

UNDP LAC C19 PDS N°. 22

# COVID-19 in Bolivia: On the path to recovering development

UNDP Bolivia Office\*

## Abstract

Bolivia, just like the other countries of the region, was not excluded from the impact of COVID-19 and the pandemic appeared in the midst of an economic and political crisis as a result of the failed presidential elections of October, 2019. Despite the fact that timely measures were adopted to face the pandemic at the beginning of the outbreak and that, in effect, it did slow down the initial increase of the epidemiological curve, later it became impossible to stop the exponential growth of cases and finally the health care system collapsed exposing its deficient structure. The lockdown paralyzed activities and many people lost their jobs; livelihoods were partially or totally destroyed which resulted in a loss of income for many. The economy was faced by a supply shock followed by a demand shock because the level of household consumption dropped. By imposing dynamic and flexible quarantines the government has now started to re-open the economy and has provided the financial system with funds for loans needed to boost the domestic demand. The COVID-19 not only unleashed the crisis but has also opened opportunities and the urgency to get back to work as soon as possible very often was not made visible or ignored. This concerns a society that needs to recover its rights under a new equitable, inclusive and just framework of social justice that focuses on making progress and re-channeling efforts to achieve the Sustainable Development Goals.

\* Milenka Figueroa Cárdenas & Carlos Gustavo Machicado. The authors wish to thank Santiago Levy, Marcela Meléndez, Elizabeth Zamora y Mauricio Medinaceli for their comments.



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## Introduction to the series:

### Evidence, Experience, and Pertinence in Search for Effective Policy Alternatives

The COVID-19 pandemic is one of the most serious challenges the world has faced in recent times. The total cost in terms of human lives is yet to unfold. Alongside the cost of lives and deep health crisis, the world is witnessing an economic downfold that will severely impact the wellbeing of large parts of the population in the years to come. Some of the measures that are currently being used to counteract the pandemic may impact our future lives in non-trivial ways. Understanding the association between different elements of the problem to broaden the policy space, with full awareness of the economic and social effects that they may bring, is the purpose of this series.

Thus far, the impossibility of targeted isolation of infected individuals and groups has led to policies of social distancing that impose a disproportionately high economic and social cost around the world. The combination of policies such as social distancing, lockdowns, and quarantines, imply a slowdown or even a complete stop in production and consumption activities for an uncertain period of time, crashing markets and potentially leading to the closure of businesses, sending millions of workers home. Labor, a key factor of production, has been quarantined in most sectors in the economy, borders have been closed and global value chains have been disrupted. Most estimates show a contraction of the level of output globally. For the Latin America and Caribbean region, the consensus forecasts are at -3 to -4%, and it is not until 2022 that the region is expected to go back to its pre-crisis output levels in scenarios that foresee a U-shaped crisis pattern. According to ECLAC, more than 30 million people could fall into poverty in the absence of active policies to protect or substitute income flows to vulnerable groups.

We face a crisis that requires unconventional responses. We are concerned about the level-effect: the impact of the crisis on the size of the economies and their capacity to recover growth after the shock. But we are equally concerned about the distributional impact of the shock. The crisis interacts with pre-existing heterogeneity in asset holdings, income-generation capacity, labor conditions, access to public services, and many other aspects

that make some individuals and households particularly vulnerable to an economic freeze of this kind. People in the informal markets, small and micro entrepreneurs, women in precarious employment conditions, historically excluded groups, such as indigenous and afro-descendants, must be at the center of the policy response.

UNDP, as the development agency of the United Nations, has a long tradition of accompanying policy-making in its design, implementation, monitoring and evaluation. It has a mandate to respond to changing circumstances, deploying its assets to support our member states in their pursuit of integrated solutions to complex problems. This series aims at drawing from UNDPs own experience and knowledge globally and from the expertise and capacity of our partner think tanks and academic institutions in Latin America and the Caribbean. It is an attempt to promote a collective reflection on the response to the COVID-19 health crisis and its economic and social effects on our societies. Timeliness is a must. Solutions that rely on evidence, experience, and reasoned policy intuition –coming from our rich history of policy engagement– are essential to guide this effort. This series also contributes to the integrated approach established by the UN reform and aspires to become an important input into the coherent response of the United Nations development system at the global, regional, and national levels.

Ben Bernanke, former Governor of the US Federal Reserve, reminds us in his book *The Courage to Act* that during crises, people are distinguished by those who act and those who fear to act. We hope this policy documents series will contribute to the public debate by providing timely and technically solid proposals to support the many who are taking decisive actions to protect the most vulnerable in our region.

Luis F. Lopez-Calva

United Nations Development Programme

Regional Director, Latin America and the Caribbean

New York, March 2020



## Acronyms

ATT*	Authority for the Regulation and Oversight of Telecommunications and Transportation
CBB	Central Bank of Bolivia
CPT/IUE	Corporate Profit Tax
CTM*	Municipal Joint Tax Participation
ECLAC	Economic Commission for Latin America and the Caribbean
FTDs	Fixed Term Deposits
GNI/INB	Gross National Income
HS	Household Survey
ICTs	Information and Communications Technologies
IDB	Inter-American Development Bank
IMF	International Monetary Fund
MDPyEP*	Ministry of Productive Development and Plural Economy
MEyFP*	Ministry of Economy and Public Finance
MPD*	Ministry of Development Planning
MRI/IRM	Municipal Risk Index
MTEPS*	Ministry of Labour, Employment and Social Security
NIE	National Institute of Statistics
NIR	Net International Reserves
PFA	Pension Fund Administrators
PLA	Plurinational Legislative Assembly
RES	Rolling Employment Survey
RFI/IFR	Rapid Financial Instrument
RUDE*	Unified Students Registry
SBMCTI*	Bolivian Society of Critical Medicine and Intensive Therapy
SNMN*	National Maternity and Child Insurance
SSV*	Health Insurance for the Elderly
SUS*	Unified Health Insurance
TGN*	General Treasury of the Nation
TPR*	Real Exchange Rate
UDAPE*	Analysis Unit for Social and Economic Policies
UNDP	United Nations Development Program
WAP	Working Age Population
WHO	World Health Organization

\* These acronyms remain in Spanish.



## 1. Introduction

Bolivia, a landlocked country in South America, with a population of 11.5 million of inhabitants, had a favorable macro-economic context for nearly a decade reaching growth levels of up to 5% of the GDP. Nonetheless, it was unable to avoid the spread of the COVID-19 pandemic.

The pandemic reached Bolivia on March 10, when the country was socially and politically fragile resulting from a crisis triggered by the failed 2019 General Elections and the subsequent transitional government model. Similarly, the macroeconomic context was already fragile as a result of a slowdown in economic growth since 2015, which tested the sustainability of social progress achieved in the previous decade in its attempt to further reduce poverty and consolidate the recent widening of the middle tier.

The sudden appearance of COVID-19 and its exponential growth not only weakened the economy of the country further, but also brought to the forefront the severe weakness of the health care system. Although measures were immediately taken to cope with the pandemic and this helped to slow down the epidemiological growth curve, the spread of the infection and, the collapse of the health care system, revealed underlying structural problems.

This report is based on a previous analysis of the United Nations Development Program (UNDP) (Levy, 2020; Hevia and Neumeyer, 2020) and aims at studying the current situation of the COVID-19 crisis in Bolivia, its transmission mechanisms, as well as certain of its socio economic impacts and furthermore provides food for thought to pave the way towards a collective and inclusive recovery with a focus on multidimensional wellbeing.

The document is divided into five sections which begins with the introduction followed by the second section that describes the macro-economic situation of the country just before the pandemic struck; the third section describes the socio economic situation before COVID-19; while the fourth section studies the impact of the mitigation measures adopted by the government to curb the economic crisis. Finally, the fifth section provides certain recommendations and conclusions that contribute to the discussion on how the country will recover and the country will continue its path towards a sustainable and integrated development.

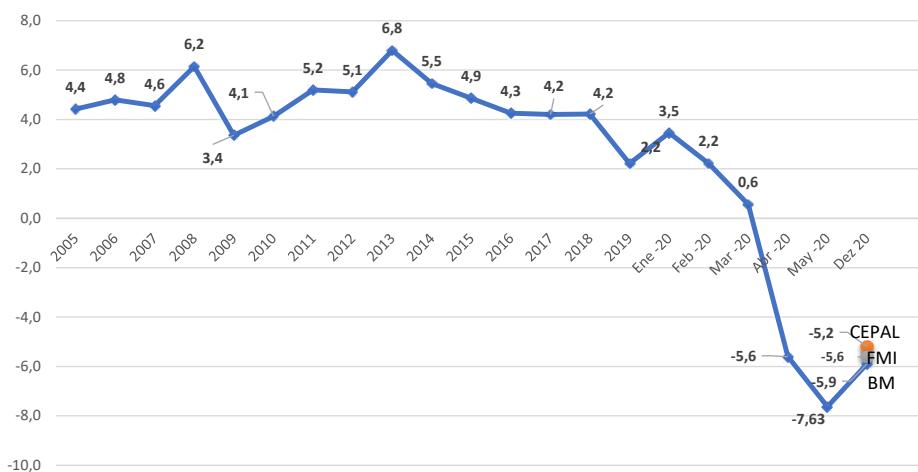


## 2. Macro-economic situation prior to the COVID-19 pandemic in Bolivia

### 2.1 The real sector

At the beginning of this year the country was bound in a state of inertia since it had enjoyed an economic boom (2004–2013) based on high prices of raw material exports, particularly natural gas, in addition to a dynamic domestic demand spurred by public investment.

■ **Chart 1.** GDP growth rate and outlook



Source: In-house preparation based on NIS data in Bolivia.

By 2019 the economic cycle that began in 2004 was reaching its end and the GDP growth rate had dropped to 2.2%, which was the same level as in 2000, the year of the financial crisis. The mining and hydrocarbon sectors were the most affected and registered the biggest contraction due to a fall in the natural gas export volumes to Brazil and Argentina, the main export markets. No less important was the fact the public investment fell and it had been a stalwart for domestic demand during the boom.

Aside from the economic slowdown, the last quarter of 2019 marks the beginning of a political crisis sparked by the annulment of the General Elections which led the incumbent president, Evo Morales, to resign and ushered into office a transitional government in charge of summoning new elections originally planned to take place in May. However, once the pandemic arrived the election had to be postponed until September 2020, but, due to a high rate of infection, the elections once again had to be postponed until October 18. The enactment of a Law by the Plurinational Legislative Assembly (PLA) ratified this date, following social turmoil in August when the elections were postponed again.

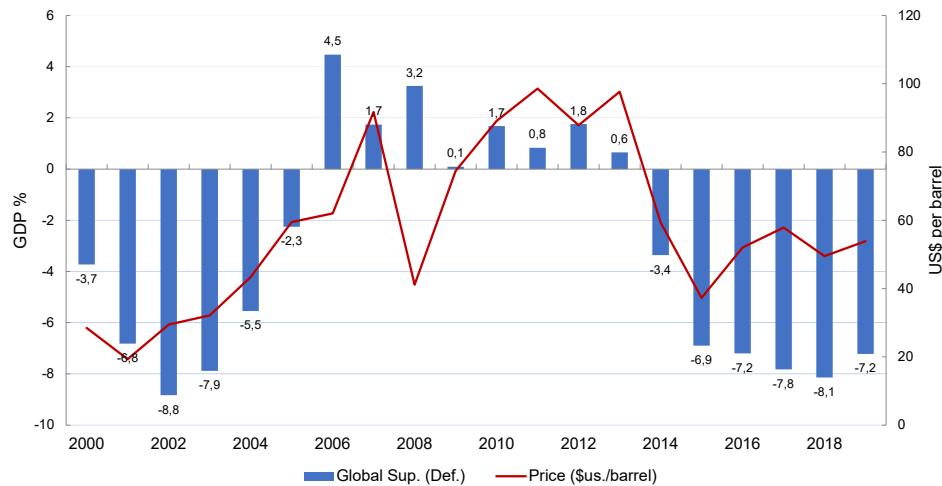
### 2.2 The fiscal sector

The pandemic hit Bolivia under a very bad fiscal position. The fiscal deficit had been growing since 2014 and had reached the level of 8.1% of the GDP in 2018. Percentages more than 8% had only been recorded during periods of crisis, 8.8% (2002) and 8.1% (1985).



In 2019, the deficit of the Non-Financial Public Sector (NFPS) dwindled to 7.2% of the GDP because public companies received fewer investments. In addition, the general government deficit increased from 6% to 6.9% mainly because it received less current income due to lower hydrocarbon sales. Chart 2 shows the relationship between the SPNF deficit and the international price of oil, taking as a reference the price of natural gas (the main export commodity). The ratio is 0.67 which confirms that the fiscal balance is directly linked to international hydrocarbon prices.

■ **Chart 2.** SPNF Surplus and the international price of oil.



Source: Ministry of Economy and Public Finance

The SPNF deficit was mainly sourced by internal credit basically for public entities and, more recently, the central government. In any case, Bolivia still has the possibility of seeking external funds because the external debt in proportion to the GDP barely reaches 28%, which is less than 40% that marks the limit of sustainability. However, there is concern regarding more internal funding since it is already close to 30% of the GDP.

In the first quarter of 2020 the GDP registered a deficit of 0.3% which makes the fiscal deterioration before the pandemic became evident since in former years the first quarter steadily recorded surplus amounts. This deficit has its roots in central government expenditures since public entities registered a surplus. Thus, while the general government financed 86% of its deficit through internal credit, public entities paid for their internal credit. In any case, the government's public finance is under a double stress, a greater pressure on expenditures and a lower fiscal income.

## 2.3 The monetary sector

Despite the fact that Bolivia's monetary policy benefitted from the "Bolivianization"<sup>1</sup> allowing the Central Bank of Bolivia (CBB) to exercise a greater influence on the monetary market, the foreign exchange policy in place since 2011 somehow restricted the intervention of the CBB in the monetary market by selling dollars to maintain the level of the foreign exchange rate. In fact, the monetary policy is still a policy based on monetary aggregates and is adjusted according to foreign exchange monetary market fluctuations.

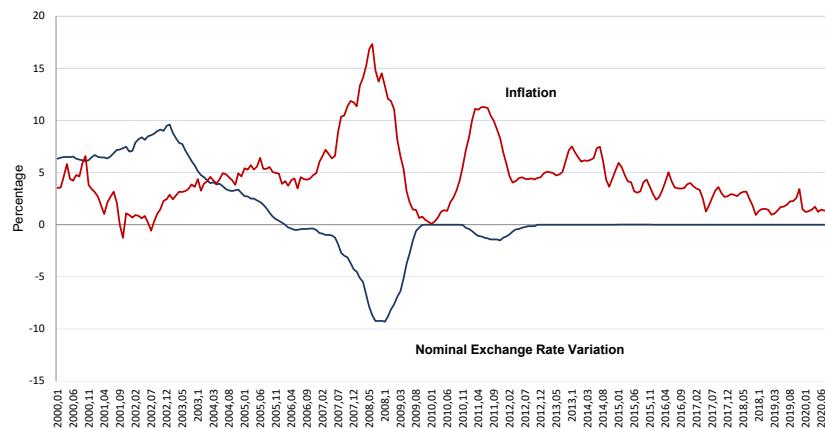
<sup>1</sup> 99% of the loans and 86% of the deposits are in dollars



Bolivia started to accumulate Net International Reserves (NIR) as of 2005, as a result of the trade surplus since 2004 and the condonement of the foreign debt in 2005<sup>2</sup>. Since it practically had no external liabilities, it accumulated all the foreign exchange from the current account surplus. This accumulation reached its peak in 2012, when it had 52% of reserves as compared to the GDP. After this year and from thereon the reserves were de-accumulated since there were more external liabilities and, as of 2014, the current account registered a deficit.

Chart 3 depicts the relationship between inflation and the type of variation of the nominal exchange rate. It shows that once a fixed nominal exchange rate is adopted (November, 2011), the inflation trend starts to drop to a level lower than 5% that explains the importance of the nominal exchange rate and how it curbes inflation. After the supply shock due to the quarantine, in April the rate of inflation up to 12 months rose slightly to 1.72%, however during May and as a result of the demand shock, inflation fell to 1.23%.

■ **Chart 3.** Inflation and nominal exchange rate (variation rate up to 12 months)



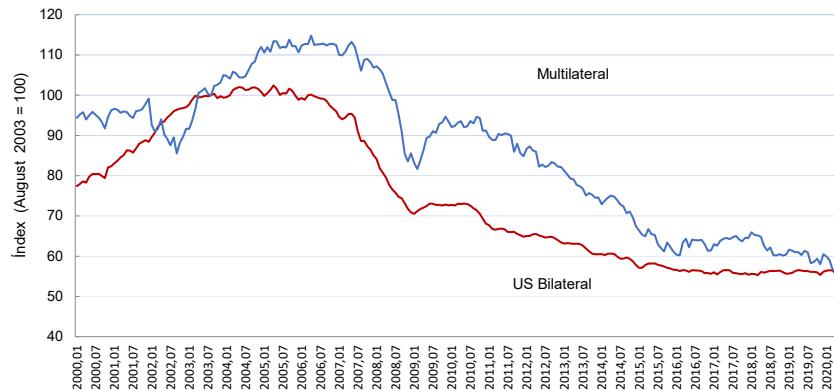
Source: In house preparation based on CBB and NIS data

When a fixed nominal exchange rate was adopted this triggered an over-evaluation of the real exchange rate (RER) reflecting how many national goods are required to purchase a foreign good making exports more “expensive” and imports cheaper. Chart 4 shows how the multilateral and bilateral index with the United States RER has evolved and when the over-evaluation began in 2006 and, as can be seen, with the exception of a real depreciation between February and October 2009, the RER has been constantly appreciated.

<sup>2</sup> Multilateral Debt Relief Initiative (MDRI).



#### ■ Chart 4. Real Exchange Rate Index



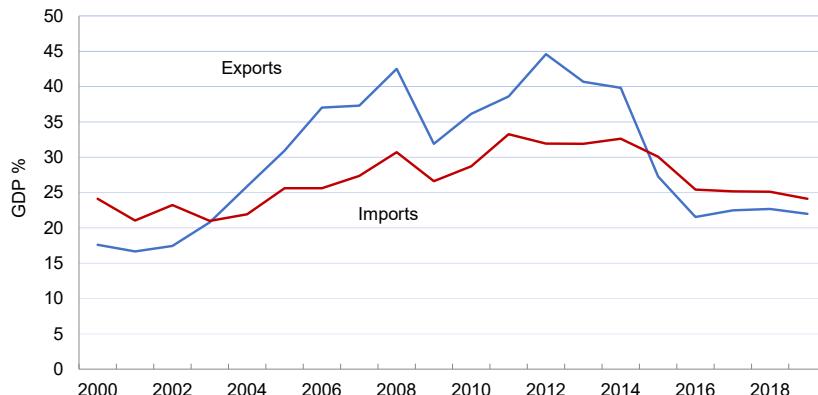
Source: BCB

## 2.4 The external sector

Between 2004 and 2014 the country had a trade surplus due to an increase of traditional exports, mainly hydrocarbons, and specifically, natural gas, as can be seen on Chart 5. In 2003 hydrocarbon exports accounted for 6.3% of the GDP. In 2013 these exports represented 22% of the GDP. Since then, they started to shrink until reaching 7% of the GDP in 2019.

According to Jemio (2019) the economy of Bolivia was experiencing a phenomenon called "the Dutch disease" since there was a higher average of extractive export activities and non-tradable activities of the GDP and a lower average as concerns non-extractive tradable products.

#### ■ Chart 5. Exports and Imports (% of the GDP)



Source: NIS

Similarly, the economy of Bolivia has become increasingly dependent on imports. As compared to the GDP, imports have increased from 21% in 2003 to 32.6% in 2014. Afterwards they have steadily dropped until reaching 24.1% in 2019. The fact is that there were more imports due to a higher income from exports and this appreciated the RER, making foreign goods cheaper in terms of national goods.



During the boom period (2004–2013) there were many more imports of industrial supplies and capital goods. The latter increased mainly because of the higher levels of public investment, which has a high imported component. This explains why, since 2015, imports declined because the level of public investment diminished and, as a result, public entities made fewer and lower imports. This also explains the important share of the deficit in services in the current account of the balance of payments. These services are mainly related to public investment.

In 2020, in the period between January and April, the total exports of goods fell by 13.9% as compared to the same period in 2019. Imports also fell by 29.5%. This explains how in the first months of the year, the trade balance had a surplus, in fact, it increased up to US\$198 million, by the third quarter of 2020. This surplus explains the increase of gross international reserves in April.

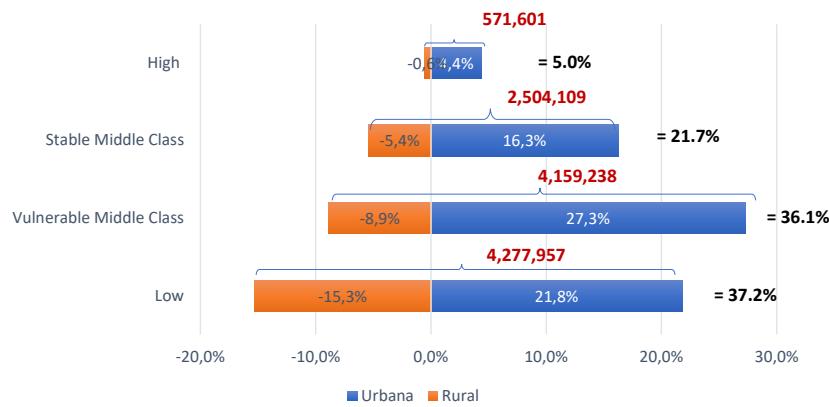
### 3. Socio economic context prior to the COVID-19 pandemic

#### 3.1. Poverty and vulnerability

In 2019, 70% of Bolivia's population lived in urban areas, 26% declared to belong to a native indigenous people and most of them were young and in a stage of a constrictive demographic transition. In 2019 life expectancy at birth was estimated at 73.47 years and in that same year the Gross National Income (GNI) per capita was US\$ 3,552. ranking Bolivia as a low medium income country, one of the poorest in the region.

In the midst of the most fragile macro-economic context in the country, the social progress achieved in the last decade has been put to the test, especially as concerns poverty reduction and the strengthening of the middle class which are the first hit in an economic slowdown, particularly in urban areas, due to a contraction of the domestic demand.

■ **Chart 6.** Income strata according to residence area



Source: In-house preparation based on a 2019 Household Survey. NIS, Bolivia.

During the economic boom in the period between 2004 and 2013 the population was able to afford much better living conditions and this helped to lift more than 21pp. of the population out of poverty. These people were able to fit into the medium vulnerable and medium stable income segments. However, according to the 2019 Household Survey (HS) the lower segment still comprises the largest part of the population (37.2%) followed by the vulnerable middle class segment (36.1%). Both segments represent a total of 8,432,747 inhabitants.



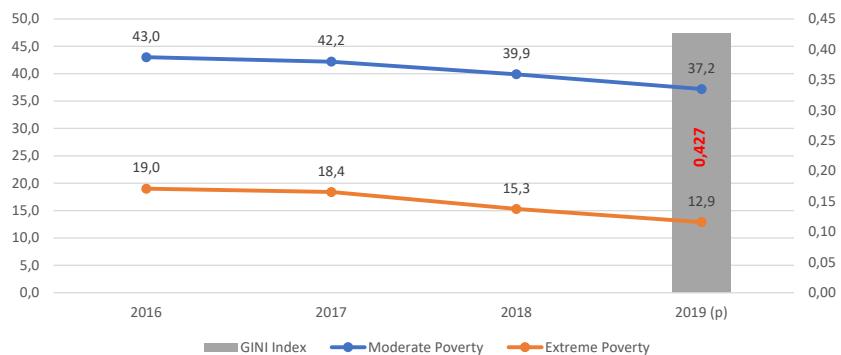
Moreover, Chart 6 indicates that out of 30% of the population that live in rural areas are poor (15.3%) while in urban areas the population is mostly made up of vulnerable middle class. Despite the fact that the pandemic mostly focuses on cities, the data shown herein makes the vulnerability of the rural poor stand out.

Up to 2019, political measures, such as, direct transfers and the backing of public investment with a focus on infrastructure, benefitted the poor and middle class segments of the population. However, the political crisis and the intrusion of the COVID-19 pandemic has affected the performance of the economy and could undo the former social achievements.

Between 2014 and 2015, despite the economic slowdown, monetary poverty continued to shrink due to the stalemate of the economic activity, particularly the service sector and the fiscal impulse that sustained occupation and remunerations at high levels.

In 2019 an estimated 4.3 million people were moderately poor (37.2%) while 1.5 million were extremely poor (12.9%). In addition, the Gini Index concerning the per capita income per family in that same year reveals a severe disparity in the income distribution (Chart 7) to such a degree that the wealthiest decile of the population concentrated 22 times more income than the poorest segment.

#### ■ Chart 7. Monetary poverty in Bolivia<sup>3</sup>



Source: In-house preparation based on the 2016 - 2019 Household Survey, NIS, Bolivia.

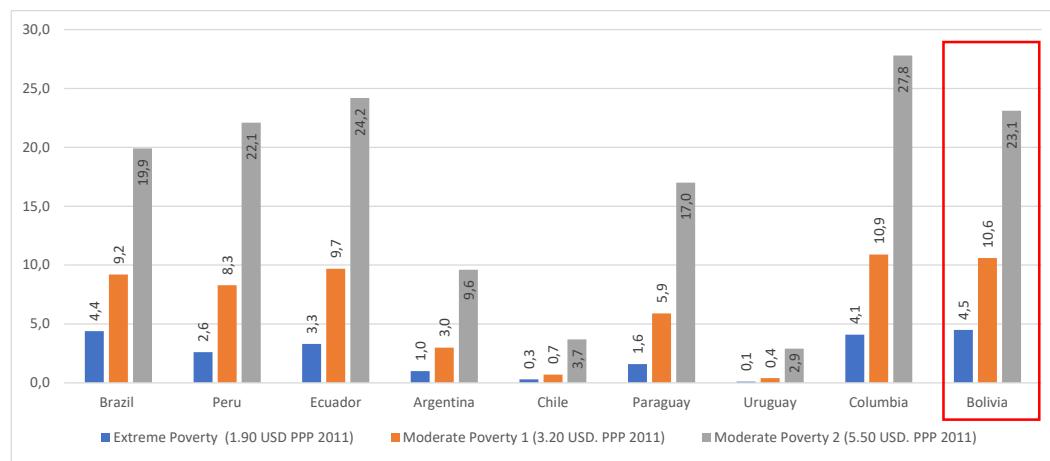
\*The GINI Index for the period 201-2018 could not be calculated since the data available, that is, the complete household survey adjusted to the new poverty lines is for the year 2019.

According to World Bank estimates, despite having reduced poverty, as compared to neighbouring countries, Bolivia continues to be one of the poorest countries in South America.

<sup>3</sup> The series only considers the 2016-2019 period since it contains the new construction of poverty lines based on the 2015-2016 Family Budget Survey. Therefore, poverty measurements registered in former household surveys are no longer comparable.



■ Chart 8. 2019 Monetary policy in South America (%)



Source: In-house preparation based on World Bank, 2018.

Bearing in mind the line of indigence or extreme poverty of US\$1.90 per day, which for many countries does not cover the cost of the basic food basket, Bolivia has an incidence of poverty of 4.5%.

There are considerable challenges to avoid returning to former levels of the reduction of monetary poverty in Bolivia which, with the presence of the pandemic, underscores the urgent need to design a complex set of social protection policies.

### 3.2 The labour world

Despite the growth levels of the Bolivian economy over the past decade, which considerably improved the workers' income, the productive structure of the country did not change nor did the generation of employment and quality jobs improvement (Pereira, et al., 2018). This is related to the development model, which from a historic perspective has consistently been based on labour-intensive natural resource exploitation and exports coupled by extremely low investment rates. These rates are due to a lack of domestic savings, which restricted the funding to drive productive investments to aid diversification throughout the country with a focus on efficiency and productivity.

According to the 2019 HS the potential supply of labour from urban areas represented an estimated 51% of the total population with a slightly higher proportion of women than men. The economic share represents 64.6% of the working age population (WAP) and a considerable gap of 19.1% in detriment of women is evident; with a 6% unemployment rate, the economic dependency is more than two people per each person with a job, more in the case of women than men.

There has been no change of the productive economic matrix and a large part of the population still has precarious jobs in addition to a low level of productivity and quality in the informal sector, which in 2019, increased to 76.2% at a national level and to 67.2% solely in urban areas.



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### ■ Chart 9. Occupation in the formal and informal sectors according to socioeconomic strata



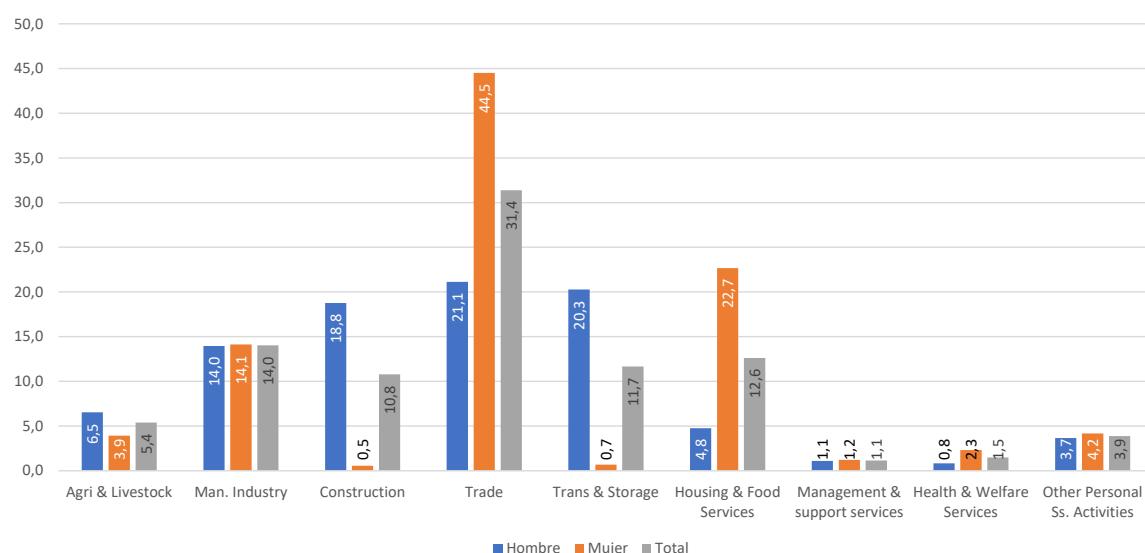
Source: In-house preparation based on 2019 HS. NIS, Bolivia.

\* The indicators have taken into consideration 14 years old as the working age.

Despite a remarkable economic growth, labour concentrates its largest share particularly in the low and vulnerable middle class population segments as seen on Chart 9 which represents more than three million people. Moreover, this market absorbs nearly eight out of each ten men and a similar proportion of women between 24 and 54 yrs. old who have rudimentary tertiary education.

The sectors with the highest percentage of informal workers in urban areas are, in order of size, trade (31.4%), manufacturing industry (14.0%), hospitality and food services (12.6%), transportation and storage (11.7%) and, construction (10.8%) all of which have been hard hit by the economic crisis generated by the pandemic.

### ■ Chart 10. Main informal workers' activities in urban area (%)



Source: In-house preparation based on the 2019 HS. NIS, Bolivia.



These outcomes match the data reported by the Ministry of Productive Development and Plural Economy (MDPyEP) and micro-businesses comprise 90% of the total economic units mostly active in the wholesale and retail market, the manufacturing and foodstuffs industries.

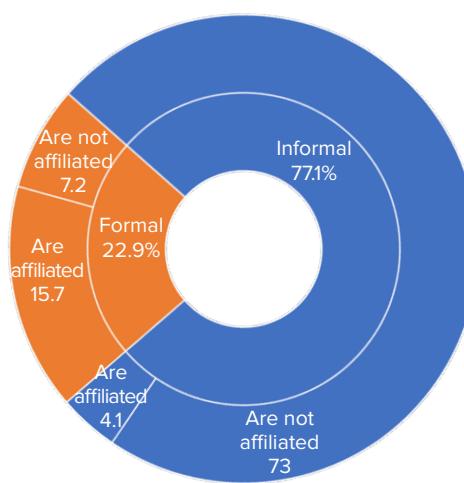
Depending upon the activity, there is also a higher share of women than men, for instance, in trade, since more than 44.5% are unemployed women as compared to 21.1% men, and in smaller numbers, the same happens in the hospitality and food services sectors.

Bolivia is now in a stage of constrictive demographic transition and has a demographic dependency of six per ten person in productive age and consequently there is a margin that can be used positively from this demographic bonus.

However, the narrow spectrum of labour demand for the formal economic sector hampers dynamic links to labour supply that, in the best of cases, do not have the necessary skills or training. In addition, together with the extractive development model that is low labour intensive, the demographic bonus and window of opportunity are not being properly used, and the matter is even worse since the pandemic is rampant and there will be very few opportunities for jobs in the formal and informal sectors.

Self-employed people in the informal market, particularly in the field of trade, work in precarious conditions with no short or long term social security benefits. Social security is linked to formal jobs which are also few despite the fact that application as a social security beneficiary is voluntary and is not only valid for formal workers. Barely one out of each two people have a job in the formal sector and less than one out of eight people in the informal sector are social security beneficiaries (Chart 11).

■ **Chart 11.** People registered in a pension fund



Source: In-house preparation based on the 2019 HS. NIS, Bolivia.

In summary, the labour market structure in Bolivia is extremely fragile and cannot manage the shocks, not only as concerns the domestic demand shocks, but also the supply shocks generated by the COVID-19 mitigation and response measures.

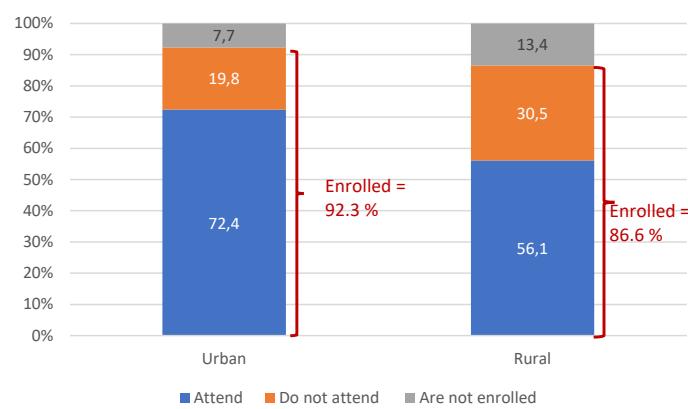


### 3.3 The To Do List concerning Education

Although the coverage of and permanence in the educational system has improved over the last decade, the sector still has a list of pending issues such as the coverage gaps per place of residence, gender and particularly, quality education measurements.

According to the 2019 HS, the net enrollment of primary and secondary education in Bolivia is 90.4%, but, as seen on Chart 12, the situation by place of residence reveals a 5.7pp. gap in detriment of the rural area as compared to urban areas. However, attendance is more important than enrollment, and, out of the total number of children enrolled in school of age for the grade in an urban area 72.4% attend school while school attendance in rural areas is much lower at 56.1% and this greatly widens the gap.

■ **Chart 12.** Net enrollment and attendance in primary and secondary schools according to residence area



Source: In house preparation based on the 2019 HS. NIS, Bolivia.

Since 2006 Bolivia implemented the Juancito Pinto Bonus as a social protection policy to broaden the coverage of school age boys and girls and encourage them to go to class and continue their studies. However, Hernani (2013) concludes that depending upon an ex ante and a counter-factual evaluation method the bonus has only motivated the growth of enrollments but has been unable to encourage school age girls and boys to remain in school, and this situation has not changed according to the above chart.

With the exception of higher levels of education it is evident that gender gaps exist amongst schoolchildren of educational establishments from pre-school, primary to secondary levels. Although the gaps are decreasing in national averages, it is evident that there are still differences in the opportunities that women have to acquire skills related to educational training, particularly at the secondary education level in rural areas, where the gap between men and women even reaches 8.5 pp, this possibly attributed to the domestic and care work that women must assume.

Moreover, the information and communications technology (ICTs) for internet services in households is still scarce in the country and only two out of ten households have internet services. One of the main impacts of COVID-19 will undoubtedly be the educational gap to have access to and use ICTs. In fact, only 24.8% of the households with children enrolled in a public school have access to ICTs as compared to 42% of the households with children enrolled in a private school who are connected. However, this does not mean that having access to the internet through a mobile device, such as an intelligent cellular telephone, has registered a much larger growth as compared to fixed



and wireless connections as revealed by the 2019 Study of the Regulation and Oversight Telecommunications and Transportation Authority (ATT 2019) that reported that in 2018, 94.3% mobile telephones used access technology.

### 3.4 The universalization of a precarious health care system

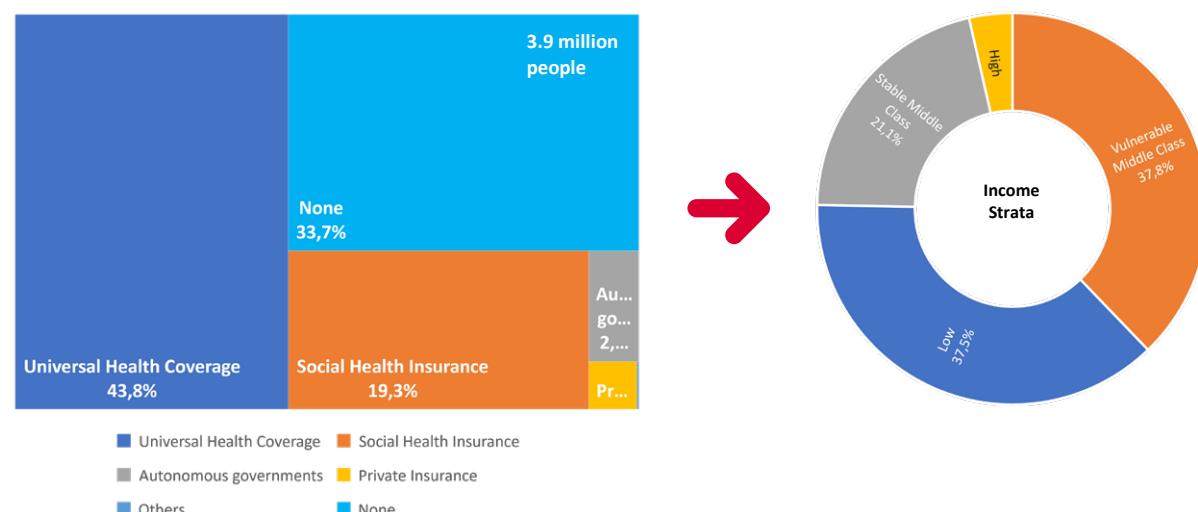
The health care system was established in the decade of the nineties with the National Maternity and Infant Insurance (SNMN) and Old Age Health Care Insurance (SSV) in 1996; the purpose of the former that has 32 benefits was to reduce maternal and neonatal mortality and the second was designed for senior citizens. Both insurances had been added more benefits until the beginning of 2019 under the current Unified Health Insurance (SUS according to the Spanish acronym) which is free and universal and provides an estimated 1,200 medical services; while the Old Age Health Insurance substituted the SSV in 2006 and provided health care services at all levels of medical attention of the health care system.

The National Treasury of the Nation (NTN) financed and will continue to finance 90% of these insurance schemes as regards to the human resources component and will fund 10% through the Municipal Joint Tax (CTM according to its Spanish acronym) from the national tax collection earmarked for infrastructure within its sphere of jurisdiction and according to its level of government.

Unfortunately, changes in the public health care system were not matched by an adequate planning nor the infrastructure or human resources required, nor did it receive substantial funding from the different levels of government, nor did these levels coordinate amongst each other or with the health system. Consequently, this universal health care insurance is actually limited, oversaturated and plagued with flaws and furthermore receives funds in fragmented remittances.

Despite the universal coverage of the public health care system and the fact that it is free of charge, according to the 2019 HS only 44% of the population had been enrolled in the SUS, 19.3% was registered in the short term social security, 1% in private security schemes, while an estimated 34% has no health care insurance.

■ Chart 13. Population enrolled in a health care insurance



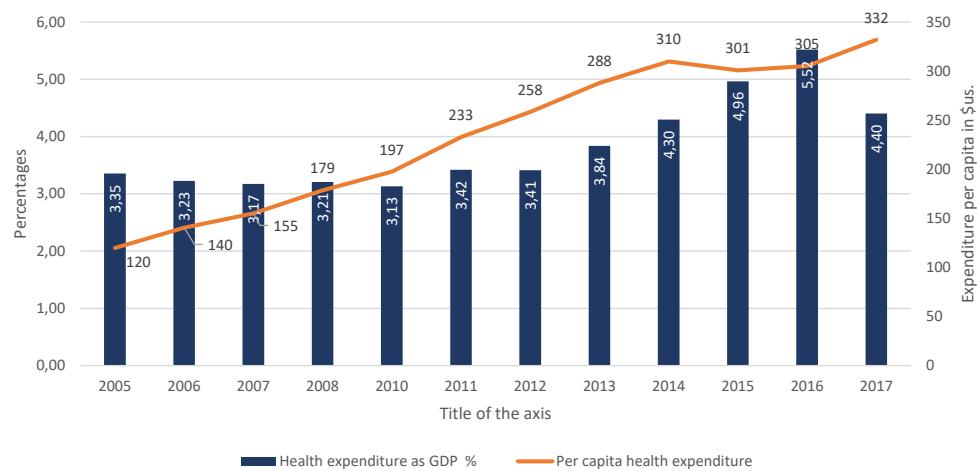
Source: In-house preparation based on the 2019 HS. INE, Bolivia.



As shown in Chart 13, 75% of the population with no insurance coverage belong to the low and vulnerable middle class segments partially due to socially determining factors, such as, the place of residence, family income, adoption of healthy habits and, culture, to mention a few, but also a mistrust due to the poor quality of health care services.

Regarding health expenditures, latest data from the World Bank reveals that in 2017, Bolivia had a public expenditure of 4.4% of the GDP which is less than the Latin American average (4.8%) and although it is higher than countries such as Brazil and Peru, it is still far from the recommended 6% declared by the World Health Organization (WHO). Moreover, due to the relatively small size of the Bolivian economy, in per capita terms, the estimated US\$332 per year as expense in health is one of the lowest in the region, well below the amount Brazil invests (US\$600 per inhabitant). Therefore, although there have been increases in health care expenses, these have been too little and have not kept pace with the demographic growth of the past decades, as shown in Chart 14.

■ **Chart 14.** Public health per capita expenditure



Source: In-house preparation based on UDAPE 2018 data, Bolivia.

Great strides have been made in the area of mother child health which registered a higher coverage of institutional child births, however the figure has remained at 84% since 2012 despite the implementation of the Juana Azurduy Bonus.

According to regional data, in 2017 the doctor/inhabitant ratio in Bolivia was 14 per 10.000 inhabitants. Neighbouring countries more than doubled that ratio, Chile (36), Argentina (37), Paraguay (34) and Brazil (31) which comply with the required minimum level as declared by the WHO, to mention a few countries. In Bolivia there is one doctor for each 714 people when the minimum WHO recommendation specifies that there should be at least one doctor for each 333 people.

Although there is no standard number of hospital beds per inhabitant the ratio in Bolivia (1.1 beds per 1,000 inhabitants) lags considerably behind its neighbouring countries such as Argentina (5), Peru (1.6), Chile and Brazil (2.2) and this places the country as second to last in South America.

As concerns high resolution infrastructure, Bolivia has a total of 33 third level hospitals of which, based on data from the Bolivian Society of Critical Medicine and Intensive Therapy (SBMCTI) only 24 have intensive care units.



Altogether the number of beds in these hospitals used for these purposes add up to 220, the estimated average bed occupation is 90%, and the 10% in the balance is not functioning. If the WHO recommendation was taken into account, i.e., one bed for intensive care per each 10,000 inhabitants, the public health system could hardly cover 20%.

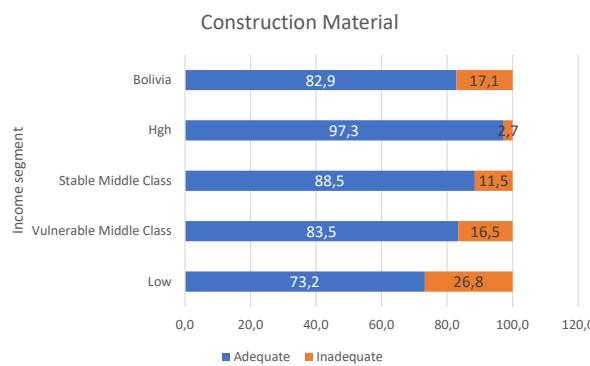
It is in this extremely precarious situation that COVID-19 struck and due to the universalization of the health care, health care system services had already collapsed. Demand was rampant and overwhelmed the supply, the infrastructure was precarious and had not been renovated since the decade of the 80s and there was a shortage of human resources.

### 3.5 Housing conditions

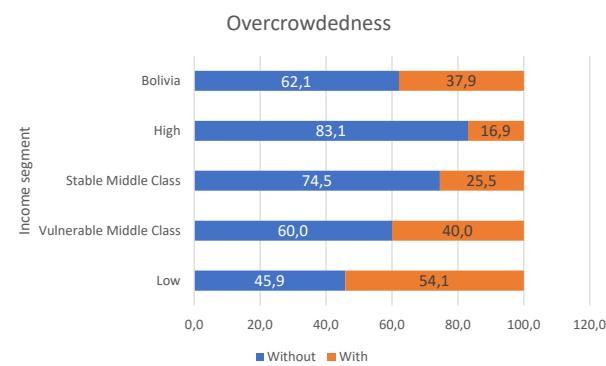
Although the possession of a home and adequate housing is a fundamental right this is an issue which together with basic water and sanitation services continues to be missing in Bolivia, particularly in rural areas where the coverage has hardly improved for decades. In the last few decades, the governments implemented several housing programs as a solution to the lack of housing for a large portion of the population. However the living conditions of the people did not improve much at all and even worsened, the qualitative deficit of housing, understood as the possession of housing with structural flaws or flaws in utilities affected 963,327 households per year in 2011, that is, 36.1% (2,669,794 households) of the total number of households, the shortage grew to 1,515,172 households in 2018, that is, 43.8% (3,459,453 households) of the total (UDAPE, 2018).

A look in detail, for example, into the quality of the construction material used to build the walls and ceilings leads to the conclusion that in the country two out of ten households have built their homes with inadequate construction material, and this figure is doubled in low income segments of the population.

■ Chart 15. Construction material



■ Chart 16. Overcrowding



Source: In-house preparation based on 2019 HS. INE, Bolivia.

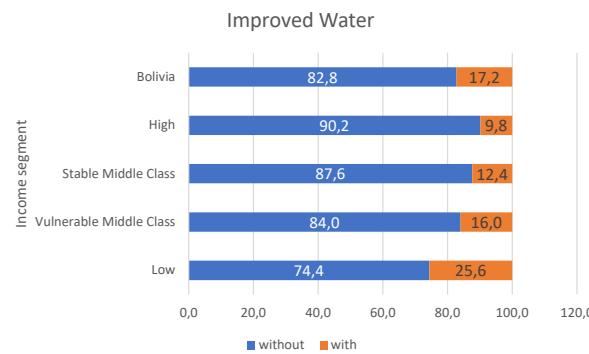
Similarly, an estimated 40% of the households in Bolivia are overcrowded and have more than three people per bedroom. It is worse for the lower income segment of the population that register more than 50% living in these conditions.



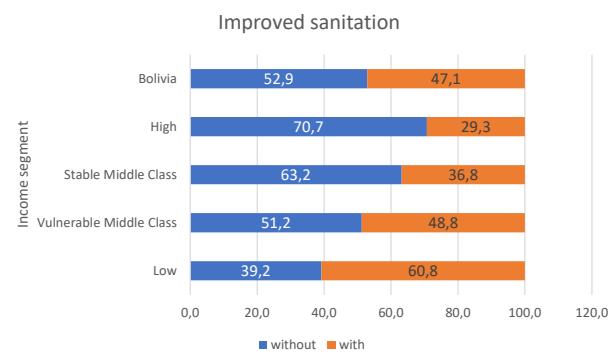
The qualitative deficit of housing which is made particularly evident in the over crowdedness is not only a breeding ground for sickness and disease but also aggressiveness, violence and even mental disturbances and the development of a person's personality, but also reveals the qualitative deficit of decent living quarters.

As concerns utilities, such as improved water and sanitation services, the situation is grim, especially as concerns the latter which has serious deficiencies. (See Chart 18).

■ **Chart 17.** Improved water



■ **Chart 18.** Improved sanitation



Source: In-house preparation based on 2019 HS. INE, Bolivia.

Despite the implementation of a series of government policies to improve the sanitation of housing and investment programs, there have been little progress, not only in rural areas but in urban areas as well. Sanitation has now become one of the main problems and should attract the attention of the government to formulate a public policy. (Escalera and Córdova, 2016).

Although the housing and living conditions are, persistent and structural problems, the COVID-19 pandemic has unveiled the urgent need to address them, since they not only involve deficiencies in rural areas but also deprivations and a lack of rights in urban areas where over crowdedness also uncovers the true shortage of living quarters and its effects, such a surge in intrafamily violence.

In summary, the socio economic context prior to the COVID-19 pandemic in Bolivia reveals that, although the country reduced poverty in the past decades and fostered a growth of the middle class, it focused on the vulnerable middle class more than the stable middle class since the exposure to risks and economic shocks could easily provoke a new fall of the population into a lower income segment.

#### 4. Impact of the measures adopted by the government

The sickness caused by SARS-CoV-2 declared by the WHO as a global pandemic on March 11, 2020 started to spread in Latin America, and Bolivia was also engulfed thus affecting its public health and economy. (CEPAL, 2020).

After the first cases of COVID-19 were confirmed, Bolivia was one of the first countries that reacted immediately to cope with the pandemic. Some of the main measures adopted were closing down borders, suspending classroom teaching at all levels of education and sub-systems; encouraging physical distancing once public spaces were shutdown; lesser working hours; partial, total or dynamic quarantines were declared; income compensation



bonuses were created to strengthen the social protection of households, financial support was provided, especially for micro, small and medium sized businesses (Mipymes according to its Spanish acronym), and the health care system was strengthened, just to mention a few measures taken. All of this aimed at safekeeping the lives of people and keeping the economy afloat.

## 4.1 Sanitation measures

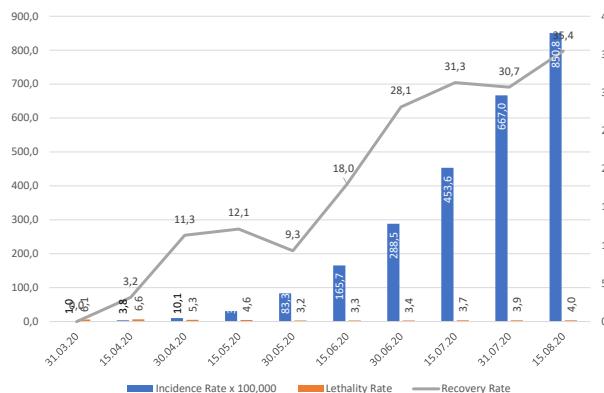
By mid March, a few days after the first cases had been reported, the government declared a State of National Health Emergency and a partial quarantine. Borders were closed to foreign travellers and, in less than a week, the government imposed a total quarantine throughout the national territory in an effort to mitigate the possible impact on the most vulnerable population and the population at large. All types of economic activities were forbidden except those considered to be of essence (health and food supply related). In the meantime the sanitary and economic response would be organized since all business activities had been stopped. In addition to these measures swift processes were established to purchase medical supplies.

Moreover, the government declared the treatment of COVID-19 free of charge in the public health sector and adopted an extension of working hours for health care workers of the national health system; customs tariffs on medical supplies and equipment were declared to be 0%.

With an exponential increase since the end of March, the COVID-19 indicators turned out to be more aggressive going from a 10% rate of incidence per 100 thousand inhabitants to nearly 850 by mid August. As compared to neighbouring countries in that same period, the indicators revealed very different behaviours, for example, Chile has the highest rate of incidence of contagion (an estimated two out of each 100 inhabitants) but, at the same time, it has a moderate rate of lethality as compared to Brazil and Peru, that also have a high rate of contagion but even so the rate of lethality is lower than that of Bolivia that has less than double the rate of incidence. This timeline demonstrates the health crisis response and management capacity handled by each country and especially evidences the precarious health system.

### ■ Chart 19. COVID-19 Indicators

a) Bolivia



b) South America



Source: In-house preparation based on data from the Ministry of Health. 2020.

\* The data for South America are for 15.08.20



Since it is impossible to maintain a strict quarantine, a dynamic quarantine was established in May based on the construction of a Municipal Risk Index (MRI) that classifies the 339 municipalities of the country into high, medium and moderate risk bearing in mind a combination of epidemiological and demographic variables. This index is updated each week and enables the partial opening of certain territories of the country. Additionally, health care workers were given an incentive with a double work day and double pay.

The outbreak of the COVID-19 pandemic continued to spread and the Department of Santa Cruz became its epicenter, the place that registered the highest number of people infected by this coronavirus. This also entailed several consequences, especially the income lost since this is the most heavily populated Department of Bolivia and has the highest level of agribusiness activity.

With a precarious and overcrowded sanitary infrastructure and a low density of doctors per inhabitant, as seen in the previous section, the pandemic was not restrained despite the prevention efforts to flatten the contagion curve, sentinel hospitals were organized that were obliged to change into a second or third level hospital without complying with the infrastructure requirements for that level, and the same happened in La Paz, and Santa Cruz where hotels and sports grounds were organized to accommodate and isolate the less sick people.

These measures contributed to generate a certain capacity to immediately respond, but other structural problems arose, such as a shortage of human resources, a lack of laboratories to diagnose at a national level, insufficient reagents and diagnostic tests, as well as a scarcity of biosafety equipment and medicine, which unfortunately have undermined the measures related to the quarantine.

Leaving aside the extreme gravity due to a lack of intensive care units, the fact that there are not enough beds required to provide such services is critical, and as mentioned in item 3.4, 90% of the 220 beds available in the public system at a national level for this purpose were occupied, while the balance of 10% was not being used due to several reasons and therefore even without the COVID-19 scenario the SUS were unable to satisfy the demand of their affiliates.

For decades, the health sector in Bolivia has presented a series of deficiencies such as: an adequate planning of public insurance schemes and their implementation, universal coverage and with no charge, public services without infrastructure nor an adjusted budgetary allocation, complete records of the services provided, an evaluation of the insurance by type of service and not by beneficiary/, a census of the doctors and an analysis of the transitions of the epidemiological profile amongst others, that are needed to plan in keeping with the growth of the population and their real needs as concerns health care services. Moreover, the pre-elections political situation makes the transparency of the records related to COVID-19 sensitive, and there is only partial information available.

At present, Bolivia has entered into a massive contagion phase, however, the size of the occupation in the informal market aggravates the economic crisis and is more severe than the sanitary crisis, making more lockdowns impossible which can also accentuate the health services crisis.

## 4.2 Social protection measures

The sudden stop of the economy had immediate consequences for the population, affecting their livelihoods, particularly for the men and women of the informal sector, that represents 77% of the occupied population, or an estimated 2.5 million households who are self-employed and are involved in trade (wholesale and retail of non-food products), manufacturing and construction, for example.



With the purpose of compensating the income loss of households due to the lockdown, the government provided three different bonuses especially targeting the vulnerable population: the first was the Family Bonus for a value of US\$ 72, the second was the Family Basket Bonus for a value of US\$57 and the third was the Universal Bonus for a value of US\$ 72 (consider that the minimum national wage is equivalent to US\$ 305).

However, since the country does not have a unified registry of the beneficiaries of social transfers, it is difficult to spot them. The Family Bonus used, as a criteria to identify the vulnerable population, the Sole Students Registry (RUDE for its Spanish acronym) that enabled all households with children enrolled in primary schools in the public education system to have access to the bonus, and later due to the limited scope, pre-school and secondary education levels were included as well in addition to the inclusion of educational establishments of the private system.

As concerns the second bonus that covers the family basket, this should have been originally distributed in kind but, due to the difficulty in logistics, it was handed out in cash, using criteria such as the identification of the registry of Renta Dignidad, the Juana Azurduy Bonus and the registry of individuals with a disability in order to broaden the coverage of the vulnerable population.

Finally, as concerns the Universal Bonus, the criterion used was the exclusion of the former two, the population between 18 and 60 yrs. old and people that do not receive fixed income nor social assistance (retirement pensions) and regarding the latter an effort was made to maximize the scope of the direct transfers. Additionally and with a universal nature, the government declared a reduction of the water and gas service rates by 50% and electricity with differentiated percentages according to the household consumption, for the period the sanitary emergency lasts.

It is estimated that the bonuses for a total quarantine that lasted 70 days (from March 22 up to May 31) were not enough to cover the expense of a complete basket of products and services that a family normally consumes, despite the fact that it did help to cope with the food needs with a value of US\$66.7 per person per month in 2019, in an urban area and US\$47 in a rural area (INE, 2019). Considering that up to August 13 more than 7.6 million payments were made, it is expected that the low income segments were benefitted covering 4.3 million people.

Households have been mostly concerned about preserving their source of income. According to a research done by the ARU Foundation on the effects of the pandemic in Bolivia, by using micro-simulations a conclusion was reached in that the family income diminished by an estimated 42% during the lockdown, mainly affecting independent workers (salesmen, members of business associations and constructors, to mention a few) that represent 80% of the informal sector and this involves more than 3.5 million people, especially women in low income and vulnerable middle class segments.

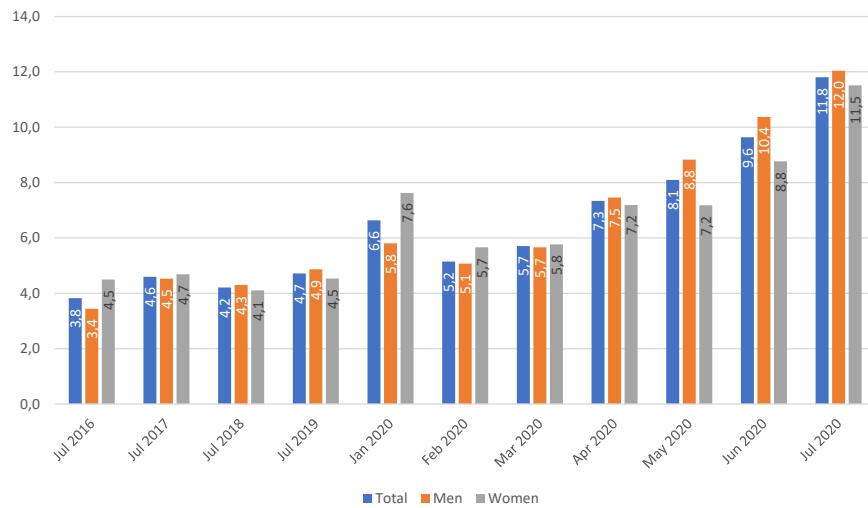
The balance of 15% comprised by the micro and small businesses also stopped working and were witness to the partial or total destruction of their activities that interrupted the supply chain to the markets. Many of them, which had taken loans, had to pay them back and had to pay salaries, and practically, in both groups they were excluded from benefitting from social security because of the typical characteristics of this sector.

Similarly, 26.4% of labour in the informal sector of the economy is exposed, since on the one hand there is too much home office work that clashes against the routine of household chores, especially in the public sector. On the other hand, workers in the private sector and who are not involved in foodstuffs or personal protection products, are affected because they are also running the risk of being fired. This would lead to an increase of unemployment and underemployment because of the reduced working hours. Although the Ministry of Labour, Employment and



Social Security (MTEPS for its Spanish acronym) forbids the unjustified dismissal of workers both in the public and private sectors to guarantee job stability and payment of wages, in reality this has not been sustainable and has generated even higher levels of unemployment, 11.81% in July as well as the exit of the labour force that reflects the lower dynamics of the urban labour market.

■ **Chart 20.** Behaviour of the urban unemployment rate



Source: Rolling Employment Surveys, INE. 2020

\*Considers 14 yrs. old as the lowest age to work.

According to the Continous Employment Survey (ECE, 2020), it has been estimated that the population affected due to the pandemic's mitigation effects up to July was 698 thousand people, made up of 289 thousand (60%) circumstantial inactive people and 409 unoccupied people (40%) and in the measure in which the economy was reactivated, the inactive people started looking for a job and therefore fell into the classification of dismissed in the unoccupied dismissed workers category (in April the composition was 82% inactive workers and 18% unemployed).

Of the people who became economically inactive due to the pandemic, 62% were women and 38% men, while those who had been dismissed were 59% men and 41% women, which is reflected in the unemployment rate of Chart 1. In this manner, the most affected age groups were individuals between 18 and 44 yrs. old.

■ **Table 1.** Dismissed unoccupied population according to the last economic activity

Economic Activity	April (p)	May (p)	June (p)	July (p)
Construction (%)	20	23	30	23*
Foods and restaurants (%)	13	11*	8*	13*
Transporte and storage (%)	11*	5*	5*	6*
Trade (%)	10	14	13*	15*
Manufacturing Industry (%)	8*	14	9*	9*
Other (%)	37	33	34*	34*
<b>Unemployed people affected (in thousands)</b>	<b>81</b>	<b>123</b>	<b>153</b>	<b>289</b>

Source: Rolling Employment Survey, INE. 2020 (p) Preliminary

\* Variation coefficient higher than 20%



Moreover, the most affected activities of the dismissed unemployed up to July were in order of importance: construction (23%), trade (15%) and food and restaurants (13%).

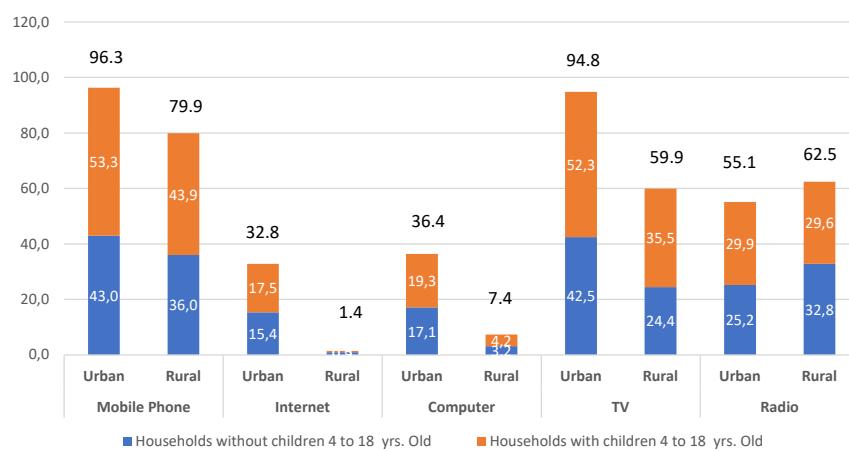
The quarantine exposed the households to daily coexistence within the dwellings (24/7), which in 44% of the cases had deficiencies either because of the poor quality of the construction material, the over-crowdedness (38%) or no running water or improved sanitation. But especially because the overcrowded urban living conditions, aside from contributing to the spread of the virus also sparked more intra-family violence against girls, boys and women. Of the total criminal acts processed by the Attorney General of March 22 up to May 31, 81% (2,378) involved domestic violence and, although the figures are lower as compared to the same period in 2019, this does not mean that there are fewer cases of intrafamily violence as such, but that the Attorney General's Office assumes that the victims were unable to present a formal accusation.

Also important is the impact caused by the pandemic on the education sector, especially in the public sector, affecting an estimated of 3.1 million students (14.5% pre-school, 36% primary, 30.1% secondary and 18.6% tertiary). The education system did not adapt to a virtual model, partially because of the students and the teaching staff but also because they did not have the necessary tools (a computer or an intelligent device) nor access to internet services. In addition if they had access to Internet the bandwidth speed was deficient or ultimately they had not acquired the skills or training to know how to use the virtual classroom modality.

In this sense the government declared that as of August 3, the school year would be closed and decided that all the schoolchildren at the pre-school level, primary and secondary levels would pass the grade with no student failing the grade.

According to the 2019 HS 47.9% of the households have internet, although only 23% of them had the service in their homes, and, the situation is worse in rural areas where a bare 22.8% of the homes use internet but only 1.4% have access to the service in the houses.

■ **Chart 21.** Possession of ICTs in homes, according to school age children and place of residence



Source: In-house preparation based on 2019 HS. INE, Bolivia.

These numbers reflect the challenges faced by the education sector as it struggles to adjust to the new virtual classroom modality including the use of radio and TV. In addition, the entire educational curricula must also be



adapted and teachers must be trained to become adept in the use of these new modalities. Thus, the quality of education is postponed.

Since the educational system needs time to adjust, in the long run this situation will most probably exacerbate the asymmetries of education. Aside from having access to ICTs, these innovative distance learning methods must also provide students with the basic tools, in order to guarantee that these initiatives will be effective for each and every student and teacher, regardless of their socio economic situation, gender or place of residence. (López-Calva, 2020).

### 4.3 Economic policy measures and their repercussions

In aggregate terms, there have been expansive economic policies to alleviate the effects of the pandemic. The fiscal policy has focused on implementing social protection measures and expanding the health care supply while the monetary policy has aimed at increasing the economy's liquidity.

The three Bonuses (transfers) distributed under the framework of the social protection system generated a fiscal expenditure of an estimated Bs.3,478 million (US\$500 million) that have been completely funded by domestic loans from the Central Bank of Bolivia and the National Treasury. As seen in Chart 2, up to August an estimated 7.6 million people benefitted and US\$475.71 million had been distributed which represents 95% of the planned amount.

■ **Table 2.** Expenditures and beneficiaries of the mitigation measures against COVID-19 adopted by the Government

	Amount (in USD)	Benefited (in millions)	Total (in millions USD)	(%) of GDP (2019)
Transfers (al 19 de agosto)		7,58	475,71	1.17
<i>Canasta Familiar</i>	57	1,05	59,85	0.15
<i>Bono Familia</i>	72	2,91	209,52	0.51
<i>Bono Universal</i>	57	3,62	206,34	0.50
Credit deferral		1,00	431	1.06
Paymant of basic services		10,4	112,1	0.27
Special support program for micro, small and medium enterprises		0,78	215,5	0.53
Emergency plan to support employment and work stability			287,3	0.7
<b>Total</b>			<b>1521,11</b>	<b>3.75</b>

Source: In-house preparation based on data from the Ministry of the Presidency and the Micro and Small Businesses and Pension Funds (MEyFP).

The extension of the term to repay loans is an important program since it provides a relief for an estimated Bs. 3,000 billion (US\$431 million). Through this program financial intermediation entities put into effect the automatic extension of loan payments on capital and interests and other types of obligations as of April 1, and this has been extended for the full term of the sanitary emergency. In May, the government extended this term until June, July and August for borrowers with a debt less than Bs.1 million (US\$143,678) and, if the debt is larger, an additional three months more. This program has been extended until December and this could overload the financial system.

A Financial Relief Program was adopted for up to Bs.1,500 billion (US\$216 million) for loans to Micro and Small Businesses (Mipymes) in the service, production and trade sectors, for up to five years, with a grace period from six months to a year and an interest rate regulated by the Ministry of Economy and Public Finance (MEFP according



to the Spanish acronym). With a maximum amount of a loan of up to Bs.115,000 (US\$16,523) this program aimed benefitting people who do not have social protection, workers, self-employed and family business, who buy goods and services in the informal sector. This also includes employers and employees of the Micro and Small Business (Mipymes) sector that have 10 or more workers who are not protected by the General Labour Law.

An Emergency Plan was also implemented to Support Employment and Labour Stability that provided resources to legally incorporated companies with a payroll of employees covered by the pension system to enable them to pay their workers. This plan was implemented by providing loans through the financial system for an amount equal to two national minimum salaries per worker per month up to a maximum of two months. The credit plan, of concessional type for a term of up to 18 months and with a six month grace period was financed with resources from the MEFP and the Ministry of Development Planning, and Bs.2.000 billion (US\$ 288 million) were given, which is equal to 0.7% of the GDP. However, these loans have no government guarantee and the amounts channeled by banks are unknown.

Moreover, other tax-related measures have been applied. The payment of the Corporate Profit Tax has been postponed until May 31 (IUE), aside from the option to pay in installments. The declaration and payment of Value-Added tax, Transaction Tax (IT), RC-IVA and others, have been postponed until June. The tax collection up to August 3 registers a drop of 30.5% as compared to the same period in 2019. However, since April there has been a moderate recovery.

All the fiscal measures involve a total expenditure of Bs.11,693 billion (US\$1.680 billion), representing a fiscal impulse of an estimated 4% of the GDP, as shown In Chart 3.

■ **Table 3.** Monetary and Fiscal Impulse

Measurements	In millions USD	in % GDP
Fiscal cut due to taxes	368,3	0.9
Discount in basic services	112,1	0.3
Sub-national transfers	19,4	0.0
Business and support for employment	502,9	1.2
National transfers	677,4	1.6
Total	1680,1	3.9
In the Financial System		
Purchase of public securities held by the AFPs	499,4	1.3
Credits guaranteed by the CPVIS funds II and III	520,54	1.3
Potencial credit guaranteed by the CAPROSEN fund	456,75	1.2
Potencial credit with repo collateral with DPF	2658,33	6.8
Reprogramming of loan repayments from the financial system to the private sector	2498,27	6.4
Credits in repos with public titles	126	0.3
Credits guaranteed by the RAL fund	602,87	1.5
Increase of funds in custody	79,88	0.2
Total	7442,09	19.0

Source: In-house preparation based on MEFP data.

Note CPVIS Fund: CAPROSEN Fund for the Productive Portfolio and Social Interest Housing; Credit Fund in National Currency to Purchase National Products and Pay Services of a National Origin; RAL Fund : Liquid Asset Requirement Fund.



The CBB adopted an expansive monetary policy by implementing several mechanisms, for example, the injection of liquidity into the Financial System for an amount of Bs. 3.476 million (approximately US\$500 million). This injection applied the TGN bonus purchase mechanism that the Pension Fund Administrators have in their power (PFA). The PFA channeled these resources obtained through sales to the banks by purchasing Fixed Term Deposits (FTDs) in keeping with their investment policies. This operation increased the level of deposits and liquidity in the banks and funds were injected in national currency in terms between four and 20 years, that were used to increase the credit portfolio, and also to improve the yield of the Pension funds. This purchase was made directly to the PFA and not through the Stock Exchange just because it was a quicker mechanism. In essence the CBB acquired a debt of the TGN.<sup>4</sup>

Chart 3 shows others measures applied in the financial system which in total represent a financial impulse of Bs.51.797 million (US\$7.442 million), that comprise 19% of the GDP. This amount has been placed at the disposal of the financial system in order to reactivate the domestic demand through loans. However, the amount that has been channeled through loans is unknown, but it is estimated to be large because the banks have been reluctant to provide loans.

According to the CBB (2020), the stimulus offered through the measures to increase loanable funds was reflected by an increase of liquidity, for the first time in the last ten years, up to the first semester, a positive flow of Bs.1,811 million (US\$ 260.2 million) was registered.

The fiscal policy will continue to be expansive and will focus on creating long term employment programs and on providing short term loans, partially driven by the elections agenda. A decree has been recently issued that adopts the "National Employment Reactivation Program" which aims at implementing employment programs and projects for infrastructure rehabilitation work in health, education, water and basic sanitation, irrigation, roads and highways, urban areas, environmental care and protection actions and others, in capital cities, municipalities and departments most economically affected by the spread of COVID-19.

The implementation period of this plan is two years and it has an initial funding of Bs.100 million (US\$14 million), therefore it will require external funding. Undoubtedly the fiscal deficit will increase due to the sanitation and economic expenditures. However, on the other hand, the public investment adjustment which will continue may somehow compensate the expenses, consequently, the deficit is not expected to grow very much (at least not for the moment)<sup>5</sup>.

The adjustment to be made to public investment will also reduce imports, and therefore a reduction of the deficit in the current account of the balance of payments can be expected. A drop in exports is also expected, both as concerns the volume and value. It is still too soon to foresee how much the deficit can grow. In any case, the twin deficit will persist (the fiscal deficit and the trade balance deficit), and will give feedback in the coming months as a result of the expansive policies applied by the government to mitigate the impact of COVID-19.

Bolivia has the advantage of having a low level of the external debt to GDP ratio which is 28% and according to the IMF (2020) this level fits perfectly well into the pattern of medium-low income countries. Moreover, it is a long term debt and at extremely favorable rates which considerably reduces the probability of short term non-sustainability episodes. The total public debt represents 58% of the GDP by the end of 2019 and the IMF foresees an 8% increase by 2021.

<sup>4</sup> [www.paginasiete.bo/economia/2020/3/25/bcb-inyecta-bs-3476-millones-la-economia-para-garantizar-la-estabilidad-250836.html](http://www.paginasiete.bo/economia/2020/3/25/bcb-inyecta-bs-3476-millones-la-economia-para-garantizar-la-estabilidad-250836.html)

<sup>5</sup> Moody's estimates a deficit of 13% of the GDP (Government of Bolivia, Issuer in Depth, Moody's Investors Service (May 26).



Additionally, the CBB through the internal credit to the public sector has been financing all the policies applied to contain the pandemic and mitigate the economic effects. The loans granted by the CBB to the TGN for an amount of Bs.7,000 million (US\$1.005 million) used to finance the social protection programs stand out. This loan was made under the framework of the 2020 Financial Program, signed between the MEFP, the MPD and the CBB. Although the government could continue to finance itself through internal credit from the CBB the increase of this credit without reducing the RIN, can only be possible through a bigger emission that could trigger inflation.

Bolivia has had access to several loans from multi-lateral organizations, however not all have been implemented to date, due to a delay in their approval by the ALP, and the ongoing political party discussions between the Executive and the Legislative branches of government. In total US\$1.251.3 million, have been received as shown in Chart 4.<sup>6</sup>

■ **Table 4.** External credit (in millions of US\$)

Multilateral Organization	Amount	Destiny
Internacional monetary fund	327	Health expenditures and social protection
CAF-development Bank LA	50	Health expenditures
World Bank	424.3	Temporary transfers and social investments
Inter American development Bank	450	Social investments
Total	1,251.30	

Source: In-house preparation based on data from multi-lateral organizations.

The first disbursement was made by the IMF for US\$327 million. This is a loan, through the Quick Financing Instrument (QFI) mainly used to confront the needs of the balance of payments related to the COVID-19, to support the necessary medical expenses and measures to assist and protect the wellbeing of the population<sup>7</sup>.

The CAF – Latin American Development Bank provided a loan for US\$50 million, to build the response capacity of the health care system by purchasing personal protection equipment for the health care staff, contracting specialist doctors and nurses, training the staff in how to manage a pandemic and purchasing goods and equipment for the different levels of health care.<sup>8</sup>

The World Bank placed at the immediate disposal of the government of Bolivia US\$170 million to strengthen the response capacity of the health care system. These resources, the only that were executed, were used to buy medical goods and supplies, equipment and material for the prevention, detection and treatment of COVID-19, as well as to protect the health care professionals. These funds were provided thanks to the restructuring of the Health Services Network project.<sup>9</sup>

Additionally, the World Bank approved two loans agreements (one of which is concessional) for US\$254,3 million, with the purpose of supporting the financing of temporary transfers to poor and vulnerable households with

<sup>6</sup> Private contributions account for Bs. 19.7 million, channeled through the UNDP.

<sup>7</sup> [www.imf.org/es/News/Articles/2020/04/17/pr20170-bolivia-imf-executive-board-approvesemergency-support-to-address-covid-19](http://www.imf.org/es/News/Articles/2020/04/17/pr20170-bolivia-imf-executive-board-approvesemergency-support-to-address-covid-19)

<sup>8</sup> [www.caf.com/es/actualidad/noticias/2020/04/caf-otorga-credito-de-usd-50-millones-a-bolivia-para-atender-la-emergencia-sanitaria-ocasionada-por-el-covid-19/](http://www.caf.com/es/actualidad/noticias/2020/04/caf-otorga-credito-de-usd-50-millones-a-bolivia-para-atender-la-emergencia-sanitaria-ocasionada-por-el-covid-19/)

<sup>9</sup> [www.bancomundial.org/es/news/press-release/2020/05/08/el-banco-mundial-apoya-con-us170-millones-la-respuesta-a-la-emergencia-por-el-covid-19-en-bolivia](http://www.bancomundial.org/es/news/press-release/2020/05/08/el-banco-mundial-apoya-con-us170-millones-la-respuesta-a-la-emergencia-por-el-covid-19-en-bolivia)



school age children and youngs, people with a disability, senior citizens, and informal workers affected by the lockdown imposed on all<sup>10</sup>.

Finally, the Inter-American Development Bank (IDB) approved a loan for US\$450 million to contribute to assure the minimum levels of the quality of life for the vulnerable population vis a vis the sanitary crisis. Clearly these resources are for social investment in order to alleviate poverty.<sup>11</sup>

The ALP has recently approved the loans from the World Bank and the IDB for US\$704.3 million. However, it did so by modifying the destination of these resources that are now being used to finance the "Bonus Against Hunger" through a benefit of Bs. 1,000 (US\$143.68) for individual over 18 yrs. old who have no means of income, breastfeeding mothers and people with a disability.<sup>12</sup>

Should all these external resources be approved, bearing in mind that the external debt by the end of 2019 was US\$11.267.8 million, this means an 11% more debt and this accounts for 30% of the GDP in 2019.

## 5. Conclusions and recommendations

When at the beginning of 2020, most economic sectors started to recover from the social turmoil due to the conflict over the elections at the end of 2019, the economy was shaken once again by the COVID-19 pandemic and ensuing emergency.

It all began with a supply shock that obliged the trade, services, manufacturing, construction, restaurants and hotel, transportation and storage sectors to stop their activities because of the lockdown. These sectors concentrate a large percentage of employment (60%), both formal and informal jobs, and salaries and wages were not being paid and in other cases workers were either sent home or obliged to leave the job. This had a major impact on household incomes, whose members had to reduce their consumption, which then provoked a demand shock.

The 2020 growth forecasts aimed at a growth rate of nearly -6% of the GDP. Such a low rate has not been seen since the decade of the 50s after the National Revolution. This means that many achievements in the field of socio economic development over the last decade could be lost, exposing not only the population of the vulnerable middle class, but the stable middle class as well, since it could fall into poverty once again or become poor.

The health care crisis has made the need to have a well-structured social protection system . Its structure must be especially created and designed for this purpose and must be able to adapt and respond to a crisis. The non-contributory transfer that already exist must be restructured and centralized (Bono Juancito Pinto, Bono Juana Azurduy and Renta Dignidad) at the same time a unified registry of beneficiaries must be developed at a national level (for both urban and rural areas) that will enable a timely identification of individuals who need different types of medical attention and that covers all their life cycle.

The registry and the focalization should be transparent and linked to the other registries to form a triangle of information as well as criteria for additional options, in a manner such that the addition or deletion of beneficiaries can be monitored, depending upon the effectiveness of the policies. Similarly, aside from contributing to an efficient expenditure by focalizing programs, money transfers or deliveries in kind, this would also foster a gradual

<sup>10</sup> [www.bancomundial.org/es/news/press-release/2020/05/15/impacto-economico-hogares-bolivianos](http://www.bancomundial.org/es/news/press-release/2020/05/15/impacto-economico-hogares-bolivianos)

<sup>11</sup> [www.iadb.org/es/project/BO-L1216](http://www.iadb.org/es/project/BO-L1216)

<sup>12</sup> [eldeber.com.bo/economia/asamblea-aprueba-bono-contra-el-hambre-financiado-con-creditos-del-banco-mundial-y-bid\\_195729](http://eldeber.com.bo/economia/asamblea-aprueba-bono-contra-el-hambre-financiado-con-creditos-del-banco-mundial-y-bid_195729)



clarity required to plan other possible short term temporary allowances, taking into account that in Bolivia there is no unemployment insurance.

Since Bolivia has no registry of beneficiaries, the allowances practically have a universal nature and the people in need benefitted as well as those not in need, and this has made the measure ineffective and regressive.

As the pandemic spread and the lockdown measures were longer than expected, many companies had to shut down and dismiss workers, resulting in a higher rate of unemployment. From the lockdown period and up to date the NIS has registered the loss of wage-earning jobs, however, on the other hand, non-salaried workers and family assistants were thrust into the informal job market.

In this sense, maintaining household incomes has become a challenge and the nature of informal employment and its link to the field of economic activity must be understood. Many entrepreneurs will have to reinvent what they do, change their business model or include new digital technologies, together with a re-structuring and administrative simplification for their creation and performance. This is an interesting opportunity for micro and small enterprises since by digitalizing their business activities they will be able to increase their productivity.

As concerns education, a broader vision is needed to prompt adaptation in a crisis. Initially, an adjustment is needed using the tools, material and technology available. Virtual classroom activities through radio and TV would be helpful not only in rural areas, but also in cities; for homes that cannot afford internet services or do not have technological devices. No less important for this effort is constant teacher training and formation. Second, the aim is to gradually reach connectivity regardless of the sanitary crisis and that it shpuld be considered as a basic service in households. In addition, a structured curricular program must be developed that complies with the standards required to deliver quality education.

As regards to health, regardless of the timely measures adopted to mitigate the effects of the pandemic, the government's reaction has not been enough. At present, in three of the major cities located in the central axis of the country the health system has collapsed due to a lack of infrastructure, medicine or medical supplies. According to Cardona et al. (2020), the capacity to conduct continuous diagnosis is still limited and the reporting of new cases and deaths due to COVID-19 is deficient. Epidemiological monitoring is hampered because there are no updated variables or detailed information available and furthermore, the data in general has not been updated. The lack of updated data regarding the number of beds in the ICU as well as the number of respirators available in the health establishments must also be mentioned.

At the moment, telemedicine in some contexts is beginning to work, as well screening measures in homes with the purpose of preventing people from becoming extremely sick and requiring intensive care. However, this modality could even continue beyond the health emergency, thereby improving control over public health.

The health sector has more deficiencies than others. However, the crisis has made the most urgent and priority issues that need to be re-structured come to the fore. Similarly to education, a process must be followed and therefore, in order to make an adjustment of what there is (as concerns the infrastructure) in this period, an extremely detailed and transparent registry must be prepared that will be used to improve health planning and that keeps pace with the population's needs and growth.

As concerns the economic aggregates, as explained, Bolivia still has the capacity to become indebted externally since it is 12pp below the threshold considered to be sustainable. Moreover, it is the country with the highest monetary impulse in South America (19%). If the fiscal impulse were added, there would be an economic policy impulse of 22.9% of the GDP, which only Brazil has surpassed (25.6% of the GDP).



The monetary policy has accomplished its role of providing the financial system with enough liquidity through different mechanisms including the CBB that gave loans to the banks at a 0% interest rate with the commitment by the banks to provide loans to purchase national goods and services. The red tape involved is still cumbersome and these funds have not been effectively channeled, especially as concerns the productive sectors (at present there is no data regarding the progress made) despite the overwhelming demand. A UNDP survey in July reported that 80% of the Micro and Small Enterprises need a capital injection through loans in order to ensure their reactivation.

Therefore, in the coming months the CBB together with the Authority of the Financial System (ASFI) must design the necessary mechanisms to encourage the banks to give out the loans. This is of the essence in order to reactivate the micro, small, medium and large enterprises that are in great need of credit.

Bolivia has also experienced an external shock due to the drop in the volume of exported gas to Brazil and Argentina and lower terms of trade. However there have also been fewer imports of capital goods and inputs for the industrial sector. Consequently, up to June the Trade Balance registered a surplus of US\$163 million, a figure not seen since 2015, and this has helped to recover the Net International Reserves (RIN) which is fundamental to maintain the exchange rate policy.

There is a limited margin to broaden the fiscal Impulse, since the TGN has few resources left and funds from the CBB will not be forthcoming, because, by Law it can only offer loans to the NFPS in exceptional and emergency cases. Under this framework between March and May, 2020 Bs. 9,800 billion (US\$1.408 million) have been provided and therefore in the future, the best funding option of the TGN will be external indebtedness.

Last but not least, aside from the sanitary and economic crisis, the political crisis is pervasive and has become worse since members of the transitional government have decided to run for office in the elections. This reveals a dispersion between the elections campaign and the administration of the government. This has sparked serious social cohesion problems, as well as a regional polarization (between West and East) and racial issues. All of this compounds a good governance crisis that the elections on October 18 will hopefully resolve.

In summary, the COVID-19 pandemic not only introduced a crisis but opportunities as well and the pressure to get to work as soon as possible is paramount despite the fact that this is often not made visible or ignored. This concerns a society that strives to recover its rights in a new framework of a social contract, that is, more equalitarian, inclusive and just. It must have a perspective of sustainable development as concerns the productive sectors, and must protect nature and the environment. In this manner it will be able to refocus efforts towards attaining the Sustainable Development Goals.

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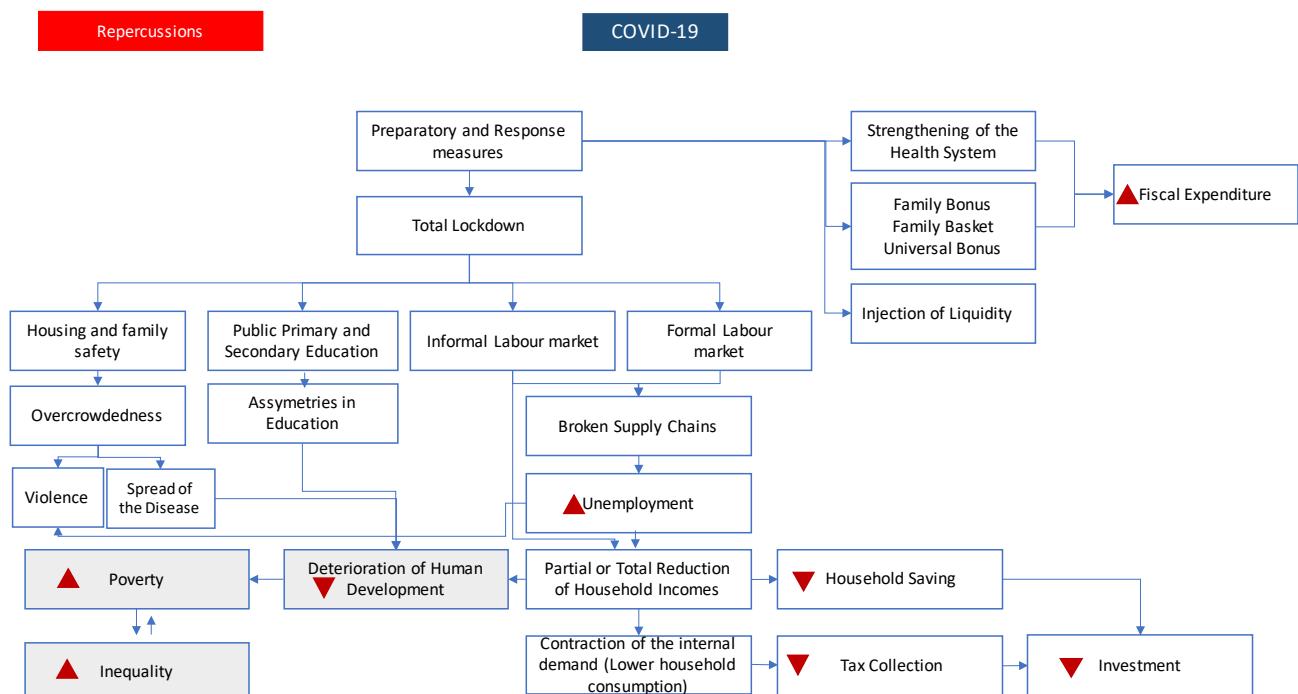
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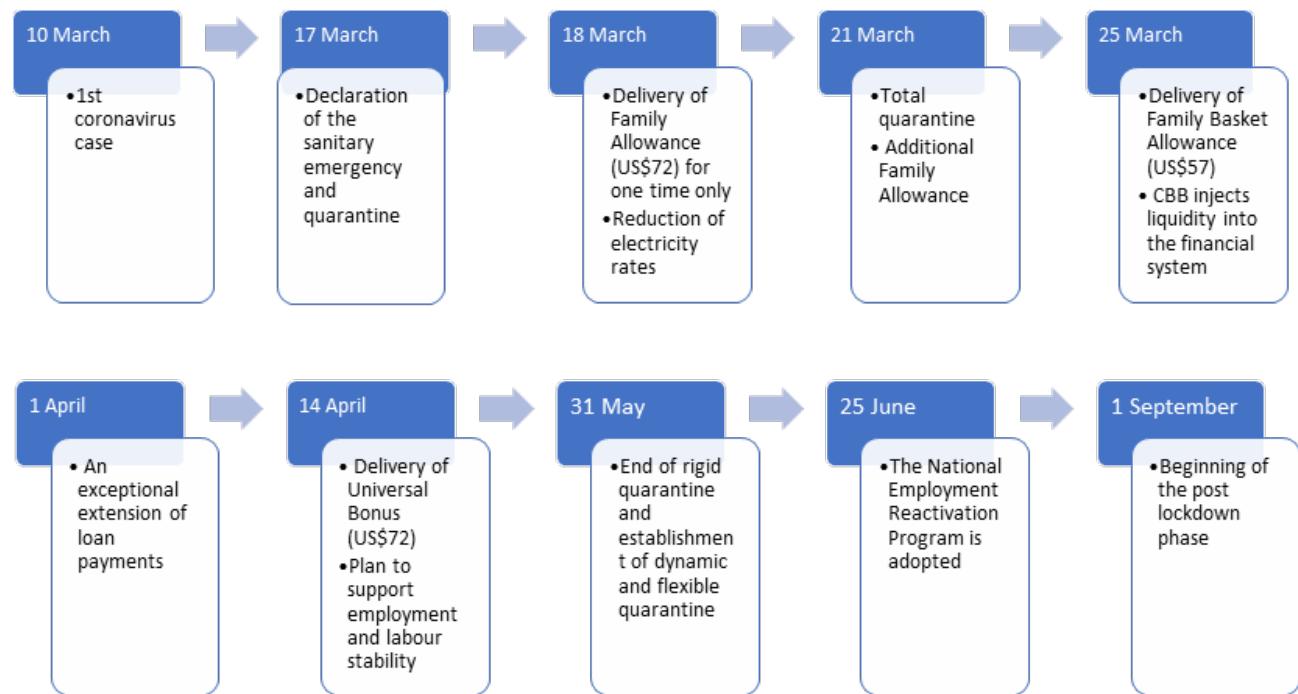
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#### ■ Annex 1. Socio economic impact of the measures to cope with the COVID-19 pandemic





■ Annex 2. Timeline of the measures adopted





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