IMF cuts off credit to Bolivia

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24 May 2006

Bolivia is South America's poorest country. Every night, 615,000 Bolivian children under 13 years of age go to bed hungry, according to a recent report by the United Nations World Food Program. Life in the countryside has changed little since colonial times, and cities lack basic public services. Clearly, there is an urgent need for infrastructure investments to help raise the living standards of the people in the Andean country.

This, ostensibly, is the role of international financial institutions like the International Monetary Fund (IMF), the World Bank and the Inter-American Development Bank. Nevertheless, the head of the IMF's mission to Bolivia, Antonio Furtado, made an announcement last week that the IMF will not extend new credits to Bolivia.

The last standby agreement between the Bolivian government and the IMF expired March 31, and the recently elected government of President Evo Morales decided not to sign a new memorandum of understanding with the agency.

According to *Correo del Sur*, a daily paper published in the city of Sucre, Furtado justified the IMF's decision on the grounds that "Bolivia benefits today from a high level of net international reserves, a low inflation rate and a fiscal budget under control." Bolivia, he declared, is in "good economic health."

Whose "good economic health" is the IMF man, Antonio Furtado, concerned with?

The *Correo del Sur* article sites all the "good" statistics required by foreign capital to guarantee the plundering of Bolivia's natural resources and the extraction of superprofits from the Bolivian masses: $2 billion in foreign reserves, an inflation rate less than 0.4 percent in March, growth in the export sector to $813 million in March, and a projected fiscal deficit of only 3.2 percent of Gross Internal Product for 2006.

The cynical, politically charged nature of the IMF's decision is exposed by the fact that the business community does not share Furtado's positive outlook on Bolivia.

The *Latin Business Chronicle* publishes a Latin Business Index, which ranks Latin American countries from a business perspective. This month it ranked Bolivia in 18th place out of 19 countries, leading only Haiti.

The *Chronicle* writes: "While the gas nationalization in Bolivia last week affected the country's score in terms of political outlook and business policies of the government, it came on top of a wide range of negative factors that propelled the country to the second-last position in the index. Bolivia has the lowest score in Latin America in terms of globalization and competitiveness, the fourth-lowest in macro environment and technology level and the fifth-lowest in business environment."

The IMF decision's impact on Bolivian life will be immediate. As recently as early May, the Bolivian government was hoping to use IMF credits to finance $270 million of its fiscal deficit. Now. According to *Correo del Sur*, "The authorities in the economic sector will have to look for other sources."

The IMF has a notorious record in Bolivia and throughout the region for dictating shock therapy policies, designed to make the impoverished masses pay the foreign debt and to pave the way to reorganizing economic life in the interests of foreign investors.

The privatization of natural resources and free-market policies sponsored by the IMF and, in particular, the Bolivian government's proposal to build a $5 billion pipeline to export Bolivia's natural gas reserves to the US and Mexico via a port in Chile, sparked massive popular insurgences that in October 2003 brought down the right-wing government of Gonzalo Sanchez de Lozada, and in June 2005 forced out his successor, Carlos Meza.

The courageous fight put up by the Bolivian masses came at a cost. A report by Public Access, a program sponsored by the German-Bolivian non-profit organization Fundación Pueblo, found that the fight against poverty and inequality were postponed over the last five years by the "intense political agenda and constant change."

But poverty, inequality and children going hungry are of no concern to Furtado and the IMF. Justifying the decision to deny new loans to Bolivia, he said, "There is a decision by [Bolivia's] Executive Power to maintain macro-economic stability and, at the same time, work in social policies."

On May 1, President Evo Morales, leader of the Movimiento al Socialismo (MAS), announced the nationalization of the hydrocarbon industry.

By Decree 28701, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) will assume control for the exploitation, production and commercialization of natural gas and oil, taking ownership of 51 percent of the shares. Hydrocarbon companies will receive 18 percent of net revenues, with 82 percent going to the Bolivian state. The move is expected to generate $300 million in additional revenues.

The nationalization will affect some 20 multinational corporations. Controlling 70 percent of Bolivian natural gas are Repsol-YPF (Spain-Argentina), Petrobras (Brazil), British Gas and British Petroleum (Great Britain) and Total (France).

Morales gave foreign companies 180 days to comply with the new regulations and added, "If they don't, the companies can abandon Bolivia."

Despite the radical-sounding character of Morales's proclamation, the so-called nationalization is the culmination of a process that began in October 2003, as a means to placate the popular anger that brought down President Gonzalo Sanchez de Lozada. In May 2005, the Bolivian parliament approved the law upon which the current nationalization is based.

His decree is in line with a regionwide—and indeed, international—trend by governments to demand a bigger share of the windfall profits being pumped out of the ground by multinational energy and mining conglomerates. Ecuador, whose president Alfredo Palacio has among the region's closest ties to Washington, recently seized the operations of US Occidental Petroleum Corp. over a contract dispute. Meanwhile, Chile, long considered a model for IMF "free-market" policies, has imposed new royalties on foreign miners.

Furtado's announcement came as no surprise to the Morales government. On May 7, *Correo del Sur* published an article saying: "The government, through its planning and development minister, Carlos Villegas, announced that it was elaborating a National Development Plan based on the nationalization of the hydrocarbon industry, inclusion and social justice, in addition to economic and financial stability."

These words strongly suggest that the IMF was aware of, even that it was consulted over, Morales's plan to nationalize the hydrocarbon industry. Recent developments support this view.

Since Furtado's announcement, for example, Morales has made it clear that an increase to the price of natural gas is necessary to face several economic problems, like financing the $270 million fiscal deficit, without resorting to international cooperation.

During the social upheavals of 2003-2005, Evo Morales, then the leader of the coca growers' union, played a conciliatory role and, on many occasions, maintained himself and the peasant organization on the sidelines of the struggle.

After Gonzalo Sanchez de Lozada resigned, Morales declared, "We will give a breathing space to [new] President Carlos Mesa, a truce, so that he can organize himself and carry out his promises to the country." Bolivian workers and peasants thought otherwise, however, and Mesa was overthrown after 20 months in office.

From this point of view, Morales's election as president represents a last-ditch effort to rescue capitalism in Bolivia. His job, he is now told by the IMF, is to ensure that the masses do not interfere with the results obtained from implementing the IMF policies.

The IMF decision comes as Morales faces mounting problems on several fronts.

The rhetorical pronouncements by the Lula and Kirchner governments in Brazil and Argentina, as well as by Prime Minister Zapatero in Spain, in favor of Bolivia's sovereign right to control its natural resources, quickly gave way to denunciations of the gas decree and defense of the "economic interests" of the corporations these leaders represent.

The Brazilian state energy firm Petrobras has announced the suspension of all investments in Bolivia, and has threatened to leave the country and look for alternative energy investments internally or elsewhere. Brazil's Minister of Mines and Energy Silas Rondeau stated that the Bolivian natural gas is useful to Brazil only at a "good price," a sign of opposition to any significant price increase.

The relationship with Petrobras is critical to Bolivia's future development. Petrobras has $1.5 billion invested in Bolivia. It accounts for 24 percent of the country's tax collection, 18 percent of its GDP, and 20 percent of all foreign direct investments in the country.

Latin Business Chronicle reports that Petrobras "operates nearly half of Bolivia's gas reserves and nearly all of its refining. And it produces 100 percent of the gasoline and 60 percent of the diesel fuel that Bolivia consumes. For Petrobras, Bolivia represents a fifth of its total gas reserves."

Within Bolivia itself, Bolivians were expecting Morales to announce wage increases on May Day, instead of the nationalization of hydrocarbons. Morales's popularity had fallen by 12 percentage points in April.

In the days following the nationalization, Morales admitted that a promised minimum wage increase of 7 to 15 percent, to benefit half a million workers making less than 440 bolivianos ($55 per month), depended on increasing the price that Brazil and Argentina pay for natural gas.

Also, the nationalization decree has caused concerns among Bolivian pensioners. The decree calls for the "transfer to YPFB, without compensation, of all shares owned by Bolivian citizens forming part of the Funds of Collective Capitalization of the oil companies Chaco SA., Andina SA. and Transredes SA."

The Pension Funds Administrators are asking the government to guarantee the payment of 1,800 bolivianos ($225) per month to its members older than 65 years.

The decree has also sparked protests by foreign investors. The Spanish Minister of Economy, Pedro Solbes, called Bolivia's demand that Banco Bilbao-Vizcaya (BBVA) and the Swiss insurer Zurich turn over shares held by the pension funds they manage without compensation "unacceptable."

Since May Day, popular struggles against the Morales administration have been mounting in Bolivia.

Taxi and bus drivers have blocked roads, gone on hunger strike, and threatened a 48-hour national strike because the government is delaying a solution to their economic demands.

Road maintenance workers have also gone on strike to protest the firing of personnel. In Tarija, the popular organization Comite Cívico Pro Interés is threatening a regional strike if the government doesn't resolve the transport crisis.

Transport workers have been joined by merchants trading in used clothes and neighborhood associations who are waiting for resolution to their own list of demands.

Even coca growers are challenging Morales, demanding the prohibition of a new coca market in the country, and threatening to block roads in the countryside.

With an explosive situation developing at home and growing pressure from foreign investors and the IMF, it is worthwhile noting Morales's declaration as a guest speaker to the VII Congress of the Women of Chapare, exonerating the Bolivian armed forces and national police from the crimes committed by previous governments against the people in revolt. The fault for the repeated massacres of demonstrators lay not with the Bolivian security forces, he maintained, but rather with the transnational corporations and the "gringos."

Clearly, Morales foresees the very real possibility that he will have to rely on these same security forces to suppress the kind of mass upheavals that have toppled president after president in the Andean country.