibbs & Sons Ltd.
Barclays Bank Ltd.
Grindlays Bank Ltd.
Hill Samuel Group Ltd.
Lloyds Bank Ltd.
Midland Bank
National Westminster Bank Ltd.
Standard Chartered Bank Ltd.

GERMAN FEDERAL REPUBLIC

Bank fur Gemeinwirtschaft A.G.
Bayerische Vereinsbank
Commerzbank A.G.
D.G. Bank Deutsche Genossenschaftsbank
Deutsche Bank
Dresdner Bank
Investitions und Handels Bank
Metallgesellschaft
Westdeutsche Landesbank Gironzentrale

FRANCE

Banque Francaise du Commerce Extérieur
Banque National de Paris
Compagnie Financiere de Paris et Pays-Bas
Crédit Lyonnais

ITALY

Banca Commerciale Italiana Ltd.
Banca Nazionale del Lavoro

SWITZERLAND

Dow Banking Corporation
Swiss Bank Corporation
Swiss Credit Corporation
Union Bank of Switzerland

OTHER COUNTRIES

Adela International (Luxemburg)
Algemene Bank Nederland N.V. (Netherlands)
Amsterdam Rotterdam Bank N.V. (Netherlands)
Banco Arabe Español (Spain)
Banco de Bogotá (Colombia)
Banco de la Nación Argentina (Argentina)
Banco de Vizcaya (Spain)
Banco do Brasil (Brazil)
Banco Ganadero Argentino (Argentina)
Banco Urquijo (Spain)
Banque Internationale à Luxembourg (Luxembourg)
Cooperative Centrale Raiffeisenboerenleenbank (Netherlands)
Jugobanka (Yugoslavia)

Lybian Arab Foreign Bank (Libya)
Moscow Narodny Bank (USSR)
Shanghai Commercial Bank (Hong Kong)
Société Générale de Banque (Belgium)
Udrublkanska Banka (Yugoslavia)
Zagrebacka Banka (Yugoslavia)

MIXED BANKS **/

Atlantic International Bank Ltd.
Banco Arabe Latinoamericano
Banque de la Société Financière Européenne
Banque Européenne de Crédit S.A.
Euro Latin American Bank Ltd.
European American Bancorporation
European Arab Holding Co.
European Brazilian Bank Ltd. (United Kingdom)
Intermex Holding Co.
International Commercial Bank Ltd.
International Mexican Bank Ltd.
Libra Bank Ltd. (United Kingdom)
Midland & International Bank Ltd.
Nippon European Bank S.A.
Orion Bank Ltd.
UBAF Arab American Bank

**/ Banks for which other banks from various countries are the principal shareholders.

UBAF Arab Japanese Finance

UBAF Bank Ltd. (France)

United International Bank (United Kingdom)

NOT CLASSIFIED

Baer American Banking

Deltec Banking Group

ANNEX 3

STATISTICAL TABLES

Table 1

BOLIVIA: AMOUNTS MOBILIZED BY AGENT BANK
OF SYNDICATED LOANS, 1970-1979 a/
(Millions of US Dollars)

	1970-1974		1975-1979
Bank America Corp.	25 000	Citicorp	230 000
Dresdner Bank	2 1/2 000	Bank America Corp.	163 000
Loeb Rhoades	8 000	Dresdner Bank	85 448
Mercantile Bank of Canada	1 500	Loeb Rhoades	49 266
		UBAF-France	47 000
		Leslie, Veinert & Co.	46 150
		Anthony Gibbs	25 684
		Hill Samuel	22 701
		Banque de la Société Financière Européenne	20 000
		Texas Bankshares	15 250
		Banque Française du Commerce Extérieur	11 657
		Compagnie Financière de Paris et des Pays-Bas	3 000
		Société Générale	7 500
		Euro-Latin American Bank	6 500
		Atlantic International Bank	6 000
		Royal Bank of Canada	5 200
		Deutsche Bank	3 017
		Banca Commerciale Etaliana	2 100

Source: ECLAC, on the basis of information from The Central Bank of Bolivia.

a/ Except in cases where there exists information to the contrary, the organizer bank was always considered to be the agent designated in the loan contract.

Table 2

ECLIVIA: INDICATIONS OF THE CREDIT POLICY OF BANKS, BY NATIONALITY,
BY PREFERRED TYPE OF LOAN, 1970-1979

	Innovative <u>a/</u>	Conservative <u>b/</u>	Balance <u>c/</u>
United States	45.1	95.7	-50.6
Japan	-19.5	88.8	-108.3
Canada	82.5	-42.3	124.8
United Kingdom	-52.0	43.0	-95.0
Fed. Rep. of Germany	-43.3	-17.9	-25.4
France	-108.2	69.4	-177.6
Italy	45.7	-81.7	127.4
Switzerland	64.9	-33.1	98.0
Others	-4.0	-128.3	124.3
Mixed Banks	-11.1	1.8	-12.9

Source: ECLAC, based on official information (derived from Table 3).

- a/ Sum of standardized variables corresponding to free disposition and refinancing loans.
- b/ Sum of standardized variables corresponding to project and capital goods loans.
- c/ Innovative minus conservative scores; a positive result suggests an innovative overall policy and a negative result a conservative overall credit policy.

Table 3

BOLIVIA: TYPES OF PREFERRED LOANS BY BANKS, BY NATIONALITY 1970-1979 a/

(Standardized deviations about the global mean) b/

Home Country of Banks	Imports of capital goods	Refinancing	Free Disposition	Project Loans	Nationali- zations	Total
United States	164.6	157.1	-112.0	-68.9	-28.5	-49.3
Japan	54.4	22.3	-41.8	34.4	-34.0	-49.3
Canada	8.8	156.0	-73.5	-51.1	-34.0	-49.3
United Kingdom	-55.9	48.6	-100.6	98.9	-34.0	-49.3
Fed. Rep. of Germany	-25.6	25.7	-69.0	7.7	-34.0	163.5
France	-93.9	-124.0	15.8	163.3	-34.0	-49.3
Italy	-93.9	-124.0	169.7	12.2	-34.0	-49.3
Switzerland	191.3	-124.0	188.9	-224.4	300.2	-49.3
Others	-93.9	-0.6	-3.4	-34.4	-34.0	231.3
Mixed banks	-55.9	-37.1	26.0	57.7	-34.0	-49.3

Source: ECLAC, based on official information (derived from Table 4).

a/ Excludes loans guaranteed by export credit organizations.

b/ $Z = \frac{X - \bar{X}}{S}$ where X is the percentage of the total authorizations of the corresponding national group for a given type of loan, \bar{X} is the simple arithmetic average of all national groups for a given type of loan and S is the standard deviation of \bar{X} .

Table 5

BOLIVIA: INDICATIONS OF THE CREDIT STRATEGIES OF BANKS BY NATIONALITY AND BY PREFERRED SECTORS, 1970-1979

Nationality of Bank	Innovative <u>a/</u>	Conservative <u>b/</u>	Balance <u>c/</u>
United States	50.0	-161.9	211.9
Japan	-61.3	3.8	-65.1
Canada	-15.1	-140.7	125.6
United Kingdom	-44.3	-25.3	-18.5
Fed. Rep. of Germany	-81.1	49.7	-130.8
France	256.6	-79.4	336.0
Italy	-57.6	120.0	-177.6
Switzerland	75.5	21.3	54.2
Others	-102.8	166.5	-269.3
Mixed Banks	-17.9	46.5	-64.4

Source: ECLAC based on official information (derived from Table 6).

- a/ Standardized variables corresponding to loans to basic social and economic sectors.
- b/ Standardized variables corresponding to loans to directly productive sectors.
- c/ Innovative minus conservative scores; a positive result suggests an innovative overall credit policy, a negative result, a conservative overall credit policy.

Table 6

BOLIVIA: PREFERRED SECTORS OF BANKS, BY NATIONALITY, 1970-1979

(Standardized deviation about the global mean)

	USA	Japan	Canada	United Kingdom	Federal Republic of Germany	France	Italy	Switzerland	Others	Mixed Banks
Productive	-161.9	3.8	-140.7	-25.8	49.7	-79.4	120.0	21.3	166.5	46.5
Basic Economical and Social	50.0	-61.3	-15.1	-44.3	-81.1	256.6	-57.6	75.5	-102.8	-17.9
(Basic Economic)	(150.0)	(-27.4)	(45.2)	(-8.1)	(-61.3)	(-129.0)	(-29.0)	(195.2)	(-129.0)	(-9.7)
(Social)	(-33.9)	(-40.7)	(-37.3)	(-35.6)	(-40.7)	(298.3)	(-36.4)	(-34.7)	(-24.6)	(-11.0)
Not classified	179.7	61.9	210.2	85.6	18.6	-114.4	-94.1	-84.0	-114.4	-33.1

Source: ECLAC, based on official information derived from table 7.

$z = \frac{X - \bar{X}}{S}$ where X is the percent of all authorizations approved by a nationality of bank with respect to a given sector; \bar{X} is the simple arithmetic average for all nationalities with respect to the same sector, and S is the standard deviation of \bar{X} .

Table 7

BOLIVIA: CLASSIFICATION OF SECTORAL PREFERENCES BY NATIONALITY OF BANK, 1970-1979 ^{a/}
(Percent)

Sectors	USA	Japan	Canada	United Kingdom	Federal Republic of Germany	France	Italy	Switzerland	Others	Mixed Banks	Memo Items	
											Simple Arith. Average	Standard Deviation
Directly productive ^{b/}	47.2	72.9	50.5	68.3	80.1	60.0	90.9	75.6	98.1	79.5	72.3	15.5
Basic Economic and Social (Basic Economic) ^{c/}	18.1 (17.3)	6.3 (6.3)	11.2 (10.8)	8.1 (7.5)	4.2 (4.2)	40.0 (-)	6.7 (6.2)	20.8 (20.1)	1.9 (-)	10.9 (7.4)	12.8 (8.0)	10.6 (6.2)
(Social) ^{d/}	(0.8)	(-)	(0.4)	(0.6)	(-)	(40.0)	(0.5)	(0.7)	(1.9)	(3.5)	(4.8)	(11.8)
Not classified	34.7	20.8	38.3	23.6	15.7	-	2.4	3.6	-	9.6	14.9	13.5
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	-

Source: ECLAC, based on information from the Central Bank of Bolivia.

^{a/} Excludes loans guaranteed by export credit organizations; furthermore, includes only those loans in which formal agreement on sectoral destination was clear.

^{b/} Agriculture, mining, manufacturing, tourism and finance.

^{c/} Energy, communications, transport, water works.

^{d/} Housing, health, education.

Table 8

BOLIVIA: INDICATIONS OF CREDIT STRATEGY OF DIFFERENT SIZE BANKS, BY
TYPE OF LOAN, 1970-1979

Position of bank in 300 largest in world <u>a/</u>	Innovative <u>b/</u>	Conservative <u>c/</u>	Balance <u>d/</u>
1 - 10	-48.4	208.3	-256.7
11 - 50	96.0	107.9	- 11.9
51 - 100	9.7	- 24.6	34.3
101 - 170	77.3	- 64.4	141.7
171 - 300	-238.9	148.1	-387.0
Smaller banks	1.8	- 6.6	8.4
Not classified	100.4	-172.8	273.2

Source: ECLAC, based on official information (derived from table 9).

a/ Classified according to volume of assets on the basis of the list of the 300 largest banks in the world published by The Banker. Calculations were made by taking the assets for the years 1974 and 1979 and creating a weighted average for the entire period (the figures for the amounts authorized by the banks were weighted). The number 30 was used to indicate an average volume of assets that was too small to be classified among the first 300. Banks of unknown origin or banks whose assets could not be specified are not included in the overall averages. Since the weighting for the banks in these two categories is insignificant, their exclusion does not greatly affect the results.

b/ Sum of the standardized variables corresponding to free disposition and refinancing loans.

c/ Sum of the standardized variables corresponding to project and capital goods financing.

d/ Innovative minus conservative scores; a positive result suggests an innovative overall credit policy, a negative result, a conservative overall credit policy.

Table 9

BOLIVIA: CLASSIFICATION OF TYPE OF LOAN REFERENCES BY SIZE OF BANK, 1970-1979 a/

(Standardized deviations about the global mean) b/

Position of bank in 300 largest in world c/	Imports of capital goods	Refinancing	Free Disposition	Projects	Nationalizations	Others
1 - 10	234.3	15.2	-63.6	-26.0	166.7	1.54
11 - 50	9.4	60.7	35.3	98.5	145.8	163.2
51 - 100	-66.6	99.7	-90.0	42.0	-62.5	-63.2
101 - 170	-42.2	130.0	-52.7	-22.2	-62.5	-63.2
171 - 300	-66.6	-158.2	-80.7	214.7	-62.5	-63.2
Smaller Banks	-2.7	-35.8	37.6	-3.9	-62.5	-63.2
Not classified	-66.6	-113.8	214.2	-106.2	-62.5	-63.2

Source: ECLAC, based on official information (derived from Table 10).

a/ Excludes loans guaranteed by export credit organizations.

b/ $z = \frac{x - \bar{X}}{S}$ where X is the percentage of the total approved loans for a given size of bank with respect to a certain type of loan \bar{X} is the unweighted average for all banks with regard to that type of loan, and S is the standard deviation of \bar{X} .

c/ See note a/ of Table 8.

Table 10

BOLIVIA: CLASSIFICATION OF TYPE OF LOAN PREFERENCES BY SIZE OF BANK,
1970-1979 a/

(Percentages)

Position of bank in 300 largest in world b/	Imports of capital goods	Refinancing	Free disposition	Projects	National ratio	Others	Total
1 - 10	9.9	16.6	37.1	33.0	1.1	2.3	100.0
11 - 50	2.5	20.8	49.8	23.5	1.0	2.4	100.0
51 - 100	-	24.4	33.7	41.9	-	-	100.0
101 - 170	0.8	27.2	38.5	33.5	-	-	100.0
171 - 300	-	0.6	34.9	64.5	-	-	100.0
Smaller banks	2.1	11.9	50.1	35.9	-	-	100.0
Not classified c/	-	4.7	72.8	22.5	-	-	100.0
Memo Items							
Simple arith. average	2.2	15.2	45.3	36.4	0.3	0.7	100.0
Standard deviation	3.3	9.2	12.9	13.1	0.5	1.1	-

Source: ECLAC, based on information from Central Bank of Bolivia

- a/ Excludes loans guaranteed by export credit organizations
- b/ See note a/ of table 8.
- c/ Banks for which there was no information

Table 11

BOLIVIA: INDICATIONS OF CREDIT STRATEGY OF DIFFERENT-SIZED BANKS BY
PREFERRED SECTORS, 1970-1979

Size of Bank <u>d/</u>	Innovative <u>a/</u>	Conservative <u>b/</u>	Balance <u>c/</u>
1 - 10	50.0	3.0	47.0
11 - 50	-73.5	36.9	-110.4
51 - 100	-55.1	-13.6	-41.5
101 - 170	132.7	-131.3	264.0
171 - 300	141.8	-142.4	284.2
Smaller banks	-135.7	120.7	-256.4
Not classified	-57.1	128.3	-185.4

Source: ECLAC, based on official information (derived from table 12).

- a/ Sum of standardized variables corresponding to basic economic and social sectors.
- b/ Sum of standardized variables corresponding to directly productive sector.
- c/ Innovative minus conservative scores; a positive result suggests an innovative overall credit policy, and a negative result suggests a conservative one.
- d/ See note a/ of Table 8.

Table 12

BOLIVIA: CLASSIFICATION OF PREFERRED SECTORS BY SIZE OF BANK,
1970-1979

(Standard deviations about the global mean) a/

Sectors	International Rank of Banks b/						
	1- 10	11- 50	51- 100	101- 170	171- 300	Smaller Banks	Not Classified
Directly productive	3.0	36.9	-13.6	-131.3	-142.4	120.7	128.3
Basic economic and social	50.0	-73.5	-55.1	132.7	141.8	-135.7	-57.1
(Basic economic)	(76.2)	(-73.3)	(-27.7)	(122.8)	(130.7)	(-105.0)	(-120.8)
Social	(-90.3)	(6.5)	(-83.9)	(19.4)	(22.6)	(-87.1)	(212.9)
Not classif.	-45.8	(-)	69.5	111.9	122.0	89.0	-166.9

Source: ECLAC, based on official information (derived from Table 13).

a/ $z = \frac{x - \bar{x}}{s}$ where X is the percentage of authorized loans for a certain size of bank with respect to a definite sector, \bar{x} is the unweighted average of all banks with regard to the same sector, and S is the standard deviation.

b/ See note a/ of Table 8.

Table 13

BOLIVIA: CLASSIFICATION OF SECTORAL PREFERENCES BY SIZE OF BANK, 1970-1979 a/

(Percentages)

Sectors	International rank of banks b/						Memo Items		
	1-10	11-50	51-100	101-170	171-300	Smaller bank	Not class.	Simple Arith. Average	Standard Deviation
Directly productive c/	59.2	65.9	55.9	32.6	30.4	82.5	84.0	58.6	19.8
Basic economic & social	19.9	7.8	9.6	28.0	28.9	1.7	9.4	15.0	9.8
(Basic economic) d/	(19.9)	(4.8)	(9.4)	(24.6)	(25.4)	(1.6)	(-)	(12.2)	(10.1)
(Social) e/	(-)	(3.0)	(0.2)	(3.4)	(3.5)	(0.1)	(9.4)	(2.8)	(3.1)
Not classified	20.9	26.3	34.5	39.5	40.7	15.8	6.6	26.3	11.8
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	-

Source: ECLAC, based on information of the Central Bank of Bolivia.

a/ Excludes loans guaranteed by export credit organizations; includes only those loans in which formal agreement on sectoral destination was clear.

b/ See note a/ of Table 8. Ranking from The Banker.

c/ Agriculture, mining, manufacturing, tourism, finance,

d/ Energy, communications, transport and water works.

e/ Housing, health, education.

Table 14

BOLIVIA: BANKS WHICH PLACED GUARANTEED CREDITS, 1970-1979 a/

Bank	Guaranteed credits as a percent of all loans by same bank
Midland International Bank	100.0
Hill Samuel	100.0
North Carolina National Bank	100.0
Jugobanka	100.0
Udrubljsanska Banka	100.0
Zagrebacka Banka	100.0
Ljublanska Banka	100.0
Mercantile Bank of Canada	100.0
Banco Ganadero Argentino	100.0
Société Générale de Banque	84.8
Banque Française du Commerce Extérieur	82.9
Anthony Gibbs	78.7
Compagnie Financiere de Paris et Des Pays-Bas	76.8
Bayerische Vereinsbank	75.2
Banco do Brasil	69.5
Midland Bank	61.1
Lloyds Bank	53.9
Banque Nationale de Paris	22.2
Banca Commerciale Italiana	18.4
Banco Arabe Latino-Americano	18.0
Crocker National Bank	13.9
Citicorp	12.3
Dresdner Bank	7.5
Bank America Corp.	6.9
Banque Canadienne Nationale	3.0
First Chicago Corp.	2.1
Chemical Bank	1.2
First National Boston Corp.	0.8

Source: ECLAC, based on information from Central Bank of Bolivia.

a/ Loans guaranteed by export credit organizations of home country of bank.

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