

## Bolivia

<b>Status Index</b> (Democracy: 3.6 / Market economy: 2.7)		<b>6.3</b>	<b>Management Index</b>		<b>5.5</b>
<b>System of government</b>	Parlamentarized presidential system		<b>Population</b>	8.5 mill.	
<b>Voter turnout</b>	72.0 %		<b>GDP p. c. (\$, PPP)</b>	2,300	
<b>Women in Parliament</b>	17.8 %		<b>Unemployment rate</b>	7.5 % (2000)	
<b>Population growth<sup>a</sup></b>	2.2 %		<b>HDI</b>	0.672	
<b>Largest ethnic minority</b>	-		<b>UN Education Index</b>	0.85	
			<b>Gini Index</b>	44.7 (1999)	
Data for 2001 – if not indicated otherwise. <sup>a</sup> Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

### 1. Introduction

Bolivia is geographically, ethnically and socially diverse. Although the land is rich in mineral resources, the country's residents are very poor. Once infamous for its political instability, Bolivia had made great strides since the 1980s in the direction of democracy under the rule of law and a market economy. Though flaws and shortcomings remained, Bolivia had until the end of the 1990s achieved remarkable political and economic stability.

The crux of Bolivia's twentieth-century path toward development was the 1952 revolution led by the *Movimiento Nacionalista Revolucionario* (MNR), one of the few true revolutions in Latin America. In an anti-imperialist, populist and "national-revolutionary" spirit, it nationalized the large mining companies dominated by foreign capital, decreed a fundamental agrarian reform, implemented political and social reforms (above all, giving the indigenous population the right to vote) and introduced an era of interventionist policies.

The MNR regime made progress in the areas of participation, integration, social security and infrastructure development, but it was unable to initiate steady and diversified economic development or, especially, to reduce the country's notorious dependence on foreign markets for its most important raw material exports and on foreign credit. Bolivia lacked the liberal and rule-of-law elements of democracy even under the civilian presidents Paz Estenssoro and Hernán Siles Zuazo (1952–1964). Traditional political patronage structures remained in place; political forces and civil society remained highly fragmented, both by regional, ethnic and social cleavages and by personality-based allegiances to the *caudillos* (political bosses).

The long period of authoritarian rule in Bolivia between 1964 and 1982 cannot be seen as a typological continuum. Rather, there were three different types of military regime. First came the military executors of the “national revolution” (Barrientos, Ovando, Torres) between 1964 and 1971. Next was the “modern” bureaucratic-authoritarian regime established by General Hugo Banzer and supported by the military as an institution (1971–1978), which was not extremely repressive but still relatively modest in its modernization potential.

At the end of the 1970s, Banzer’s attempts to achieve a transition to civilian rule were sabotaged by opponents within the regime. Military rule regressed to a more traditional model in the brief but brutal dictatorship of General García Meza (1980–1981), who was allied with the cocaine mafia. Extremely repressive, socially isolated and maintaining power solely through force, this government provoked its own overthrow by a junta, bringing the restoration of conditions conforming to the constitution in 1981–1982.

The rapid transition from dictatorship to democracy (1982–1985) was negotiated. Since then, for the first time in Bolivia’s history, democracy was stable for a relatively long period. Because of persistent shortcomings, especially in the areas of stateness and rule-of-law guarantees, it must be considered a defective (or more precisely, illiberal) democracy. Since 1985 continual efforts to redress these shortcomings and to make the market economy more efficient were largely successful.

However, there are a lot of signs that this remarkable political and economic stability now is at stake. Above all, the political turbulence in 2003 led to the resignation of the elected president Sánchez de Lozada. In October 2003 the Bolivian parliament elected Carlos Mesa president. Although support for democracy is according to most survey data high, the political stability is now in danger due to polarization, deadlock, and intense social conflicts. The key problem has so far been that democratic governments have been unable to meet the economic and social expectations of a poverty-ridden country.

## **2. History and characteristics of transformation**

The political and economic transformation processes that took place since the early 1980s unfolded concurrently, though not always simultaneously, and brought considerable stabilization and reform in both areas. The rapid, if incomplete, transition to democracy concluded in 1985 with the first free local elections since 1950. After that, more intensive reform campaigns to improve democracy and the rule of law came in the 1990s during the presidencies of Jaime Paz Zamora (1989–1993) and Gonzalo Sánchez de Lozada (1993–1997). The key initiatives aimed at stabilizing and restructuring the economy and the interventionist and social state were launched in the second half of the 1980s under President Victor Paz Estenssoro

(1985–89). These reforms were amplified in a second stage, which also strengthened participatory elements, after the mid-1990s. In the era of Hugo Banzer (1997–2001), additional strategies to combat poverty and cancel debts were added.

The political transformation began with a negotiated transition in which the civilian politicians soon took charge, while the military, internally at loggerheads, withdrew from politics. The fact that the old post-revolutionary MNR *caudillos* returned with the first two presidents of the democracy, Hernán Siles Zuazo (1982–1985) and Victor Paz Estenssoro, suggests a certain inclination to restore the old order. But the established political classes have proved to be willing to learn, flexible, open to cooperation and strong enough to steadily pursue the development of rule-of-law and democratic institutions and to initiate key economic reforms.

This unfolded primarily within a series of parliamentary alliances among the three most important parties: the gradually evolving MNR, the center-left *Movimiento de la Izquierda Revolucionaria* (MIR) and the right-wing *Acción Democrática Nacionalista* (ADN) of ex-president Banzer. As a result of these alliances, and for the first time in its history, since 1985 until the fall of Sánchez de Lozada, Bolivia has undergone six constitutional and democratic transfers of power, four of them to a different party. After Siles Zuazo (MNR) came Paz Estenssoro (MNR, 1985–1989), and then the social democrat Jaime Paz Zamora (MIR, 1989–1993), the liberal technocrat and businessman Gonzalo Sánchez de Lozada (MNR, 1993–1997), the former military dictator turned democrat Hugo Banzer (ADN, 1997–2001), who relinquished his office to Vice President Jorge Quiroga because of illness in 2001, and again Sánchez de Lozada (2002–2003).

The broad parliamentary alliances also arose from institutional necessity grounded in the Bolivian constitution. When, as normally happens, no presidential candidate receives an absolute majority of the popular votes, Parliament chooses the president by absolute majority from the two contenders with the greatest number of votes. This has established a “parliamentary presidentialism” that enhanced institutional stability and the continuity and predictability of politics. While in the first two elections, in 1985 and 1989, Parliament had voted for candidates who had placed second or even third (Paz Estenssoro, Paz Zamora), in the last three elections it confirmed the leading candidate (Sánchez de Lozada 1993, 2002; Banzer 1997), even when that candidate was only slightly ahead of three or four other solid contenders in extremely fragmented elections.

Contributing to this fragmentation are strong regional *caudillos* as well as the *ad hoc* surges of protest that can be mobilized on a massive scale among those who feel excluded from the inner circles of power. In 2002, Evo Morales (MAS), the main leader of the coca farmers, became the first spokesman for the excluded to win a spot on the parliamentary ballot in the presidential election. In the wake of the election reforms of 1996, the Parliament elected in 2002 is more broadly representative and more diverse than its predecessors. Nevertheless, and after the United States exerted

intense pressure on the MIR leadership in particular, a majority again voted for stability in the person of the establishment candidate.

The problems of economic transformation in Bolivia have lain mainly in three areas. First is the need to strengthen, modernize and deregulate its raw materials extraction industry, which is in principle market-based but traditionally dominated by the state and the public sector, as well as inefficient and lopsidedly dependent on the world market. Second is the need to transform the country's agricultural sector, which is highly diverse and, despite decades of reform initiatives, still insufficiently productive. Finally, economic transformation requires Bolivia to expand and reform its social insurance systems.

The most important prerequisites for the transformation were to stabilize the currency, curb inflation, restructure foreign debts and enhance stability and predictability. Structural limitations included the country's traditional dependence on foreign actors, the risks associated with an economy that depends on exportation of raw materials, an excessive informal sector (particularly the lucrative drug trade) and the restrictions that a notorious debtor country under the supervision of international agencies has to accept.

Here and there, remarkable advances have been made. Stability and development of the market economy have progressed considerably in Bolivia since the secular reorientation of 1985. In an initial stage, the Paz government gave top priority to fighting inflation, opening the country to foreign investment and increasing exports to help service its foreign debt. It also pushed for privatization or closing of some ailing state enterprises, particularly the large mines.

This policy was also pursued during the 1990s, on the whole steadily, though also with setbacks and often with very limited success and high social and political costs. In addition, in the mid-1990s under Sánchez de Lozada there was a second wave of "capitalization" (i.e., privatization) of state enterprises, particularly in the energy and transportation sectors, which was closely linked with the privatization of pension insurance. At the end of the 1990s, the Banzer government, in close cooperation with the world banking system, concentrated on new strategies to cancel debts and fight poverty. Although most macroeconomic indicators stabilized, there has been no significant change in Bolivia's status as one of the poorest countries in Latin America.

### **3. Examination of criteria for democracy and a market economy**

#### **3.1 Democracy**

After 1985, Bolivia again became a defective (illiberal) democracy, with shortcomings especially in the areas of state identity and rule-of-law guarantees. Significant progress has been achieved, that partially endured into the period under study, especially with regard to establishing and broadening the rule of law and curbing arbitrariness by strengthening institutions. However, the process of institutionalization was in several ways flawed, especially the reform of the judiciary, and led to important shortcomings. Attempts to remedy these shortcomings are hindered by the country's geographic and ethnic diversity, its poorly integrated society and its economic and social problems. The attempts to expand representation and participation and to gradually improve the dialogue between the political establishment and Bolivia's various ethnic and social groups have in the end been undermined by the surprising political self organization of Indian and other social groups.

##### **3.1.1. Political regime**

(1) *Stateness*: Bolivia still has problems related to stateness. The state monopoly on the use of force does not always extend to every corner of the country. Since 2000, the loyalty of the police force has also become a problem. Faced with a new income tax, the police spend more time demonstrating against the government for tax-free income or higher wages (as the teachers also do) than enforcing its laws. In early 2003, the military had to be called in to protect government buildings in La Paz against attacks by striking police officers.

Functional administrative structures exist in principle in many areas, but in practice they are not present everywhere. Church and state are separated. There is fundamental agreement about who qualifies as a citizen, insofar as all citizens have had the same rights since 1952 and there are no separatist groups. However, many ethnic groups identify primarily with their own community and consider that allegiance much more important than their Bolivian citizenship.

(2) *Political participation*: There is universal suffrage and the right to campaign for elective office; elections are conducted properly for the most part, and violations are increasingly punished. A reform of the electoral system inspired by German features (a three-percent threshold clause and a mixture of a first-past-the-post system and proportional representation) began in 1991 but was not concluded until 1996. The reform has reduced traditional under-representation in Parliament of the highly populated regions, but it has also increased fragmentation.

The elected government observes the principles of open and competitive elections. It has the effective power to govern. There are no veto powers or political enclaves in the hands of the military or other groups. Under normal circumstances, freedoms of opinion, of the press, of assembly and of association are not limited, and the mainly private and pluralistic media report freely as well. When faced with intense mass protests, however, the governments of the last 20 years have time and again fallen back on the traditional measure of declaring a state of emergency, which temporarily suspended political liberties and numerous rule-of-law guarantees and enabled the government to prohibit the activities of political organizations, unions and other groups and to briefly jail political opponents.

(3) *Rule of law*: Although the rule of law has improved, checks and balances are not yet functional and government acts not yet fully subject to judicial and parliamentary review. Judicial review has certainly made some progress but government gets around parliamentary checks and review due to its parliamentary majority. In fact, the executive controls wide parts of the judicial and the legislative branch. Parliament activities depend on the initiatives of the executive and it tends to act as rubber stamp of the government.

The “parliamentarization” of the presidential system is prescribed by the constitution and serves to stabilize democratic institutions and processes. Widespread corruption extends into the highest ranks. According to Transparency International, it has even increased in recent years (Bolivia’s Corruptions Perception Index went from 2.8 in 1998 to 2.2 in 2002). However, government actions are subject to judicial and parliamentary review, and scandals are increasingly exposed, in part because the public and the media have become more sensitive to them.

Since the judicial reforms of the 1990s, basic citizen rights and rule-of-law guarantees are in effect as far as the state’s power extends. Bolivia has not followed other countries in developing systematic procedures to address human rights violations by the military dictators, in part because the overall scale of repression was relatively moderate and dramatic excesses were few, except for the brutalities of the brief García Meza regime.

The judiciary has become more independent; in the wake of comprehensive judicial reforms in the 1990s, especially under Minister of Justice René Blattmann (1994–1997), it has become institutionally differentiated, stronger and more closely regulated. These reforms, which in some areas first established the rule of law, included the reform of the penal code and the code of criminal procedure, the reorganization of internal administrative controls to improve the rights of citizens vis-à-vis the state (in the absence of a special branch of “jurisdiction for administrative acts”), and the establishment of a constitutional court.

In recent years, particular advances have been made in developing the differentiated institutions of an alternative *justicia comunitaria* with traditional indigenous

elements for the various ethnic communities. Of special significance is the establishment of an office of ombudsman (*Defensor del Pueblo*).

However, the process of strengthening the rule of law still suffers from important shortcomings: Firstly, the reform process was undercut by persistent political pressures on these institutions or simply by the fact that some of them remained in the clutches of political patronage like the judiciary council (Consejo de la Judicatura). Political parties keeping control of appointments of public prosecutors and judges constituted a major impediment to reforms of the justice system. Secondly, no modern, stable bureaucracy based on a merit career system was created, neither in the ministries nor in regional and local governments. As a result, both the corrupt administration of justice and the party horse-trading in state administration continue to exist. So the judiciary is still under pressure from the executive and prone to corruption.

### 3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: The verdict on the performance of democratic institutions is mixed. Political institutions that had been functional and stable for two decades have increasingly been under pressure during the past few years. Though all relevant actors accept in principle the validity of democratic rules and the primacy of democratic institutions, they do not always support them. Democracy does not have the full support of the population. Parts of the radical indigenous political movements which in 2002 conquered a powerful position in parliament (26% of the seats) are not willing to accept the rules of a parliamentary and representative democracy.

The administrative system still operates unsatisfactorily in many areas; local reform (314 new cantons) and decentralization were largely sabotaged by the prefects, and appropriate resources are lacking. The new institutions created to secure the rule of law have also served as key vehicles to promote participation “from below” (*Participación Popular*)—a constant demand of opposition movements that has been legally regulated since 1996. This was particularly the case for the activities of the former ombudswoman (until 2003), who earned high trust throughout the country.

(2) *Political and social integration*: Until the crisis 2000-2001, the nationwide party system, with four to five parties each garnering 15 % to 25 % of the vote, was moderately fragmented; furthermore, the system underwent realignment in practically every election. Voter volatility was and is high. While voter support for the protest coalitions and the regional *caudillos* fluctuated widely, the hard core of the three traditional parties remained relatively stable, so far assuring them a governing majority through various coalitions.

A paradoxical development has taken place since the crisis of 2000-2001 and particularly since the elections of 2002. On the one hand, thanks to the electoral system, political representation and participation, especially ethnic representation and

participation, has been broadened and strengthened. The new Indian political movements (MAS and MIP) have demonstrated their capacity to transform their social organizations into political protagonists.

On the other hand, the political conditions for a dialogue have worsened due to the strong polarization of the party system. Since 1985 Bolivia had a strong party system based on three relevant parties (MNR, ADN, MIR) that was only moderately fragmented and polarized. Although this system maintained its capacity for coalition-building, this system has been altered due to the general elections of June 2002 by two key outcomes: ADN broke down obtaining only 3.5% of the votes and with the upsurge of two radical indigenous political movements the party system could no longer be considered moderate or less polarized. In addition, the relevant political parties have lost their mediation capacities.

As a result, the Catholic Church has in the last years become the key arbiter in conflict situations. Thus, the politicization of Indian movements has had a paradoxical consequence: It has widened ethnic representation and participation, but at the prize of polarization. Furthermore, they have not yet helped to strengthen democratic institutions. Their corporatist, ethnicist, and anti-party tendencies do not contribute to the stability of the system. There is a strong tension between direct-democracy participatory demands and the institutional framework of representative democracy.

Stable patterns of representation for mediation between society and the state exist only for the institutionally integrated groups of Bolivia's highly fragmented society. However, the country definitely holds considerable, if fragmented, social capital. Groups with a high capacity for social self-organization and participation include many ethnic groups with pronounced community traditions, especially the Quechua and Aymara; the traditional miners' and farmers' unions; the coca farmers, who recently organized under Evo Morales to protest US-Bolivian coca eradication programs, which threaten their livelihood. Civil society also includes an array of regional and social protest movements, citizen initiatives and grass-roots organizations—more than 13,000 are registered.

Remarkably, despite considerable dissatisfaction with democracy's performance, the levels for rejection of authoritarian regimes (around 80 %) and approval of democracy (around 60 %, according to the *Latinobarómetro* for 1996–2001) among the Bolivian population as a whole are still relatively high—higher than in Chile, Brazil or Mexico. The network of interest groups is traditionally well developed in the cities, in rural regions and in the mines; these groups can be cooperative or confrontational.

## **3.2 Market economy**

Since 1985, Bolivia has made considerable progress in transforming its economic order. The most important structural decisions to proceed in the direction of a more efficient market economy had been made in the mid-1980s, in the first phase of the transformation. Since then, the country has continuously pursued a liberal policy of deregulation, privatization and modernization to engender stability, growth and greater development potential. However, with the stabilization program of 1985, which was not a growth strategy, the country shifted to a market economy. But still the growth rates are not capable of substantially reducing poverty and of overcoming social inequalities, and generally of overcoming the structural obstacles of the Bolivian economy—like social exclusion, economic dependency on the export of raw materials, an insufficiently diversified economy, a narrow internal market, a weak entrepreneurial class, and inefficient state management.

### **3.2.1 Level of socioeconomic development**

Bolivia is a country heavily dependent on the wider world. Its low level of development does not permit adequate freedom of choice for its citizens. Fundamental forms of social exclusion caused by poverty or lack of education are not peripheral phenomena. Rather, they affect the majority of its citizens, especially in rural areas, where, according to World Bank calculations, some 80 % of the population lives in poverty. Nationally, 63 % of Bolivians live below the poverty line, which represents significant progress compared with 85 % in 1976. The standard development indicators lie below—sometimes considerably below—the average for Latin American states. Income distribution is decidedly unequal, with significant regional disparities.

### **3.2.2 Market structures and competition**

The institutional foundations of a competitive market economy are established. However, there are strong imbalances between an export-oriented, modern sector dominated by international companies and a weak national industry. Moreover, the internal market in rural areas is still underdeveloped. The constraints on market mechanisms decreed after the revolution of 1952 have eased since the 1970s and were finally revoked, with corresponding social costs, beginning in the mid-1980s. At the same time, foreign trade has in principle been deregulated; during the period under study, this included improved mechanisms related to the new prospects for a free trade area of the Americas. The banking system and the capital market are differentiated but still subject to fluctuations in certain respects.

Particular progress has been made in legal safeguards for transnational projects in economic cooperation and development. Regional and sector monopolies and oligopolies can form, for example, in the media sector or in private pension funds.

### **3.2.3 Stability of currency and prices**

The governments of the past two decades have continuously pursued a consistent policy on inflation and an appropriate exchange rate policy. Within a short time, the rate of inflation was pushed from five-digit figures in the 1980s to less than 10 % since 1996; it continues to fall. The central bank has been formally independent since 1995. The balance of payments improved briefly in the late 1980s. The budget deficit was temporarily reduced and now stands at 5.2 % of GDP. A stabilization policy that relies to a considerable extent on self-commitment earns high marks.

The foreign debts accumulated by the military regimes were first contained and then increasingly regulated, occasionally in tie-in deals linked to the war on drugs. A major advance was Bolivia's acceptance into the Heavily Indebted Poor Countries Initiative (HIPC I) sponsored by the World Bank and IMF in 1997–1998. The program enabled Bolivia to reduce its foreign debt by some \$760 million (about 13 % of the public foreign debt) to 225 % of export earnings. The HIPC II program added in 1999 aims to reduce this by another \$1.3 billion (30 % of the foreign debt) to 150 % of export earnings. At the same time, these programs call for parallel measures to reduce poverty, sponsored by bilateral donors according to the provisions of a coordinated Poverty Reduction Strategy Paper (PRSP). In 2001 Bolivia's foreign debt amounted to 219 % of exports and its debt service ratio was 35 % of exports.

### **3.2.4 Private property**

Bolivia mostly offers the conditions for a functioning private sector. Property rights and the acquisition of property are adequately defined for a great part of the economy. State companies have been privatized further during the study period. However, there are also important exceptions, for property rights and the acquisition of property are not adequately defined in all cases, or they are fiercely disputed. In the rural areas there are substantial problems.

Peasants without land – like in Brazil there exists a Movement of landless peasants – threaten owners that have legal property rights with invasions and occupations in the Eastern tropical lowlands. Given the fact that the agrarian reform in the Highlands and the Andean Valleys has come to a standstill, the pressure for access to land concentrates in the tropical lowlands. Moreover, the new indigenous parties and movements demand the abolition of transnational property and that privatized companies will again be transferred into state property. In the struggle against expanding timber companies, the organizations of indigenous peoples of the

lowlands and in the Chaco claim both territorial control rights and the control over the natural resources.

### **3.2.5 Welfare regime**

Social safety nets are fragmented and unequally distributed. Bolivia faced two challenges: first, to modify the comprehensive state social benefits introduced by the MNR regime, especially in the mining and municipal business sectors, that had increasingly melted away since the 1970s; and second, to provide basic security to the vast number of people not yet included in the social safety nets. So far, the second goal has largely taken a back seat to the first, and overall progress has remained very limited.

Indeed, for many Bolivians, the drastic steps toward neo-liberalism since the mid-1980s at first made the situation worse. Similarly, the privatization of pension plans initiated under Paz Zamora and completed under Sánchez de Lozada in 1997, a project closely linked to the second wave of “capitalization” of state energy and transportation companies, relieved the state coffers by introducing a new private system for capital coverage. But it did more to advance the interests of strategic investors and the capital market than to improve the lot of pension recipients; it even worsened the situation of women and of certain other groups. In the 1980s, pension plans covered only about 12 % of the gainfully employed population, and this extremely low figure has not changed.

Welfare expenditures amount to 15 % of GDP. The urban unemployment rate, once high, has declined since the mid-1990s; in 1998, at 6.1 %, it was one of the lowest in Latin America, and since then it has hovered at around 8 %. Granted, the particular structure of Bolivian cities is a contributing factor. However, the figure does not take into account the growing informal sector (the second-largest in Latin America), where about half of those employed may now work, with purportedly more than half a million in the drug economy alone. The poverty rate is now 63 %, in rural areas 80 %. The internationally sponsored programs under the HIPC I debt cancellation program, and the PRSP and National Dialogue anti-poverty strategies aim to reduce the poverty rate to 42 % in 2015. However, with an annual population increase of 2 %, this would require economic growth of around 6 %, which is a long way off for Bolivia.

### 3.2.6 Strength of the economy

The Bolivian economy is still very weak, and Bolivia still ranks among the heavily indebted poor countries. However, the stagnant growth of the 1980s had given way to an upturn by 1998. On average, annual economic growth during the 1990s was 4 %. Bolivia has still not fully recovered from the dramatic slump of 1999 caused by worsening terms of trade, the repercussions of the Asian and Brazilian crises, the crackdown on smuggling and the losses from the radical coca eradication program inflicted under pressure from the United States. The annual growth rate sank to 0.3 % and has stayed between 1 and 2 % in the past three years. Other macroeconomic indicators show a similar course.

Many privatization initiatives fizzled out and did not become the motor for new growth. Particular disenchantment has set in regarding plans to diversify industrial production and to shift the core of the economy eastward toward Santa Cruz, near the Brazilian border. Efforts to trim down the government have stalled. However, the international credit ratings for 2000 (Moody's: B1, Standard & Poor's: B+) reflect confidence in the concerted plans for debt restructuring and investment.

### 3.2.7 Sustainability

Ecological concerns receive little attention in economic and business planning, lack effective institutional anchoring and, except within scattered niches, take a back seat to the goals of growth and stability. Bolivia's infrastructure needs significant development, starting with road construction. Bolivia has public and private institutions for education, training, and research and development, but these vary widely, and definitely fall short in research and development. They are unevenly distributed throughout the country and essentially concentrated in the large population centers. According to UNDP data, public expenditures for education in 1995–1997 amounted to 4.9 % of GDP.

## 4. Trend

(1) *Democracy*: In Bolivia democracy is institutionally further advanced than the market economy. Bolivia had already set out to stabilize democracy and remedy its deficiencies through appropriate reforms before the period under study. It held to its course under the government Banzer/Quiroga, implemented a raft of new measures and intensified its efforts in certain areas, such as the development of *justicia comunitaria*. In particular, rule-of-law guarantees were improved; local administrative authorities were trained and put to work, often in conflict with the central government; and initiatives to improve participation and to coordinate autonomous administration, as well as to promote the National Dialogue, were pushed forward in individual projects and regions. Examples include programs

implemented by the *Defensoría* and measures to combat poverty; by promoting inclusion, these helped to alleviate the problems of state identity.

Stateness, political participation and the rule of law have definitely improved in certain areas. As a result, democratic shortcomings have been reduced. However, the recent developments with growing unrest and disenchantment of the poor population with the performance of the economy put serious strains on the political system and question this feature of political stability.

(2) *Market economy*: In the economic and social arenas, the major changes in course took place before the period under study. The reforms already begun continued during the Banzer/Quiroga administration, although some trendy but ill-chosen programs, for example, the privatized pension plans, became entrenched. However, the HIPC debt relief programs have released considerable resources, although these were not optimally redirected into the anti-poverty campaign. The HDI and other indicators of modernization show a slight improvement in Bolivia's level of development during recent years. Nevertheless, because of its limited performance the market economy does not provide any more a legitimate foundation to the democratic system. Increasing inequalities, unemployment leading mainly to the growth of informal economy, and poverty are eroding democratic stability.

The institutional conditions for market-economy action were broadly established before the period under study and have not substantially changed. On the other hand, the definite growth slump of 1999 slowed the pace of quantitative and qualitative economic improvement.

The HIPC debt relief programs may have contributed to the upturn since 2000, which also brought a relative improvement in the current account balance. It is doubtful, however, whether continuing and intensifying these programs will yield a truly significant leap forward in development unless additional structural, economic and institutional incentives for growth are provided.

**Table: Development of socioeconomic indicators of modernization**

	HDI	GDI	GDP Index	UN Education Index	Political representation of women <sup>a</sup>	GDP per capita (\$, PPP)
1998	0.643	0.631	0.52	0.80	10.2	2,269
2000	0.653	0.645	0.53	0.80	18.0 (2002)	2,424

<sup>a</sup> Percentage of women delegates in Parliament. Sources: UNDP, Human Development Report, 2000, 2002

**Table: Development of macroeconomic fundamentals (1998–2002)**

	1998	1999	2000	2001	2002
Growth of GDP in %	5.0	0.3	2.3	1.3	2.0
Export growth in %	- 5.4	- 4.8	15.5	5.9	n/a.
Import growth in %	7.1	- 11.5	- 2.6	0.6	n/a.
Inflation in % (CPI)	7.7	2.1	4.6	1.6	2.8
Unemployment in %	6.1	8.0	7.5	8.5	8.0
Budget deficit in % of GDP	-4.1	-3.9	-4.5	-7.0	-5.2
Current account balance, \$ million	- 675	- 556	- 447	- 292	- 415

Sources: CEPAL (2003): Balance preliminar 2002; IMF: Country Report 03/73; Dresdner Bank Lateinamerika: Perspektiven 3/2003; Centro de Economía Internacional, <http://cei.mrecic.gov.ar/anexos/internac/xls/cuadro10.xls> (19.02.2003); [http://www.bancoldex.com.co/pdf/reporte\\_bolivia\\_agosto\\_02.pdf](http://www.bancoldex.com.co/pdf/reporte_bolivia_agosto_02.pdf) (19.02.2003)

## 5. Transformation management

### 5.1 Level of difficulty

The overall level of difficulty for Bolivia's transformation to democracy and a market economy remains high. Measured against the starting points, enormous progress has been made during two decades of transformation, mostly before the period evaluated in this assessment. Despite that progress, recent years presented their share of obstacles. The economy's level of development and its structures for further development remain comparatively weak. Bolivia ranks among the middle-income countries. Its UN Education Index is 0.80. Its society and (to a lesser extent) its political elite are fragmented into various ethnic communities, each interlinked in varying degrees with structures and actors in the urban centers.

Major income disparities engender frequent and severe social conflicts. Civil society traditions are relatively weak when it comes to what might be called a national civil

society, but strong and vibrant as expressions of local, provincial, ethnic or social community allegiances. Efforts to tap these resources and redirect their energy into modern social channels have brought some success; new, more inclusive local structures have been forged, and various National Dialogues have sought consensus (for example, in drafting poverty reduction strategies and in implementing *Participación Popular*). Considerable shortcomings remain in institutional stability and the rule of law.

## 5.2 Reliable pursuit of goals

Like the big decisions of the 1980s that turned Bolivia toward democracy and a liberalized market economy, the central strategic reforms undertaken in the 1990s have been pursued, for the most part consistently and purposefully, by succeeding administrations. This applies especially to the major package of institutional reforms launched between 1992 and 1997 and carried forward by the Banzer/Quiroga government. Those reforms, which aroused high expectations, included an overhaul of the constitution, the judiciary and the educational system, along with agrarian and local government reforms, laws implementing decentralization and “capitalization” and a law promoting participation by the citizenry (*Participación Popular*). The primary advances during the period under study came in the form of improvements to the tax code and, in the context of concerted HIPC programs, far-ranging and focused discussions of strategies to reduce poverty (PRSP).

Until the failure of Sánchez de Lozada, the reform policies were more or less resolutely pursued. They were relatively consistent and coherent, though often insufficiently realistic in its estimation of limits, resistance and obstacles. Up to the crisis, the government policy provided a basic foundation for confidence in its future course, though this remained susceptible to restrictions, pauses and detours in reaction to protests and disturbances within the country or pressure from without.

## 5.3 Effective use of resources

On the whole, Bolivia could have made even better and stronger use of available economic, cultural and human resources. Found wanting, in addition to good and efficient governance, are more concerted efforts to win over and integrate the sector, regional and local interest groups and communities that were strengthened in the past five years in various contexts. Available financial, organizational and personnel resources were used differently from one sector to another, but in any case with limited efficiency.

Individual projects often failed to meet their planned targets, in part because of administrative inefficiency. The decentralization program transferred important responsibilities for health and education to the newly created cantons, which were

often dominated by opposition movements. This program, as well as the attendant local reforms, suffered from a shortage of professional administrators, a lack of control over expenditures, corruption, and institutional instability. La Paz, for example, went through 14 mayors in 12 years, and each installed new administrative staff.

The government's provision of public services could be better—in areas such as social security privatization has even made things worse—but it is adequate to support advances in development. Corruption has been curbed somewhat by institutional reforms, greater transparency and participation, but it is still widespread in many sectors and regions. Progress has also been made in incorporating certain existing ethnic or political cultural legacies into the reform strategies and reform dialogue; these have contributed to the *justicia comunitaria*, for example, and to dialogue forums that included the relevant movements and NGOs.

#### **5.4 Governance capability**

The political leaders managing Bolivia's transformation since the 1990s have proved less able to learn from events than those who initiated the transformation in the 1980s. Particularly the Banzer government—whose mandate to continue the reforms had plenty of support not only from the majority of the political class but also from the opposition, represented by Banzer's eventual successor Sánchez de Lozada (MNR)—tended to repeat its mistakes without learning the appropriate lessons. This applies both to the allocation of resources and to misjudgment of the scope for action and the social and political costs of a particular policy.

This was manifested most clearly in two areas. First, one government after another gave priority to economic deregulation and the opening of the market rather than social policy reforms, sought the needed consensus only within the narrow circle of the established political class, and accepted the continued exclusion of those who represented the majority of the population. This approach magnified the potential for protest and further polarized the country's social and political forces, setting in motion a cycle of violent clashes and government repression and lessening the effect of the dialogue programs and integration strategies.

Second, in the issue of reducing coca cultivation, Bolivia's leaders too often yielded to the United States' categorical and extreme but economically, socially and culturally insensitive demands. This was instead of pursuing a more differentiated strategy using regional compensation programs to destroy excess coca and stop illegal cultivation. As a result, the indisputable successes that the coca eradication programs have chalked up in Bolivia in contrast to Colombia (some 125,000 acres taken out of cultivation) must be weighed against the accumulated economic, social and political costs. Riots erupted, especially in the province of Chapare. Another result was the success of the coca farmers' movement in the local elections of 2000

and the good showing of Evo Morales, its spokesman, in the 2002 presidential election.

Because in particular the latter result threatened to restore Bolivia's reputation for instability, all the established politicians intensified their efforts at damage control. In addition to the hard-won agreement to elect the MNR candidate, these included costly social policy investment programs (about \$1 billion) and disbanding the special military units in Chapare.

### **5.5 Consensus-building**

Bolivia owed its unexpected institutional stability until the government of Sánchez de Lozada and its advances toward democracy and an improved market economy primarily to the strong, enduring and resilient consensus among the three central transformation parties (MNR, MIR, ADN), a consensus that came to include the larger and more important of the regional *caudillo*-oriented parties. This pattern of elite consensus, however, which implied the political exclusion of large parts of the population, broke down with the crisis in 2003 and was replaced by a climate of polarization. There are no anti-democratic veto powers on the national political level. The mass movements of the "excluded" also fundamentally support democracy, albeit in a more direct form, and a more just market economy. However, they are able to block central political projects.

With few exceptions, the problem of reconciliation in Bolivian society does not rest between the perpetrators and the victims of the military dictatorship. Rather, it centers on the demand for structural integration of the excluded indigenous communities as well as other socially disadvantaged and marginalized citizens into established institutional politics. This is not even a problem of principle; in a form of social capital both significant and rare, virtually all Bolivians share the ethnically inclusive and socially integrative consensus behind the 1952 revolution.

Rather, it is a problem of implementation. Time and again, the new dialogs and forms of cooperation to curb traditional social and political conflicts between the "ins" and the "outs" and to develop and expand solidarity have been undercut when ill-advised political measures on other fronts (cost-cutting measures, tax increases, layoffs, coca eradication, repressive reactions by the state and so on) fanned the flames of conflict. This mechanism was manifested yet again in the bloody riots of February and October 2003. The all-Bolivian social consensus remains very fragile and is near faltering.

### **5.6 International cooperation**

Another factor behind the dilemma outlined above was the Bolivian government's deliberate and habitual effort to present itself to international partners as exemplary and unfailingly reliable. Every protagonist in Bolivia's transformation since 1985 has followed this pattern—none more so than the Banzer/Quiroga government. It deliberately targeted international aid to support its reform priorities (especially capitalization, debt relief and poverty reduction), presenting itself as a predictable partner and earning that reputation in the international setting, as its credit ratings attest. It also actively and successfully sought to develop and deepen numerous international cooperation relationships and was prepared to accept significant social and political costs within the country in return.

## 6. Overall evaluation

This report arrives at the following conclusions:

*(1) Starting conditions:* The transformations in the direction of democracy and a reformed market economy in Bolivia took parallel courses. Because the reform and modernization of the market economy had begun during the dictatorship, the main task until the mid-1980s was to restore and stabilize democracy, achieving an illiberal democracy with defects primarily in the rule of law and certain limitations to state identity. These shortcomings were in part greatly reduced, especially by the continuous reforms of the 1990s, but they still exist. Even consolidated sectors, such as the electoral system, had seen qualitative improvement.

Likewise, the modernization of the market economy is still proceeding. On the whole, the conditions for the democratic transformation were very unfavorable, but they had clearly improved by the beginning of the period under study. Democracy had been institutionally stabilized; the most important underpinnings of the rule of law were in place; initiatives to reduce the problems of stateness and to channel the fragmented energies of civil society were in evidence. Economic reform likewise had begun under adverse international and domestic conditions, but it too had made steady progress since the mid-1980s.

*(2) Current status and evolution:* In both areas of transformation, the advances during the period under study, although not especially far-reaching, were nonetheless considerable in a number of sectors. In the political arena, institutional stability was maintained until 2002 even when more seriously threatened by the electoral successes of radical protest movements (2000, 2002); two presidential turnovers went smoothly. Continuity and progress can also be noted in the implementation of reforms to improve and expand the rule of law and participation.

However, the Banzer government's efforts to achieve a broader basis of political inclusion and social integration were fairly modest, their successes limited. Traditional strategies of repression were applied more often, in some cases under

pressure from the United States. In the economic arena, stability was soon restored after the considerable growth slump of 1999. There were no significant leaps forward in development, apart from the positive results of the debt relief programs, which hold potential for an improved anti-poverty campaign with more intensive international cooperation. The plans for tax reform advanced only slowly.

(3) *Management*: The management of Bolivia's transformation to democracy and a market economy was more or less successful before the period under study, but it showed some weaknesses under the Banzer administration. It rested on broad consensus and close cooperation among the political elite at the national level. Its limits were lying in the not always adequate commitment to pursuing inclusion and integration as a top priority, and the risky willingness to accept setbacks in this area to achieve other goals more quickly.

The level of difficulty of the Bolivian transformation remains high, and has even increased somewhat because of the economic slump of 1999 and the mounting conflicts since 2000, but there has been little change in the purposefulness of the reform elite. Some resources were used more effectively than before the period under study, others less effectively. The organizational capability of the government under Banzer was on the whole more limited than that of its predecessors, but it improved after Quiroga became president in 2001, and then in reaction to the electoral successes of the opposition protest movements in 2002. These successes also reinforced the elite's willingness to form a broader consensus. The following developments, however, were soon marked by the growing social and political polarization. International cooperation clearly increased under Banzer and Quiroga.

## **7. Outlook**

Bolivia's transition to democracy under the rule of law and to a more efficient market economy is not yet complete, but it has advanced and is still underway, though under the new president Mesa there are still no clear political lines to be seen. Major successes are countered by definite deficiencies and weaknesses; the political elite recognized these and were taking steps to address them.

The reform process was increasingly gaining external support, particularly in the form of comprehensive debt relief, favorable credit conditions and assistance programs. In part, Bolivia has earned this aid through its cautious approach to social and infrastructure reform and by taking in stride an upsurge of social and political conflict that further retards the none-too-dynamic process of expanding political inclusion and social integration. This process must continue; otherwise, the successes that transformation has already achieved will be in fundamental jeopardy.

Given this constellation of circumstances, the politics of reform in Bolivia requires all its participants to engage in a balancing act. The challenge is still to adjust the

pace and scope of economic liberalization and modernization and of sociopolitical reconstruction, including steps taken in the war on drugs, so as not to engender disappointment, protest and resistance in such dimensions that (together with correspondingly repressive reactions from the state) they could destroy completely institutional stability and the political consensus for reform. Further progress in reforming the state, the administrative system and the judiciary can make crucial contributions. Especially the continuation of the national and regional dialog programs, the intensification of poverty reduction programs, increased investments in education and training, and the growing institutional integration of ethnic and social grass-roots organizations can also make crucial contributions.