State directed credit in a world of globalised finance: Developmental policy autonomy and business power in Bolivia

GEG Working Paper, No. 139

Provided in Cooperation with:
University of Oxford, Global Economic Governance Programme (GEG)

Suggested Citation: Naqvi, Natalya (2018) : State directed credit in a world of globalised finance: Developmental policy autonomy and business power in Bolivia, GEG Working Paper, No. 139, University of Oxford, Global Economic Governance Programme (GEG), Oxford

This Version is available at:
http://hdl.handle.net/10419/196395
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Natalya Naqvi
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Natalya Naqvi

Abstract

After years of placing faith in the markets, we are seeing a revival of interest in statist economic policy across the world, particularly with regards to finance. How much policy autonomy do previously liberalised developing counties still have to conduct activist financial policies, where the state intervenes directly in the process of credit allocation, despite the constraints posed by economic globalisation? Using Bolivia as a ‘least likely’ case, drawing on over fifty key informant interviews, this paper argues that even small peripheral countries with open economies can reassert state control over finance, under certain conditions: 1. An increased availability of low-conditionality external financing; 2. A developmentalist ideology among the policymaking elite, and; 3. A decline in the structural and instrumental power of business, which in Bolivia, was the result of popular mobilisation, strategic state action to increase public ownership and control of investment, and division between private sector groups.

The Global Economic Governance Programme is directed by Emily Jones and has been made possible through the generous support of Old Members of University College. Its research projects have been principally funded by the Ford Foundation (New York), the International Development Research Centre (Ottawa), and the MacArthur Foundation (Chicago).

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The author would like to thank Ngaire Woods, Diego Sanchez Ancochea, Robert Keohane, John Ikenberry, Jose Peres Cajias, Linda Farthing and the participants of the Global Leaders Fellowship Colloquium at Princeton, and Finance and Society Conference, London, for useful comments on earlier drafts. Special thanks also go to Edwin Rojas Ulo, Bismarck Averecilia, Pablo Mendietta Ossia, and Sara Shields, without whom conducting fieldwork would have been impossible. All views expressed in this paper, and any mistakes, are strictly the authors’ own.
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Countervailing forces: recent explanations</td>
<td>5</td>
</tr>
<tr>
<td>Expansion of alternative external financing sources</td>
<td>5</td>
</tr>
<tr>
<td>The 'developmental mind-set' and institutionalist explanations</td>
<td>5</td>
</tr>
<tr>
<td>Domestic business preferences and power</td>
<td>6</td>
</tr>
<tr>
<td>Research design and methods</td>
<td>9</td>
</tr>
<tr>
<td>The negotiation of the FSL 393 and its effects</td>
<td>10</td>
</tr>
<tr>
<td><strong>Period 1. (2000-2006): Neoliberal government, commodity boom, strong</strong></td>
<td>13</td>
</tr>
<tr>
<td>business power and popular mobilisation</td>
<td></td>
</tr>
<tr>
<td>Business structural and instrumental power</td>
<td>14</td>
</tr>
<tr>
<td>Popular mobilisation and the rise of MAS</td>
<td>16</td>
</tr>
<tr>
<td>structural power of finance</td>
<td></td>
</tr>
<tr>
<td>The 'developmental mind-set'</td>
<td>17</td>
</tr>
<tr>
<td>Strategic use of international financing</td>
<td>18</td>
</tr>
<tr>
<td>Instrumental power of finance</td>
<td>19</td>
</tr>
<tr>
<td>Structural power of finance</td>
<td>20</td>
</tr>
<tr>
<td><strong>Period 3 (2010-2014): Reduced business power and peaking commodity prices:</strong></td>
<td>23</td>
</tr>
<tr>
<td>from conflict to a reluctant developmentalist coalition</td>
<td></td>
</tr>
<tr>
<td>Actors’ preferences towards and responses to the FSL 393</td>
<td>23</td>
</tr>
<tr>
<td>Discussion and conclusion</td>
<td>29</td>
</tr>
<tr>
<td>References</td>
<td>31</td>
</tr>
</tbody>
</table>
Introduction

Since the 1980s, by and large, developing countries moved away from statist models characterized by heavy public ownership, government planning, and state intervention, instead pursuing programs of financial and trade liberalisation, and privatisation, often under IMF and World Bank Structural Adjustment Programs. While ‘developmentalist’ or ‘activist’ financial policies entailing state intervention to allocate credit to strategic sectors, through tools such as interest rate controls, lending quotas, or state-owned banks, were a critical component of the statist model (Amsden 1992; Wade 1990; Wo Cummings 1991), most developing countries have since deregulated domestic finance, and opened their capital accounts to international financial flows.

In trying to explain why such a wide variety of developing countries adopted such a similar set of neoliberal financial policies, scholars have argued that economic globalisation since the 1980s has placed strong constraints on domestic policy autonomy, including on state intervention in finance, resulting in convergence towards the neoliberal model. Even during the post-war era, chronic balance of payments constraints experienced by late industrializing countries made them structurally dependent on external finance for growth (Chenery & Strout 1966), leaving them vulnerable to the conditionalities of their creditors, as dependency theorists have observed for decades (Furtado 1976). Pressures to liberalise finance traditionally came from industrialised country bilateral creditors looking to promote their own financial sectors, or to ensure repayment of sovereign debt (Amsden 2009; Loriaux et al., 1997), or from international financial institutions (IFIs) (namely, the World Bank and IMF, but also their regional affiliates) who represent the interests of these powerful states (Woods 2006) and have increasingly become dominated by neoliberal economists (Chwieroth 2007). With financial globalization, developing countries also have to contend with the policy preferences of private external financiers, including international financial markets and foreign direct investors, who are can ‘discipline’ governments who deviate from market-oriented policies by withdrawing their investment (Campello 2015; Mosley 2003; Weyland 2009). The increase in capital mobility associated with globalisation has also increased the power of these private creditors, while the process of ‘financialization’ has meant that both the international and domestic financial sector have increased in size and importance, and become even more powerful vis-à-vis nation states (Epstein 2005; Krippner 2012).

In the aftermath of the 2008 crisis, there has been a resurgence of interest in statist industrial policy at among the IFIs, policymakers and academics (Lin & Chang 2009; Stiglitz et al., 2013; Wade 2012), especially in the area of finance (Martínez & Vicente 2012) as the benefits of liberalised and deregulated finance have come into question. However ‘policy switches’ back to statist continue to be rare in countries that have previously liberalised (Campello 2013). Existing literature predicts that in the wake of strong international constraints, reversal of liberalisation reform is only possible for industrialised ‘core’ economies that can bend the rules of the international economic system (Amsden and Hikino 2000; Chang 2002; Weiss 2005), or for ‘rising powers’ that have the resources to assert themselves internationally and gain a greater degree of policy autonomy from the Washington Consensus core institutions (Ban & Blyth 2013; Pop-Eleches, 2008; Woods 2006).
Yet these theories about globalisation and policy autonomy have trouble explaining the Bolivian case. Bolivia stands out because it is among just a handful of countries that have recently seen a rising trend of statist financial intervention after decades of liberalisation and deregulation. Against the vehement opposition of domestic banks and the IFIs, the left wing Movimiento al Socialismo (MAS) government not only re-established state-owned banks, but also implemented the Financial Services Law (FSL 393) in 2013, which instituted lending quotas and interest rate controls, forcing banks to lend to a list of designated ‘productive sectors’. This was done without offering compensation to private banks, making it one of the most strongly interventionist financial policies in comparative terms, short of bank nationalisation.

The Bolivian case is even more puzzling when compared to the few other previously liberalised developing countries that have also seen a recent increase in financial activism, because these are either key emerging markets like Brazil and Korea, or countries that are so isolated from the international system like Ethiopia, that we would expect them to face less constraints. Bolivia on the other hand is a country where we would least expect such policies to be implemented because of its peripheral position in the global political economy, and deep, but highly unequal integration into the international economic system. Bolivia is a lower middle income, primary commodity export dependent country, with a small internal market. Like most developing countries, Bolivia followed a statist model during the 1960s and 70s when international conditions were more permissive (Amsden 2009; Conaghan et al., 1990), which came to an end with the 1980s debt crisis (Jenkins 1995,1). Since then, a high degree of dependency on the IFIs for financing investment ensured ‘an almost slavish following of the institutions prescriptions’ in order to guarantee a steady flow of funds (Kohl & Farthing 2009, 66), with Bolivia remaining under IMF agreements almost continuously until 2006 (Weisbrot & Sandoval 2006, 3). The Bolivian ‘shock treatment’ that accompanied IFI loans was more extreme than in comparable countries (Conaghan et al., 1990; Jemio et al., 2009), opening the economy to foreign investors, and increasing domestic economics elites’ power over the state, since they were designed to give the private sector a leading role in the economy (Wolff 2016, 127). Bolivia entered the 2000s heavily externally indebted, with open capital accounts, a highly dollarized economy, WTO membership, and party to a bilateral investment treaty (BIT) with the US. Bolivia therefore provides an excellent least likely case in which to analyse the factors that enable previously liberalised peripheral countries to conduct heterodox economic policies that go against international norms.

This article argues that three factors were crucial in explaining the financial reform in Bolivia:

1. Increased availability of external low-conditionality external financing;
2. A developmentalist ideology among the policymaking elite, and;
3. A decline in the instrumental and structural power of business, which in Bolivia, was a result of popular mobilisation, state action to increase public ownership and control of investment in the economy, and division between private sector groups.

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2 Private banks’ cooperation in subsidised directed credit schemes is usually bought by offering them low interest loans from development or central banks (as is the case in Brazil), which allows them to profit from the difference in lending and funding rates.

3 A number of countries, including China, India, Vietnam, and Nigeria, continue to have varying degrees of activist financial policy, but are not included in the analysis because this article only deals with countries that underwent a previous episode of financial liberalization, and are now reasserting state control.

4 With the exception of one 8-month period between June 2002 and April 2003.
Countervailing forces: recent explanations

Given the focus on constraints, not much literature analyses the conditions under which domestic policy autonomy can be regained. However, two recent classes of explanations of the rise of developmentalist policies in the 21st century stand out.

Expansion of alternative external financing sources

The first focuses on how the availability of new, low-conditionality sources of external financing enables developing countries to escape both private ‘market discipline’ and the conditionalities of traditional OECD Development Assistance Committee (DAC) lenders. Cyclical abundance of capital inflows during ‘boom periods’ caused by high international commodity prices, or highly liquid international financial markets, are seen to reduce governments’ need to attract private foreign capital, or increase government spending power, and thus widen governments’ room to reject neoliberal policies (Campello 2015; Mosley 2003; Weyland 2009). Others point to structural rather than cyclical shifts, namely the rise of bilateral lending by ‘non-traditional’ emerging economic powers, most importantly China, which eschew policy conditionalities, and are therefore thought to increase policy autonomy by reducing dependence on DAC bilateral lenders, or the IMF and World Bank (Kragelund 2014; Mawdsley 2012; Six 2009).

I argue that while international financing conditions play an enabling role, domestic factors are crucial in explaining why some governments take advantage of these external conditions to increase policy autonomy, while others prefer to take IMF loans in order to lock in liberal reforms, or send positive market signals to foreign investors (Bunte 2013; Stone 2002; Vreeland 2003). While many resource rich countries benefitted from the commodity boom, and an even wider array of countries have benefitted from both excess financial market liquidity after the crisis, as well as increased availability of finance from non-traditional lenders, the majority have not intervened in the sectoral allocation of credit.

The ‘developmental mind-set’ and institutionalist explanations

The second ideational explanation focuses on the existence of a ‘developmental mind-set’ (Thurbon 2016), an “ensemble of [developmentalist] ideas that inform the mind-set and shape the goals of state actors” (Thurbon 2016, 1), among key policy makers. In the financial realm this entails a ‘neo-developmentalists’ ideological consensus that finance should be subordinated to the needs of the productive economy through centralised state control (Thurbon 2016, 47-65). However, such a theory neglects power dynamics: It explains neither how developmentalist policymakers came into power, nor their ability to actually implement their policies.

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5 This echoes arguments made by an older generation of ‘structural power’ theorists. According to Winters (1994, 439), gaining access to low-conditionality external resources allows governments to supplant investment made by private capital and IFIs, decreasing their ‘structural power’ over the government.

6 caused by low interest rates in developed economies
Since sectoral industrial policy creates winner and losers, it brings the possibility of conflict between the state and economic elites (Chibber 2003). The state must be able to impose its policies on business elites (Amsden 1992; Evans 1995). While much of the institutionalist ‘developmental state’ literature argues that the ability of the state to discipline business depends on factors internal to the state, including the quality of, and conflicts within, the bureaucracy and ministries (Amsden 1992; Evans 1995; Johnson 1982), the outcome of conflicts between the state and business also depends on the characteristics of the business class itself (Chibber 2003). These include both the preferences of different sections of business elites, and their power vis-à-vis the state.

**Domestic business preferences and power**

In terms of preferences, developmentalist financial policies are likely to face opposition from the domestic private financial sector itself, if they limit its profitability, or increase risk (Haggard & Maxfield 1993). They are also likely to illicit opposition from excluded real economy sectors, while being championed by favoured ‘priority’ sectors, usually capital-intensive manufacturing or agriculture (Haggard & Maxfield 1993, 300). Yet, deriving preferences automatically from market position based on capital mobility or economic sector can be problematic (Kingstone 2001; Pepinsky 2013), especially because of the dominance of diversified business groups incorporating both banking and real sector activities in many developing countries (Schneider 2013).

According to an extensive business politics literature, the ability of governments to impose their policies against business preferences depends on the extent of the ‘structural’ and ‘instrumental’ power of business elites vis-à-vis the state (Culpepper 2015; Fairfield 2015). Structural power results from the fact that these elites control the investment decisions on which the economy depends for growth, and can destabilise the economy through reducing investment or relocating capital abroad, even when acting without coordination, as profit maximising agents (Culpepper 2015, 396; Fairfield 2015; Winters 1994, 430, 1996, 2). If policymakers anticipate that a reform will provoke reduced investment or capital flight, they may rule it out for fear of harming growth and employment, even without explicit political action on behalf of elites (Fairfield 2015, 2). Structural power varies by sector and policy area, depending on the balance of public and private investment in the economy, the extent of capital mobility, and share of GDP, employment, or foreign exchange earnings, and the extent of their linkages to other sectors (Fairfield 2015). The private financial sector is generally considered to have the most structural power due to its mobile nature (Winters 1994), and especially as capital mobility has increased with globalisation (Culpepper 2015), because it has a high number of linkages to almost all other sectors of the economy through its lending, which means that financial instabilities and decisions to reduce lending have both direct and indirect effects on economy-wide investment (Woll 2014), and because since the 1980s, many countries have begun following a growth strategy that revolves around the promotion of finance as a strategic sector in and of itself, and do not wish to implement any policy that may jeopardize financial profits (Pagliari & Young 2014).

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7 The conditions include having a Weberian bureaucracy, pilot agency, and sufficient information exchange with private business.
Instrumental power on the other hand entails deliberate action to influence policy-making and depends on factors such as relationships with/access to policymakers, and degree of concentration and cohesion within sectors, which reduce collective action problems in lobbying (Fairfield 2015, 2; Fairfield & Garay 2017) and across sectors, which can allow finance to ‘leverage’ its influence by tying in its interests with other private groups (Pagliari & Young 2014). Pressure from non-elite actors such as labour unions or social movements can act as a countervailing force against business’ instrumental power, through providing attractive potential for electoral mobilisation, direct lobbying by labour groups, or strike action, which can put pressure on employers or politicians by stopping production or public services (Fairfield 2015). While either type of power is sufficient for business influence, influence will be greatest when structural and instrumental power is both strong, as they are mutually reinforcing (Fairfield 2015, 421).

**Summary of the argument: the importance of business power**

Neither the availability of low-conditionality external financing, nor the presence of a developmental mind-set among policymakers can by themselves explain the pattern and timing of developmentalist financial policy. Even in the case of Latin American ‘pink tide’ countries, Bolivia and Brazil are the only ones that stand out for strong sectoral intervention in the financial resource allocation, despite Ecuador, Argentina, Venezuela, Nicaragua and Uruguay having benefitted from the commodity and/or financial cycle. These two factors also cannot explain the timing of reform in Bolivia itself: the commodity boom began in 2003, and the developmental mind-set was firmly in place by 2006, but financial reform occurred only in 2013. Instead, the balance of power between the state and private finance was a crucial third factor in explaining the timing of financial reform (Table 1). In Morales’s first term, popular mobilisation played an important role in bringing the developmentalist government to power, and the developmentalist government used the favourable external financing environment strategically in order to reduce dependence on traditional creditors and escape from the associated conditionalities. However, it was not until Morales’s second term, when the structural and instrumental power of the domestic financial sector was reduced as a result of on-going popular mobilisation, division with private sector groups, and strategic state action to increase both financial and economy-wide public ownership and control, that developmentalist policymakers were finally able to impose financial reform against the vehement opposition of private banks.
Table 1. Three period within-case comparisons

<table>
<thead>
<tr>
<th>Factors</th>
<th>Time period</th>
</tr>
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<tbody>
<tr>
<td>Alternative external financing source</td>
<td>Yes. Commodity boom since 2003, but still reliant on traditional external financing sources</td>
</tr>
<tr>
<td>Developmental mindset</td>
<td>No. Market oriented government in power</td>
</tr>
<tr>
<td>Structural power of finance</td>
<td>High due to development strategy which considers finance as an important sector, and due to credible threat of exit by bank depositors</td>
</tr>
<tr>
<td>Instrumental power of finance</td>
<td>High due to influence of ASOBAN on policymakers, supported by IMF conditionalities</td>
</tr>
</tbody>
</table>

The Bolivian case shows both how business power is a crucial factor in limiting developmentalist ambitions, but also how both instrumental and structural power of business elites, and external dependency, can be reduced through popular mobilisation and strategic state action.
Research design and methods

Process tracing is employed in a three time period within-case comparison in order to elucidate causal mechanisms and adjudicate between competing explanations. The periods before Evo Morales election, his first term, and his second term, provide a natural periodization according to key business power independent variables. While single cases studies face limitations, because Bolivia is a ‘least likely’ case, for the reasons outlined above, the conditions under which Bolivia was able to conduct activist financial policies should travel to other developing countries (Gerring 2007; Levy 2002), especially those which face less constraints. This is discussed further in the conclusion. Furthermore, within case analysis holds constant a number of background conditions and factors that are not central to my analytical framework including bureaucratic quality, regime type, and ethnic conflict, that would not have been possible in cross country analysis.

The analysis draws heavily on 52 in-depth, semi structured interviews conducted during fieldwork in La Paz and Santa Cruz between 06/03/17 and 26/03/17, and a number of follow up conversations via email or telephone, in order to understand the preferences of each actor, as well as their role in the negotiation process. Interviewees were involved first hand in designing drafting, negotiating, implementing, or monitoring the FSL 393, and included high level policymakers and technocrats at government ministries and agencies, central bankers, public bank managers, financial regulators, ratings agencies, politicians from governing and opposition parties, bureaucrats at the international financial institutions, representatives from peak, regional and sectoral business associations from the private sector, from finance, industry, agriculture, and commerce, and senior management from private banks and large agribusiness firms. A full list of anonymized interviews is available in Appendix 1. Interviews were triangulated with articles in local business newspapers, confidential government and private sector negotiation documents given to the author by interviewees, and publicly available documents from the government, IFIs, and ratings agencies.
The negotiation of the FSL 393 and its effects

The Vice Ministry of Pensions and Financial Services (VMPFS) at the Ministry of Economy and Public Finance (MEPF) began drafting the new financial sector law in 2012, after which it was circulated to various business associations for feedback. The ASOBAN (see Appendix two for a full list of acronyms), representing large commercial banks, ASOFIN, representing microfinance banks, and CEPB, the national private sector business association, were called to the negotiating table at the Committee of Planning, Economic Policy, and Finance of the Deputies (Interviews 1-5, VMPFS MEPF; 17, former ASOBAN). The MEPF’s initial proposal included a 70:30 ratio of productive to unproductive lending, and interest rate caps for unproductive sector loans. The banks initially rejected the lending ratio and interest caps altogether, and then proposed a 40:60 ratio (Interview 17, 19, ASOBAN; 20, ASOFIN). The MEPF came out the clear winner in the negotiations, making only minor concessions to ASOBAN and ASOFIN, with the productive lending ratio finalised at 60:40, and interest rate caps 2-3 points higher than initially proposed.

The law was debated and passed with minor modifications through the Senate and the Chamber of Deputies in June 2013, and promulgated in August 2013 (La Razon 2013a; La Razon 2013b; MEPF 2013).

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8 In July 2015, the construction, tourism, and intellectual property sectors were added to the list of productive sectors to make it easier for banks to meet their quotas, since these were considered safe and profitable sectors to lend to (Interview 20 ASOFIN; ASOBAN; IMF 2015).
<table>
<thead>
<tr>
<th>Law/Decree</th>
<th>Date</th>
<th>Main changes</th>
<th>Effect on private banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>2006</td>
<td>Government decides not to privatise <em>Banco Union</em>, and to increase its capital instead</td>
<td>Banks fear 'unfair competition' from state-owned commercial banks with government guarantees and subsidised funding sources, which enable to give loans at more competitive rates than private commercial banks</td>
</tr>
<tr>
<td>-</td>
<td>2006-2009</td>
<td>Subordination of Central Bank and ASFI to MEPF</td>
<td>Banks fear developmentalists will be able to impose their agenda more easily, without intervention by an independent Central Bank and regulator</td>
</tr>
<tr>
<td>Supreme Decree 28999</td>
<td>01/01/07</td>
<td>Establishment of <em>Banco de Desarrollo Productivo</em> / Productive Development Bank (BDP)</td>
<td>Does not initially pose a direct competitive threat as it is a second tier development bank (which lends to clients through commercial banks rather than directly), serving rural areas where private banks do not operate. Private banks still fear that in the future it will expand its lending operations and conduct first tier lending, becoming a direct competitor. These fears have since materialised, with BDP lending directly to an expanded client base since 2015, and planning future expansion in to export financing</td>
</tr>
<tr>
<td>Law 211</td>
<td>23/12/11</td>
<td>Creates the Additional Rate to the Business Profits Tax (AA-IUE), by which banks that exceed 13% ROE have to pay an additional tax of 12.5% (excluding development banks)</td>
<td>Tax increases are directly subtracted from bank profits, reducing the amount that could be paid out in dividends to shareholders.</td>
</tr>
<tr>
<td>Supreme Decree 1423</td>
<td>05/12/12</td>
<td>Establishes a tax on US dollar exchanges in banks and exchange houses in order to encourage de-dollarization</td>
<td>Banks are opposed to tax, as it eats directly into their profits, but benefit from de-dollarisation, as their clients income is in Bolivianos, and default is more likely in the case of Boliviano depreciation vis-à-vis US dollars. Banks see this as an attempt by the government solely to earn more revenue, and attribute de-dollarization to exchange rate policy</td>
</tr>
<tr>
<td>Financial Services Law 393</td>
<td>21/08/13</td>
<td>Establishes a Financial Stability board which regulates: 1. Interest rates including lending caps and deposit floor 2. Productive sector quotas 3. Legalises central bank financing of SOEs 4. Introduces a list of non-conventional guarantees that ban can be given as collateral against a bank loan 5. Creates a guarantee fund from 6% bank profits to be used to support collateral guarantees</td>
<td>Expected to decrease bank profitability because: 1. Interest rate caps on lending directly limit the amount banks can charge borrowers and deposit floors establish a minimum banks have to pay depositors, translating to higher funding costs, and lower lending charges 2. Productive sector lending quota force banks to lend to sectors that are less profitable in the short term, while preventing them from lending to highly profitable but 'unproductive' sectors like consumer finance 3. Banks worry that this will cause inflation and erode the value of their assets 4. Non conventional guarantees increase banks’ risk exposure, as it means accepting a wider range of assets as collateral. 5. Directly eats into bank profits, as the assets on the guarantee fund do not remain on bank balance sheets. Reduces the amount of profit that can be paid out to shareholders</td>
</tr>
<tr>
<td>Supreme Decree 1842</td>
<td>18/12/13</td>
<td>Sets the minimum loan portfolio levels for loans to the productive sector, and establishes the maximum annual interest rates for housing credit</td>
<td>Banks prefer the interest rates to be set within the FSL 393 itself, rather than as a Supreme Decree, because the former requires approval by both houses of parliament, while the latter does not</td>
</tr>
<tr>
<td>Supreme Decree 2055</td>
<td>09/07/14</td>
<td>Sets the maximum annual interest rates for credit to the productive sector, and minimum deposit rates</td>
<td>Same as above</td>
</tr>
<tr>
<td>Supreme Decree 2136</td>
<td>09/10/14</td>
<td>Creates Credit Guarantee Funds for the Productive Sector.</td>
<td>Same as above</td>
</tr>
<tr>
<td>Supreme Decree 2137</td>
<td>09/10/14</td>
<td>Creates Credit Guarantee Funds for Housing Sector</td>
<td>Same as above</td>
</tr>
</tbody>
</table>

Table 2. Major financial sector reforms under MAS, 2006-2014 and their effect on banks

Source: CEPB 2013; *Gaceta Oficial de Bolivia*; Various interviews

Note: In Bolivia, a Law needs to be approved by parliament, while a Supreme Decree does not.
The private banks were vehemently opposed to the FSL 393 and associated Supreme Decrees, because these measures were expected to reduce the extraordinarily high bank profits made between 2005-13 (Table 2). According to the banks: “You could say in a way the banking system in Bolivia has been nationalised. They tell you where to lend to, at what rate. The private shareholders barely get anything and they are angry” (Interview 17, former ASOBAN).

![Figure 1](image-url). Effects of the FSL 393 on credit distribution and bank profit (ROE).

*Source.* ASFI online database; World Development Indicators (WDI), World Bank

Even though banks were given till 2018 to comply with their quotas, and bank profits were reduced, the FSL 393 had immediate and drastic effects on the distribution of credit (Figure 1), with the industrial, agribusiness, and construction sectors being the main beneficiaries (ASFI 2018, 10). Under what conditions was such a transformative financial sector policy possible for the MAS government?
Period 1. (2000-2006): Neoliberal government, commodity boom, strong business power and popular mobilisation

During this period domestic business held a high degree of both structural and instrumental power, and despite militant popular mobilisation resulting in electoral gains for the left-wing developmentalist MAS party, a pro-market coalition continued to dominate the state apparatus. In this context, despite the commodity boom and Highly Indebted Poor Countries Initiative (HIPC) debt forgiveness initiative decreasing Bolivia’s vulnerability to external creditors, developmentalist financial reform was not on the political agenda.

Figure 2. Bolivia’s external financing conditions and the commodity boom
Source. WDI, World Bank

Although Bolivia entered the 2000s with a high degree of dependence on external creditors due to continuous current account deficits (Figure 2) two developments on the international level in the early 2000s presented it with the opportunity to pursue a more independent economic policy. The commodities boom began in the early 2000s, resulting in the first current account surplus in decades in 2003 (Figure 2). Beginning in 1998, the HIPC campaign for Bolivia led to a significant debt cancellation by the IMF and World Bank in 2005, which decreased both debt stock and service (Weisbrot & Sandoval 2006).

Despite this opportunity, developmentalist financial reform remained off the agenda because business elites continued to exercise a high degree of instrumental and structural power.

9 and the IADB later in 2007
Bolivia remained under an IMF Stand-By Arrangement (SBA), in which financial sector conditionalities included privatisation of the remainder of publicly held banking assets, including the development bank *Nacional Financiera Boliviana* (NAFIBO) and *Banco Union*, a commercial bank which had become insolvent and was nationalised in the early 2000s (IMF 2005a, 16; Interviews 27-30, *Banco Union*, 31, BDP).

### Business structural and instrumental power

<table>
<thead>
<tr>
<th>Business sector/region</th>
<th>Business association representation</th>
<th>Contribution to GDP (%)</th>
<th>Gross value added (%)</th>
<th>Exports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and agribusiness</td>
<td>FEPSC, CAO</td>
<td>13</td>
<td>20.4</td>
<td>34</td>
</tr>
<tr>
<td>Manufacturing industry</td>
<td>CEPB, CNI</td>
<td>11.1</td>
<td>7.5</td>
<td>26</td>
</tr>
<tr>
<td>Hydrocarbons</td>
<td>CEPB, CBH</td>
<td>5.3</td>
<td>6.2</td>
<td>12</td>
</tr>
<tr>
<td>Financial services</td>
<td>CEPB, ASOBAN, ASOFIN</td>
<td>5.2</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Mining and metals</td>
<td>CEPB, ANMM</td>
<td>3.4</td>
<td>3.9</td>
<td>15</td>
</tr>
<tr>
<td>Commerce (import/export)</td>
<td>CEPB, CNC</td>
<td>7.2</td>
<td>8.3</td>
<td>N/A</td>
</tr>
<tr>
<td>Santa Cruz department</td>
<td>FEPSC, CAINCO, CAO, CADEX</td>
<td>30.01</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>La Paz department</td>
<td>CEPB, FEPLP</td>
<td>25.69</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Average of other 7 departments</td>
<td>CEPB, regional business associations</td>
<td>6.32</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Table 3. Bolivian economic structure as of 2000

Source. Instituto Nacional de Estadistica (INE).

**Note.** Petroleum refining has been included with hydrocarbons rather than manufacturing (as is the case in the INE statistics) in order to better reflect the structure of representation by business associations.

By the 2000s Bolivia’s economy remained dominated by a small number of large domestic private firms in agribusiness, industry, and finance, and hydrocarbons, dominated by foreign multinationals (Lopez 2001). These sectors had significant structural power over the government due to their important contribution to GDP and exports (Table 3). The rest of the economy consisted of micro enterprises with little economic importance or political voice (Lopez 2001).

The government was particularly reliant on traditional land-owning agribusiness elites located in most economically important department of Santa Cruz department (Table 3). Santa Cruz business elites represent their interests to the government through the well-organised regional association, FEPSC, and sectoral associations CAINCO, CAO, and CADEX (Eaton 2011; Fairfield 2015). The leading strata of this business class were organised into family owned economic groups (Lopez 2001; Orellana 2016; Salmon 2007, 172-4), whose core interests lay in agribusiness, but had diversified into banking and other commercial activities after the late 1960s (Conaghan et al., 1990; Salmon 2007, 167). These groups were influential within their regional and sectoral associations (Interview 22, CAINCO; Salmon, 2007, 176).
Table 4. Market share and ownership of large Bolivian commercial banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Share of deposits</th>
<th>Majority ownership</th>
<th>Group's Regional affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco Mercantil Santa Cruz</td>
<td>17%</td>
<td>Domestic business group</td>
<td>La Paz</td>
</tr>
<tr>
<td>Banco Nacional de Bolivia</td>
<td>19%</td>
<td>Domestic business group</td>
<td>Sucre</td>
</tr>
<tr>
<td>Banco Bisa</td>
<td>13%</td>
<td>Domestic business group</td>
<td>Cochambamba</td>
</tr>
<tr>
<td>Banco Credito de Bolivia</td>
<td>16%</td>
<td>Foreign owned</td>
<td>Lima, Peru</td>
</tr>
<tr>
<td>Banco Union</td>
<td>7%</td>
<td>State owned</td>
<td>La Paz</td>
</tr>
<tr>
<td>Banco Ganadero</td>
<td>6%</td>
<td>Domestic business group</td>
<td>Santa Cruz</td>
</tr>
<tr>
<td>Banco Economico</td>
<td>6%</td>
<td>Domestic business group</td>
<td>Santa Cruz</td>
</tr>
</tbody>
</table>

Following ‘big-bang’ financial liberalisation, which included liberalisation of all interest rates in 1985, opening of the capital account, and privatisation and closure of state owned banks through the 80s and 90s (Jemio et al., 2009), Bolivia had an open and deregulated highly dollarized\(^{10}\), and mainly privately owned financial system by the early 2000s (ASFI 2005; IMF 2005b; Morales 2003). The bank-based financial system was highly concentrated, with the largest five commercial banks\(^{11}\) holding the most structural power due to their domination of the financial system with over 70% of bank deposits (ASFI 2005).

Although precise ownership information is difficult to come by due to the use of holding companies, available data indicates that while one of the largest banks is foreign owned, and one state owned, the rest are partially owned by or have cross shareholdings with family economic groups from Santa Cruz, La Paz, Sucre, and Cochabamba (Eju 2011), implying a confluence of financial, agribusiness, and other commercial interests (Table 4). The highly profitable microfinance sector, which had grown rapidly during the early 2000s, had high foreign ownership, but was not economically important, making up only 7% of total credit and deposits, and lending mainly to informal sector firms (IMF 2006, 16).

Since 1985, despite divisions existing along both regional and sectoral lines, business elites exercised strong instrumental power through pervasive ties to Bolivia’s traditional parties which dominated the state apparatus (Fairfield 2015, 228-30), especially through the CEBP which aggregated the interests of regional and sectoral associations, and historically played a key role in national politics (Conaghan and Malloy 1995; Eaton 2007, 88; Fairfield 2015, 226). Between 2003 and 2006 Movimiento Nacionalista Revolucionario (MNR), and

\(^{10}\) In 2003, out of partially dollarized economies, Bolivia ranked second in the world (Morales 2003;9) with over 90% of deposits and 97% of loans in US dollars (IMF 2006; 29)

\(^{11}\) These banks also owned an insurance company, a brokerage company, and an asset management fund, but nonbanking activities typically represent less than 10 percent of the groups’ assets (IMF and World Bank 2012; 6).
Movimiento de Izquierda Revolucionario (MIR), which had ties to national and Santa Cruz business associations, together held a parliamentary majority (Eaton 2011; Fairfield 2015, 229).

ASOBAN was highly influential in the government, especially at the central bank and MEPF (Interviews 1-5, MEPF; 21, former Central Bank). ASOBAN was regularly consulted on financial policy due to its perceived technical expertise (Interview 21, Former Central Bank; 17 Former ASOBAN). Key government positions were filled by technocrats such as former CAF economist Luis Carlos Jemio\(^{12}\) as the Minister of Finance, and orthodox economist Juan Antonio Morales as the President of the central bank, who did not have direct links to, but were held in high regard by the financial sector. As a result of its structural and instrumental power, although the financial sector suffered from a number of problems including a lack of long-term real economy lending, especially to the industrial and housing sectors, and for medium and small sized agribusiness firms, profiting instead from providing consumer finance at high interest rates, and fees-based activities (Interviews 1-5 MEPF, 13, ASFI), market-based solutions were always favoured (IMF 2003, 2005). For example, in a 2005 presentation, Antonio Morales states that the solution to lack of real economy lending is not the re-establishment of state owned banks, but to enforce better contracts through strengthening the rule of law\(^{13}\).

### Popular mobilisation and the rise of MAS

From the late 1990s onwards, in the context of growing dissatisfaction with Bolivia’s neoliberal economic model and exclusionary social structure, popular mobilisation ‘from below’ increasingly acted as a countervailing force against business elites’ instrumental power (Crabtree & Chaplin 2013; Fairfield 2015, 230). The challenge came from a broad coalition of peasant, indigenous, and urban middle-class voters, which coalesced, into a support base for the indigenous-left Movimiento al Socialismo (MAS) party, led by Evo Morales (Molina 2010). Although pro-business governments remained in power during this period, popular protests escalated into violence and led to repeated crisis and leadership changes (Crabtree & Chaplin 2013; Kohl & Farthing 2006, 172).

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\(^{12}\) Jemio had also worked as a consultant for other international institutions such as World Bank, IADB, and USAID (https://www.linkedin.com/in/luis-carlos-jemio-88618a33)

\(^{13}\) https://www.slideserve.com/Renfred/bolivia-an-economy-almost-without-state-owned-banks

Although popular mobilisation brought the developmentalist MAS party to power in 2006, reducing the instrumental power of business, structural power remained strong due to continued private ownership of productive assets, prompting state-business conflict. In this unstable environment, the financial sector retained structural power over policymakers due to fears that financial reform would cause financial instability and capital flight, preventing reform from taking place. The developmentalist government began to strategically use booming natural resource rents to break its dependence on the IMF, and to decrease business structural power through increasing public ownership and control of investment, including through two new public banks, gradually creating the conditions for the passing of the FSL 393.

The ‘developmental mind-set’

The massive popular mobilisation finally resulted in the historic victory of the MAS party in the December 2005 elections (Molina 2010). A new developmentalist ‘Economic-Social-Communitarian-Productive’ model was established, in a sharp reversal from the old ‘neoliberal model’ (MPD 2007). An especially active role was envisioned for the state; “The State has to participate in everything that is needed: planner, entrepreneur, investor, banker, regulator, promoter of development.” (MEPF 2015, 11). Multinational hydrocarbons companies and domestic industrial SOEs were seen as the main agents of development, the former to generate foreign exchange, and the latter to generate domestic employment and demand, with little role for the domestic private sector (MPD 2007; Interviews 6-7, VMTPC MEPF; 12, Former MDPYEP).

Developmentalist policy-makers were installed at key financial governance institutions, including the MEPF, the Central Bank, and the financial regulator, ASFI. According to officials in the VMPFS “Our vision was to guide the financial sector through directing credit towards productive sectors unlike the old law which was oriented towards the commercial and services sectors” (Interview 1, VMPFS MEPF). Luis Arce Catacora was appointed as Minister of Economy in 2006. A long career at the Central Bank, alongside teaching monetary economics at CIDES-UMSA, and the academic influence of the left-wing economist Carlos Villegas, one of the key architects of the National Development Plan (PND) had convinced Arce that banks should be seen purely as a tool for productive sector development, while bank profits were not important in themselves, and should even be treated with suspicion if banks were not performing their requisite developmental functions (Arce 2016; Interviews 1-4, VMPFS MEPF; 21, Former Presidency Official; Zeballos 2010). Arce believed that that left to the market mechanism, credit would flow to profitable but unproductive sectors (Interview 1-5 VMPFS MEPF; Interview 8, Central Bank). According to a former MEPF source close to Arce “the MEPF is very personalised ministry, under Arce…. He thinks the financial sector should serve and complement the productive sector, but it is impossible that this would happen through the market mechanism in Bolivia… a strong state control is necessary to improve articulation with the productive sector” (Interview 6, Former VMTPC MEPF).
Institutional changes within the government which gave the MEPF and Arce more power over economic policy within the MAS government were important in ensuring this vision was high on the policy agenda. Between 2006-9 the Central Bank and ASFI were unofficially subordinated to the MEPF, and turned into supporting institutions for formulation and monitoring Arce’s policies (Interviews, 8-9 Central Bank; 21 Former Central Bank). According to current and former Ministry officials at the Ministries of Planning (MPD) and Productive Development (MDPYEP), the MEPF was widely considered the most powerful ministry, and Arce the most powerful cabinet minister (Interview 6, Former VMTPC, MEPF; 12, former MDPYEP; 21 Former Presidency Official; 10, MPD).

Strategic use of international financing

![Figure 3](attachment:image.png)

**Figure 3.** Evolution of public external debt owed to major creditors (% total)

*Source.* Banco Central, online database

*Note.* IMF lending was historically more important than implied by its relatively small % share, by virtue of its role as ‘gatekeeper’ for other sources of finance (Weisbrot & Sandoval 2006, 10); Bolivia’s main Western creditors were Germany, Spain, France and Belgium; ‘Private’ debt refers to sovereign bond issues on international financial markets.

Unlike their predecessors, the MAS government seized the opportunity for greater policy autonomy presented by the commodity boom and availability of funds from non-traditional lenders. IMF conditionality was widely blamed for declining living standards by MAS’s support base (Kohl & Farthing 2006, 2009), necessitating action on the government’s part. Interviews with senior officials at the MEPF, Planning, and Development ministries, and the Central Bank unanimously suggested that they did not think it was possible to transition to the new development model, including in finance, under IMF and other external...
conditionalities, and emphasises the importance of economic sovereignty\textsuperscript{14} (Interview 1, VMPFS MEPF; 10 MPD; 12, Former MDPYEP; 8, Central Bank; MPD 2007, 242-58).

The MAS’s decision to nationalise\textsuperscript{15} hydrocarbons in 2006 translated to a vastly greater share of public revenue from the commodity boom than would have been the case under previous taxation regimes\textsuperscript{16}. The government then used these resources strategically to abandon the standby agreement (SBA) with the IMF, releasing it from the attached conditionalities (Interview 10, MPD; 12, Former MDPYEP). The MPD began a program of replacing traditional financing sources, namely IMF and World Bank loans and bilateral loans from DAC creditors, with finance that came with fewer conditionalities, including loans from the Inter-American Development Bank (IADB) and Andean Development Corporation (CAF) and bilateral loans from China, Venezuela and Brazil (Interview 10-11, MPD; 12, MDPYEP; Figure 3). Later, Bolivia further diversified into private external finance through issuing government debt on the international bond markets in 2012 and 2013 (Mitchell 2013). Commodities resources were also channelled to newly established SOEs, which played an important role in reducing the structural power of domestic business, and will be discussed below.

\textbf{Instrumental power of finance}

Business’s instrumental power was reduced after MAS won the election, as elites found their institutional and personal connections to the incoming executive and top policymakers severed (Wolff 2016). The change in relations between the MEPF, Banco Central, and ASFI and ASOBAN from the pre-2006 period was particularly acute. According to one private banker “Arce doesn’t trust the industry... he is never open to even hear our arguments. All conversations start with the fact we are making too much money, that we are not fulfilling our social function” (Interview 25, Foreign commercial bank). According to a former Central Bank employee, ASOBAN’s instrumental power was dramatically reduced after MAS came to power:

\begin{quote}
When I was in the Central Bank in 2005 in the previous administration, ASOBAN had a lot of power over our policies... For example, once we increased reserve requirements for USD deposits in April 2005. ASOBAN disagreed and told us this would be catastrophic. So we immediately made the terms more generous, the increase more gradual. After Arce came to power everything changed, he wouldn’t accept the attitude of ASOBAN... ASOBAN couldn’t do anything because Morales came with strong political support, he won the [2005] election by 54%, which hasn’t happened since the 50s (Interview 21, former Central Bank).
\end{quote}

Although lower on the agenda of the MAS support base than issues such as wage and hydrocarbons policy, financial reform had become politicised, as high interest rates in

\textsuperscript{14} A number of other changes were made in the name of economic sovereignty. In 2007 Bolivia withdrew from the World Bank’s International Centre for the Settlement of Investment Disputes (US Government 2016). Due to perceived foreign intervention, the US Ambassador was expelled in 2008, the Drug Enforcement Agency in 2009, and USAID in 2013 (New York Times 2013), and the Bolivia-US bilateral investment treaty was terminated in 2012 (US Government 2016)

\textsuperscript{15} While termed a nationalization, the 2006 hydrocarbons reform is better described as a renegotiation of contracts with MNCs to give the state a larger profit share (Webber 2008).

\textsuperscript{16} A hydrocarbons tax which increased government share of profit slightly was passed in 2005 under the previous government, but not yet implemented when Morales came to power (Fairfield 2015).
microfinance, and on mortgage loans in the midst of a housing shortage, fuelled perceptions that the banks were exploitative (Interviews 32-5, Ratings agency). The banks felt politically targeted by the MEPF: “His [Arce’s] point of view is that the banking sector is a good way to make political gains because were in a socialist state and doing things against the rich people and private sector is politically good” (Interview 23, Private commercial bank).

However, private finance’s loss of instrumental power was not absolute. MAS did not win control of the Senate in the legislative election, which made passing controversial laws difficult. Furthermore, MAS’s proposed anti-business policies directly threatened the interests of all business elites (Wolff 2016, 127), and increased cohesiveness against a common enemy. Santa Cruz business elites escalated demands for regional autonomy, especially in response to proposed land redistribution, with the conflict even escalating to the brink of civil war in 2008 (Eaton 2007, 2011; Molina 2010). The La Paz elite, although not directly part of the autonomist movement, was increasingly hostile towards the government as well, especially due to its proposed wage and tax increases (Interview 14, CEPB).

**Structural power of finance**

Despite MAS’s electoral victories, both financial and real sector business elites, especially those located in Santa Cruz, continued to hold significant structural power, as most of the economy remained under private control (Eaton 2011; Fairfield 2015; Webber 2008).

On the one hand, the new development strategy meant that policymakers no longer feared reduced bank profitability, since finance was not considered a priority sector in and of itself (Interviews 1-5 VMPF MEPF). Furthermore, given policymakers view that the banks were not playing a productive economic role, as they were lending heavily to sectors like consumer finance and import/export businesses that the MEPF wanted to discourage lending to in any case (ibid), the consequences of a reduction in lending were not seen to be that great.

On the other hand, even though interviews with key architects of the FSL 393 at the MEPF confirmed the financial reform had been on their agenda from day one, in the turbulent environment that characterised the first years of MAS government, policymakers feared passing a controversial financial reform would cause capital flight by bank depositors, which in turn would cause bank runs, and disrupt economic activity both directly by causing bank insolvency and indirectly by creating macroeconomic uncertainty which would reduce investment in other sectors. According to an MEPF official: “Our first goal was to provide stability, then after that we could do what we wanted… in 2006 the population was scared that because we were a left government this would cause financial instability. They were scared that what would happen in Argentina [in 2001] would happen… But the idea was always to direct credit” (Interview 1, VMPF MEPF).

Bolivia’s long history of struggling with business elites moving capital abroad in response to domestic uncertainty (Conaghan 1992,7) made the MEPF wary. Due to high income inequality, almost 60 per cent of total deposits were held by large private companies or

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17 Bolivia has a bicameral legislature consisting of the Chamber of Deputies and Senate which make up the Plurinational Legislative Assembly. Both houses have to approve laws in order for them to pass. The government can however pass reforms as ‘Supreme Decrees’ rather than laws to bypass parliament.
wealthy individuals in one per cent of deposit accounts, mainly in US dollars (IMF 2005b, 16), (ASFI 2005, 6). This made the Bolivian banking system particularly vulnerable to bank runs caused by these large depositors moving their dollars abroad (IMF 2005b, 16). The MEPF was also cognisant that depositors were extremely anxious about the security of their deposits under a leftist government, as Bolivia’s previous leftist government had frozen dollar deposits and converted them to local currency in 1982, in response to high inflation (Interviews 1-4 VMPF MEPF; 8, Central Bank). Repeated banking crisis through the 1990s and early 2000s, including runs on bank deposits as recently as 2002 and 2004 (IMF 2005b, 12), as well as Argentina’s recent experience with the corralito in 2001 brought back these traumatic memories (Interview 8, Central Bank; IMF 2003, 15). Finally, high levels of dollarization compounded financial fragility by making the financial system extremely sensitive to capital flight (IMF 2003, 19, 2005b, 16).

Foreign investors were a secondary concern for MEPF officials, and played a role in moderating the reform agenda. While the government did not wish to attract foreign investment into the financial sector, foreign direct investors in other sectors, mainly in hydrocarbons, were important, and the government had plans to diversify into private borrowing on international financial markets. According to MEPF officials and ASOBAN, although there was pressure for outright bank nationalisation from many sectors of Bolivian society including mine workers, cooperatives, and peasant farmers, this was not considered as a serious policy option because of the negative spill over effects it would have on foreign investors (Interview 1-5, MEPF; 17, Former ASOBAN).

Figure 4. Changes in the Bolivian productive structure under MAS
Source. INE online database

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18 In December 2001 the Argentinian government froze all bank accounts in order to stop rampant capital flight and converted US dollar deposits to pesos. The peso was allowed to depreciate, greatly decreasing the value of dollar deposits.

19 Withdrawal of dollar deposits exerts pressure on the dollar liquidity of the banking system and therefore on central bank reserves (IMF 2003, 19).
A number of policies were put in place by the government over this period that gradually decreased the structural power of both financial and real sector business, laying the foundations for passing the FSL in 2013. Policymakers did not trust the private sector to make the necessary investments, as exemplified by a quote from Arce: “Bolivia has never had a strong entrepreneurial class; the state has taken on a dynamic role... with projects that benefit the country” (Mitchell 2013, 4). Instead, commodity revenues were channelled via the Central Bank into newly established SOEs, which took the lead in designated strategic industries (Interviews 6-7 VMTPC MEPF). This served to decrease the structural power of the private sector because the government became less reliant on them for investment (Figure 4; MEPF 2012).

In finance, frustrated by the private banks' lack of real economy lending, the MEPF reversed the planned privatisations of the largely inactive remaining public banks, instead increasing their capital with funds from the treasury, and began using them to compensate for lack of private finance (Interview 31, BDP; 27-30 Banco Union). In 2007 NAFIBO was re-established as second tier development bank Banco Desarrollo Productivo (BDP), and the commercial Banco Union took on a new role as the government’s ‘model bank’, setting low interest rates and increasing lending to productive sectors (Interviews 27-30, Banco Union). Private banks were opposed to these measures, citing unfair competition from state guaranteed competitors (Table 1).

The Central Bank also took advantage of the commodity boom to embark on a successful program of de-dollarization to decrease financial fragility and regain control of monetary policy, while the beginning of a period of high economic growth boosted the health of the banking system by decreasing the risk of loan default (Interview 8, Central Bank; WDI, World Bank).
Period 3 (2010-2014): Reduced business power and peaking commodity prices: from conflict to a reluctant developmentalist coalition

In 2009, the political landscape shifted significantly in MAS’s favour, when the autonomist right became increasingly discredited after a series of strategic mistakes, including an alleged assassination plot against Morales (Reuters 2009). MAS won a landslide victory in the December 2009 election, with Morales re-elected with over 60% of the vote, and a two-thirds majority in both houses of the legislature (La Razon 2016). This prompted Santa Cruz business elites to rethink their confrontational stance, and instead form an alliance with the MAS government in a bid to regain instrumental power (Wolff 2016). The government was also interested in reconciliation because it realised that as the commodity boom reached its end, it would need the private sector to invest and generate foreign exchange (Interviews 12, MDYPEP; 8, Central Bank; 14, CEPB; 17, Former CEPB). The financial sector however, lost its remaining instrumental power, as agribusiness elites and other real sector associations did not actively oppose the reform, undermining elite cohesiveness. Finance’s remaining structural power was also reduced, as prior acceptance of the reform by agribusiness elites reassured the MEPF that this important economic segment would not remove capital from the country in response, enabling it to finally implement the FSL 393 in 2013.

Actors’ preferences towards and responses to the FSL 393

IFIs. The IMF and World Bank were not consulted before the FSL 393 was passed (Interview 45 World Bank; 46, IFC), and have been publicly and privately critical (45 World Bank; 46 IFC; 20 ASOFIN). A 2015 IMF report on the FSL 393 warns of the financial stability risks credit quotas and interest caps pose (Heng 2015), while the 2014 IMF article IV Consultation argues that the law will actually reduce total lending, and recommends more market friendly measures to attain financial inclusion goals (IMF 2014).

The MEPF, no longer being a borrower, could afford to ignore this criticism. A 2014 IMF Staff Report notes that “The [Bolivian] authorities did not see merit in staff’s concerns [over the FSL 393] and stressed that regulations in Supreme Decrees would be set with due consideration for stability” (IMF 2014, 13). Relations remained strained: “from 2006 the opinions of IMF were against everything we did, so we didn’t care about them. Every year they made recommendations and we threw them away. Even if they are right were not going to listen to them.” (Interview 5, VMPFS MEPF)

Foreign private investors. The private ratings agencies, Moody’s, Standard and Poor’s, Fitch, and Fitch’s Bolivian subsidiary, AESA Ratings, reacted very negatively to the FSL 393 (Interviews 32-35, Ratings Agency), even downgrading some individual banks, citing

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20 In February 2009, the new Bolivian constitution was adopted despite elite opposition, paving the way for the legality of new financial sector measures

21 According to one former MEPF interviewee, an example of this is when the MEPF noticed that the housing banks were unable to meet their social housing lending quotas, and so considered lowering the quota. However, before they did so, the IMF independently suggested the same thing. Because they did not want to be seen as following the IMF, the MEPF decided not to lower the quota (Interview 5, MEPF).
increased financial stability risks. However, this was not a major consideration for the MEPF (Interviews 1-5, VMPFS MEPF; 9, Central Bank), since the government’s growth strategy did not rely on attracting foreign or new private investment into the financial sector, and Bolivian banks no longer funded themselves abroad\textsuperscript{22}. Furthermore, not only did Bolivia’s sovereign rating remained unaffected, it even began issuing sovereign bonds on the international capital markets in late 2012 for the first time in almost a century (Figure 3). Despite its heterodox policies, these issues were massively oversubscribed (Kilby 2012) indicating that in the midst of a financial boom, investors did not assess individual policies in much detail. Foreign direct investors in other sectors came with finance from their headquarters, or home country banks, and therefore had little stake in the domestic Bolivian financial system (Interview 19, ASOBAN).

\textsuperscript{22} External financing was high in the 1990s but came down to 1.6% of bank liabilities in the 2000s as domestic deposit rates came down (ASFI 2005, 9).
<table>
<thead>
<tr>
<th>Organisation</th>
<th>Representation</th>
<th>Negotiating position</th>
<th>Rationale/Arguments for position</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASOBAN</td>
<td>Large and medium private banks</td>
<td>Strongly against</td>
<td>Especilly against interest rate caps, credit quotas, guarantee fund, and non conventional guarantees. Claim these will limit profitability and thus hamper future lending expansion and also increase risk, resulting in future NPLs. Following implementation of the law, the profits of large banks did not decline as dramatically as expected, although they fear this might be the case if the Central Bank raises interest rates in the future.</td>
</tr>
<tr>
<td>ASOFIN</td>
<td>SME and microfinance banks</td>
<td>Strongly against</td>
<td>Claim the law disadvantages microfinance banks more than larger banks, because microfinance banks have no prior expertise in productive sector lending, and their business model relies on charging very high interest rates.</td>
</tr>
<tr>
<td>CEBP</td>
<td>National association the whole private sector (including banks)</td>
<td>Officially against</td>
<td>Publicly against the law because ASOBAN is influential in CEBP. Accepts there were serious problems with lack of productive sector credit, but opposes interest rate controls and lending quotas. Believes the main constraint to productive sector development comes from the real sector, not the financial sector.</td>
</tr>
<tr>
<td>CNI</td>
<td>Large scale industry</td>
<td>In favour</td>
<td>In favour of quotas and non conventional guarantees but not interest rate controls because its largest firms could already borrow at low rates, and it saw these controls as giving too much discretion to the MEPF. Thought that high labour costs and taxes were the main problem CNI businesses faced rather than lack of finance.</td>
</tr>
<tr>
<td>CONAMYPE</td>
<td>Productive sector small and micro producers</td>
<td>Strongly in favour</td>
<td>Suggested even lower interest rates, and more extensive non conventional guarantees in its comments on the FSL draft, because lack of finance was an important constraint on growth for its firms. Angry that most cheap credit has benefitted large firms, but continues working with MEPF on the implementation of non-conventional guarantees which will enable small and micro producers to borrow.</td>
</tr>
<tr>
<td>CNC</td>
<td>Commerce, import/export businesses</td>
<td>Strongly against</td>
<td>Scared that since most CNC firms were considered 'unproductive' credit would become more expensive for them. Their fears were assuaged after the law was passed and this situation did not materialise.</td>
</tr>
<tr>
<td>Santa Cruz business associations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAO</td>
<td>Large and small Santa Cruz agriculture and agribusiness</td>
<td>Strongly in favour</td>
<td>In favour of the law because their small and medium firms had serious financing problems, and their large firms also benefitted from lower interest rates and longer maturities. Initial demands included allocation of 15% of banks total portfolio specifically for the agricultural sector, interest rate caps of 6% for investment capital and 8% for working capital, the acceptance of special forms of collateral, including rural property, flexible repayment terms, as well as the creation of a publicly funded Support Fund to co-finance long-term loans of up to 12 years. Don't think the law goes far enough in accepting rural land as a nonconventional guarantee.</td>
</tr>
<tr>
<td>FEPSC</td>
<td>Regional private sector association representing Santa Cruz</td>
<td>Initially reluctant, later in favour</td>
<td>Initially reluctant because they thought it was excessively interventionist and ASOBAN had asked them for help, but eventually they realised the law would favour most of their members, especially agribusinesses. Thinks the interest rate controls and lending quotas have worked, forcing the banks to become more efficient, but think the taxes on banks should be lowered, allowing them to reinvest in their business, rather than the government spending the tax revenues.</td>
</tr>
<tr>
<td>CAINCO</td>
<td>Santa Cruz industry, commerce and tourism</td>
<td>Officially neutral</td>
<td>In their initial analysis of the FSL 393 CAINCO criticised its 'ideological bias', believing the law to be too interventionist, and the 'productive' and 'unproductive' sector distinction to be arbitrary. They helped ASOBAN to formulate their negotiating position with the MEPF. However, they also realised their firms would benefit from cheaper credit, and decided not to intervene in the public discussion unless they felt financial stability was being threatened. After implementation, the FSL 393 improved member firms access to credit, especially the duration of loans.</td>
</tr>
<tr>
<td>CADEX</td>
<td>Large, formal sector Santa Cruz exporters</td>
<td>Officially neutral</td>
<td>Believe the reform overregulates the financial sector and creates market distortions, sending a negative signal to foreign investors, but also that it does not go far enough in improving access to credit for small firms, due to lack of implementation of non-conventional guarantees. Large, formal sector firms access to credit has improved following the reform, but CADEX believes too much credit has gone to construction, and not enough to industry or agribusiness.</td>
</tr>
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**Table 5.** Preferences of business associations with regards to the FSL 393.  
*Source. Interviews.*
Real economy domestic private sector. National and regional associations CEPB and FEPLP officially sided with ASOBAN, because it was an important member\(^\text{23}\), with CEPB issuing a public document in 2013 decrying the FSL 393’s ‘distortionary effects’ (CEPB 2013). ASOBAN however felt that “they did say something on our behalf but… they didn’t give us a strong signal of support…. They tried to make some sort of equilibrium playing both sides” (Interview 23, Private bank). This ambiguous position reflected divisions within the private sector over the FSL. With the exception of CNC, which represents the commerce sector, which was designated as ‘unproductive’ under the FSL 393, the other organisations either took no clear position on the FSL, or supported it, undermining elite cohesiveness (Table 5). Business elites balanced their sectoral interest with suspicion of the MAS government. For example, even though private large-scale industry represented by the CNI was expected to be one of the main beneficiaries of the FSL, it did not emerge as a key ally of the MEPF in negotiations, because MAS’s wage and tax increases, and SOE-led industrial strategy caused relations between the MEPF and CNI to remain tense (Interview 37, CNI).

Santa Cruz agribusiness elites. Despite initial reluctance due to fears over excessive state intervention, the Santa Cruz business associations accepted the FSL 393 before it was passed (Interviews 1-5 MEPF; 15, FEPSC)\(^\text{24}\), deciding that in the longer run they would be better off in an alliance with the government, rather than with the financial sector, even though the FSL 393 had both costs and benefits for their businesses. Since they were negotiating with the MAS government from a position of structural and instrumental weakness, they had to make concessions that they would not have been willing to make under different circumstances (Interviews 22 CAINCO; 15 FEPBSC). On the one hand, large agribusiness firms feared state intervention would spill over into their sectors, and since some Santa Cruz family groups owned minority shares in large banks, and majority shares in medium banks (Table 4), any reduction in banking profits or increase in risk would impact them directly (Interviews 23 Private bank; 15 FEPSC). On the other hand, the family groups generally held only small amounts of bank shares in comparison to their overall portfolio, or considered finance a secondary business (Interviews 19, ASOBAN; 23 Private Bank; 22 CAINCO). The FSL was beneficial for their core agribusinesses, which saw a significant increase in cheap finance, since these firms were among the least risky borrowers, leaving banks scrambling to lend to them to fulfil their quotas (Interviews 19, ASOBAN; 23-25, Private banks; 16, CAO). Improvement in credit conditions for smaller agricultural firms, translated into cheaper costs for large firms too, since the small firms supplied them with intermediate goods (Interviews 16, CAO; 22 CAINCO; 41, CADEX). More importantly than the direct costs and benefits of the FSL 393, Santa Cruz elites realised that supporting the government in financial reform could bring concessions in areas more important to their core agricultural businesses, including a non-retroactivity clause exempting existing agricultural holdings from land reform, legalisation of deforestation and removal of limits on exports of foodstuffs (Interviews 15, FEPSC; 16, CAO; 22, CAINCO).

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\(^ {23}\) The Vice President of CEPB was the former Chairman of ASOBAN.

\(^ {24}\) According to MEPF officials CAINCO and FEPSC sent a letter stating their agreement with reforms, prior to final negotiations (Interviews 1-4, VMPFS MEPF).
Out of the Santa Cruz business groups, CAO was most strongly in favour of the reform and most conciliatory towards the MAS government (Interviews 16, CAO; Table 5), reflecting the narrower sectoral interests of the agricultural sector, especially medium and small firms that faced serious credit constraints. Since 2010, CAO played an active part in the formulation of the FSL. A document presented by CAO to the government at a summit for public-private dialogue in Cochabamba in December 2011 anticipates many features of the FSL 393, and calls for sector specific measures favouring agriculture (CAO 2011; Table 5). The final version of the FSL incorporated many of these demands, but for the productive sectors as whole, rather than just for agriculture. FEPSC, CAINCO, and CADEX’s positions were more ambiguous than CAOs, but more supportive than the La Paz based national associations (Table 5). Despite initial doubts over the extent of government intervention, these associations did not want to express them publicly in order to maintain good relations with government, and because they realised that a large majority of their member firms would benefit from cheaper financing (Interviews 22, CAINCO; 15, FEPSC; 41, CADEX). According to the FEPSC senior management “By definition we were not used to having these controls, we would rather have the market…but they [the MEPF] changed our mind… but the results are showing it’s the right law even though some things are not classic. It forced the banks to become more efficient” (Interview 15, FEPSC).

**Instrumental power of private finance.** ASOBAN and ASOFIN framed their arguments against the FSL through a vision for the role of the financial sector that was fundamentally at odds with that of the MEPF. In the banks’ view, “the role of the financial sector is to respond to credit demand, and provide risk assessment, not to transform the productive matrix” (Interview 19, ASOBAN). The Banks claimed that reduction in their profits would lead to a decline in credit in the medium to long-term. They warned that lending quotas would force over-lending to ‘productive’ sectors, which would increase long run risk, while credit to ‘unproductive’ sectors would be rationed and become more expensive. Since the ‘unproductive’ commercial and services sectors were dominated by informal enterprises, they argued the FSL would decrease ‘financial inclusion’ and harm the poor the most. (Interviews 19, ASOBAN; 23-25, Private banks; 32-35 Ratings agency). Later, ASOBAN and ASOFIN used the 2014 and 2015 IMF reports as leverage against the FSL, citing the 2015 report on their website and in presentations (Interview 19, ASOBAN).

These arguments fell on deaf ears at the MEPF. In addition to already acrimonious relations with MEFP, ASOBAN felt that because the rest of the private sector offered them only mild, or no support, their negotiating position was weakened vis-à-vis the MEPF, decreasing their instrumental power further, as they were unable to ‘leverage’ their interests. During the FSL negotiations ASOBAN and ASOFIN had launched a concerted offensive to try to convince the rest of the private sector that it was in their interests to present a united front against the reforms, yet were met by limited success. According to ASOBAN “we tried to convince them that at the end of the day we are all private sector and need to stick together because today it is the turn of the banks, tomorrow it might be the turn of industry. We tried to show them that even if they might be getting cheap credit it was still an intervention against the private sector. But because they benefitted from cheaper credit, it wasn’t that easy” (Interview 17, Former ASOBAN).

The banks’ reduced instrumental power was reflected in the MEPF’s conduct during negotiations. The banks were involved relatively late in the process, once the law had
already been drafted (Interviews 17, Former ASOBAN; 1, VMPFS MEPF). According to the banks, “the law was not negotiated, but dictated by the MEPF” (Interview 23, Private bank).

**Structural power of private finance.** During a presentation made by the MEPF to ASOBAN before the FSL was passed, the banks threatened to shut down their operations if the FSL 393 was approved, but the threat was not taken seriously by the MEPF (Interview 5, former VMPFS MEPF), reflecting banks’ reduced structural power.

Increased public ownership in banking meant that the government could compensate any decline in private lending, making its economic consequences less consequential. In addition, the danger of capital flight by bank depositors no longer preoccupied MEPF officials. Now that the government had secured an alliance with the key group of Santa Cruz business elites which were among the largest depositors, and the macroeconomic environment had improved, dollarization at a historical low, and bank balance sheets healthy (Heng 2015, 13), MEPF officials were reassured that the reform would not cause mass capital flight. Only one of the major banks was foreign owned, and although they threatened to leave Bolivia in 2013, two factors prevented them. Firstly, it was difficult to find a buyer given the recent FSL announcement, and secondly, due to the booming economy, their venture in Bolivia was still relatively profitable compared to failed ventures in Columbia, and limited operations in Chile and Panama (Interview 25, Foreign private bank). The other most politically important universal banks were mainly domestically owned, which meant that they had no easy exit option. Although some microfinance institutions were owned by foreign conglomerates, such as *Banco los Andes*, which did sell their Bolivian operations following the FSL, these were not considered important to the functioning of the financial system by the MEPF as they were lending mainly to informal, unproductive firms, at exploitative interest rates, and so did not constitute a credible disinvestment threat (Interviews, 1-5 MEPF; 20, ASOFIN).
Discussion and conclusion

This article has sought to explain the puzzle of how Bolivia, a small peripheral country, facing a high degree of international and domestic constraints, was able to go against the grain and re-assert state control over a previously liberalised financial sector, despite the opposition of both the IMF and domestic business. In doing so, this paper contributes to a number of longstanding debates in international and comparative political economy.

As opposed to recent explanations of increasing policy autonomy which focus either on increases in the availability of alternative sources of external financing, or the presence of a developmentalist government ideology, while acknowledging the importance of both, this article combines these explanations with a crucial third factor, through which the effects of the first two factors are mediated: the relative power of private business vis-a-vis the state. While the structural power literature, which is focused on explaining persistence in business power, mainly explains change through exogenous shocks (Culpepper 2015), this paper highlights the role that government strategy and change in development model, including expansion of public ownership, can play in decreasing business structural power. The paper also illustrates the importance of mobilisation ‘from below’ in explaining change in business power. Bolivian social movements were vital in decreasing business instrumental power, by bringing a developmentalist government to power, even if they were not directly responsible for putting financial reform on the agenda.

While policymakers’ ideologies were clearly important, the Bolivian case shows how material pressures constrained state planners, forcing them to balance between diverse elite factions and non-elite groups. Yet the state also had a degree of relative autonomy and was not simply a vehicle for special interest groups to obtain rents. The initial push for the reform came from within the government itself, rather than the productive sectors that benefitted from it, because the most important large firms did not see a lack of credit as the main constraint on growth, focusing rather on labour and tax issues. Similarly, although MAS’s popular support base saw the banks as exploitative, they were not concerned with seemingly technical issues such as the institution of sectoral credit controls.

Most importantly, this paper contributes to the policy autonomy literature by showing that even peripheral countries can overcome what appear to be profound constraints and engage in statist financial policies, even following over three decades of economic globalisation, albeit under certain conditions: namely, popular mobilisation and strategic government action to reduce business power, and access to outside financing options to reduce conditionalities associated with traditional creditors.

The argument made here applies not only to resource rich developing countries, but should also travel to the broader set of developing countries that have access to external financing sources that face the same boom-bust cycle as commodities prices, including international financial markets, foreign bank loans\textsuperscript{25}, or agricultural exports. While sceptics might argue that Bolivia is unique in that it benefitted from an unprecedented commodity boom, this article illustrates how an increase in alternative external financing options do not automatically translate into greater policy autonomy, but rather are mediated by domestic political action, highlighting the role of state agency in negotiating external policy autonomy. In Bolivia, the fact that a developmentalist government, whose support base valued

\textsuperscript{25} With the important caveat that these are debt rather than revenue, and cause more problems in the downturn.
economic sovereignty came to power, was vital in influencing not only the way in which commodity revenue was used (to break dependence on the IMF), but also the amount of government revenue generated from the commodity boom in the first place (as a result of the decision to nationalise the hydrocarbons sector).

Under certain circumstances, a broader range of developing country governments should be able to use similar strategies to manipulate their external environments to generate policy space from the widening array of external financing sources available to them today. While commodity revenues were important in escaping conditionalities in Bolivia, so was strategic diversification into ‘non-traditional’ loans from emerging powers, an option open to a much wider range of, although not all, developing countries (Bunte 2013; Strange et al., 2017). The argument also has implications for countries that are less internationally constrained, like those developed enough to run a current account surplus based on manufacturing exports and build a ‘war chest’ of foreign reserves in order to preclude the need for IMF funds (Akyuz 2017), or countries that are important to donors from a geopolitical perspective, and can leverage their position to obtain a steady flow of aid, while avoiding associated conditionalities, as Korea did with the US in the Cold War era (Woo-Cummings 1991, 6-7). Where developing country governments have none of the features mentioned above, the argument does not apply. In this case, it may still be possible to escape conditionalities through sovereign default, or using import austerity to balance the current account, although the domestic political implications of these strategies are very different to using external finance.

While more research is required on the range of strategies to escape conditionality, findings from the Bolivian case, one of the few small developing countries to implement activist financial policies, have important implications for the viability of returning to state-led growth strategies under economic globalisation, as developing countries increasingly look for alternatives to Washington Consensus policies in the wake of the 2008 financial crisis.
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