

# BTI 2008 | Bolivia Country Report

<b>Status Index</b>	1-10	<b>5.75</b>	# 64 of 125	
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

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## Key Indicators

Population	mn.	9.2	HDI	0.69	GDP p.c.	\$	2,508
Pop. growth <sup>1</sup>	% p.a.	1.9	HDI rank of 177	115	Gini Index		60.1
Life expectancy	years	65	UN Education Index	0.87	Poverty <sup>3</sup>	%	42.2
Urban population	%	64.2	Gender equality <sup>2</sup>	0.50	Aid per capita	\$	63.5

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

During the review period, Bolivia has changed the trajectory of its political and economic transformation. It has, however, remained a defective – illiberal and also delegative – democracy with clear deficits in stateness, the separation of powers and the rule of law. The structural limitations posed by Bolivia’s fragmented and poorly integrated society, geographic and ethnic heterogeneity, and its economic and social problems, particularly extreme poverty, exclusion, informality and dependency have frustrated efforts to combat these deficiencies. In addition, regional disparities have recently become highly politicized, particularly between the traditional and poor Altiplano (highland) region, the coca-producing regions near Cochabamba and the modern, export-oriented eastern and southern departments of Santa Cruz and Tarija, which are rich in natural gas resources and successful in commercial agriculture. Since early 2005, the regions have made continuous demands on the government to undergo further decentralization and thus grant the regions greater autonomy. These demands have culminated in a series of violent secessionist conflicts, particularly in Santa Cruz and Tarija.

Thanks to parliamentary pacts among Bolivia’s political elite, the country experienced an unprecedented institutional stability from 1985 to 2003, which allowed liberal democracy and a market economy to gain footing. However, the mechanisms in place for expanding participation to the vast majority of the population were too weak. Since then, Bolivia’s corporatist model of “controlled inclusion” from above has repeatedly failed to work and has broken down under continuous waves of violent protests, strikes, blockades and civil unrest organized by various social protest movements mobilized along (often) ethnic lines. Having increasingly destabilized Bolivia’s political institutions, they have brought down two presidents (Sánchez de Lozada in 2003 and Carlos Mesa in 2005), broken up the party system (2004 – 2005), and finally,

following the elections of December 2005, installed the strongest and most moderate of the protest groups, Evo Morales' populist Movement Toward Socialism (MAS), in government with an absolute majority.

President Carlos Mesa managed the crisis with relative success for more than 18 months. But continuous violent unrest during the first six months of 2005 pushed the government to its limits in being able to guarantee the requisite minimum of political integration and made abundantly clear that the party system and the structures of political alliances were changing. When the leaders of the opposition, among them Evo Morales, refused to back the government after the municipal elections of December 2004, Mesa had little choice but to offer his resignation in early March 2005. At first refusing his resignation, Congress eventually accepted it in early June of that year.

During this six-month period, Congress addressed one of the three principal conflict issues (natural gas exports, regional autonomy and constitutional reform) by halting a number of pipeline construction projects and exports, and by passing the hydrocarbons law. Doing so raised state gas and oil sales revenues from 18% to 50% and lay the basis of Bolivia's relative economic and fiscal prosperity for the years to come. After resolving several constitutional and technical problems, general elections were finally set for 18 December 2005. Evo Morales (MAS) won an absolute majority of the vote with 53.7%, and, for the first time since 1985, MAS won the majority of seats in the lower house. His conservative opponent, former President Jorge Quiroga (the new PODEMOS) won only 28.6%, and the liberal and populist entrepreneur Samuel Doria Medina (UN) 7.8%. Moreover, the traditional parties nearly disappeared from parliament, and of the nine prefects – elected for the first time – MAS and PODEMOS won three each.

Morales' and MAS' electoral victory have substantially changed the course of Bolivian politics and policies. Since January 2006, the goals of securing democracy (in institutional terms), the rule of law and a market economy were no longer given categorical priority over the competing objectives of substantial economic and social reforms. These reforms are aligned with socialist, anti-liberal, anti-globalist, anti-imperialist and state-interventionist programs. Some, such as nationalizing mines and gas and oil reserves, establishing new contracts on royalties or taxes and land reform reflect in part the tradition of the national revolution of 1952. Other reforms, such as those that aim to build a new Bolivia by empowering indigenous communities, furthering decentralization and initiating constitutional reforms reflect a desire to create a more traditional, communitarian polis. While these new policies emphasize the mechanisms of participation, because of the government's preference for direct, unmediated democracy, they have further compromised institutional stability and compounded significant democratic deficits. The conflicts over legislation, administrative autonomy and the function and procedure of the Constituent Assembly (elected in July 2006 with MAS winning a simple majority) have so far led to institutional gridlock and done little to improve dialogue and consensus between the

different factions of Bolivian society. It is questionable whether the assembly will be able to finish its work during its one-year term. High levels of conflict, social unrest and regional protest in 2006 and early 2007 have remained as intense, violent and disruptive as in the preceding years. Once again, a Bolivian – albeit “alternative” – government appears to have failed to build the broad reformist coalition needed to tackle the country’s problems.

During the review period, Bolivia’s economic performance continued to improve, thanks to economic growth and a substantial increase in state revenues from natural gas exports, which have so far been cautiously spent. The government has continued education and anti-poverty programs and succeeded in reducing further its foreign debt. In addition, Bolivia benefited in 2006 from several bilateral assistance agreements with Venezuela. However, the government’s return to traditional interventionist policies of nationalization and state control over strategic sectors has not encouraged foreign investment. This turn away from the liberal market policies pursued in the past has affected the gas and oil sector in particular, for which the government unilaterally announced a moderate nationalization in 2006; the mining sector; and to a lesser degree new legislation for land reform. Investment has not decreased as much as one would think, however, as the government – despite its revolutionary rhetoric and erratic moves – has ultimately proved capable of compromise in negotiations on all of the above-mentioned issues and others, particularly when it met with domestic or foreign resistance. Most foreign companies have renegotiated their contracts in due time and are considering expansion (pending certain guarantees by the government), and the government, in most cases, has settled for an adequate mixed economic model instead of programmatic socialism. As of March 2007, it is too early to tell whether the Morales government’s return to greater state interventionism can be considered a temporary setback, or a more fundamental turnaround in economic policies like those witnessed in 1952 and 1985.

Bolivia’s structural problems have not changed much during the last years. Although most macroeconomic indicators have stabilized or improved, poverty, inequality and exclusion have not been reduced. Investment in technology and research and development is still much too low, and visible improvements in living standards have not been achieved for the majority of the population. Bolivians are still among the poorest in Latin America. The political leadership’s performance in governance has been mixed, showing a gradual decline in political management. Efforts to increase participation, inclusion and democratic legitimacy have been successful, as have attempts to increase flexibility and the capacity to learn. However, Morales’ left-wing populism and tendency to exploit conflicts has exacerbated political cleavages, undermining the scope of agreement on political goals and the government’s ability to coordinate. Steering capacity has thus suffered, as has international trust in the government.

## History and Characteristics of Transformation

Bolivia is one of Latin America's poorest countries, although it is one of the richest in mineral resources and has good soils for productive agriculture (particularly in the east and south). The disparities, however, between its geographically, ethnically and economically heterogeneous regions are enormous and have often led to strife and conflict. More than 500 indigenous communities in total have been counted in Bolivia, the largest being the Quechua, who make up 30% of the population, and the Aymara at 25%. About 30% of the population is mestizo (cholos). Though a historical asset, Bolivia's 1952 revolution of the Movimiento Nacionalista Revolucionario (MNR) – one of Latin America's few true revolutions in the 20th century – lies also at the root of another social problem: its legacy continues to manifest itself both in intense social or ethnic mobilization and protest, and in corporatist, tendentially exclusive elite agreements.

In an anti-imperialist, populist and “national-revolutionary” push, the MNR nationalized Bolivia's large mining companies that were dominated at the time by foreign capital, and it decreed agrarian reform. The MNR also introduced political and social reforms, including, above all, equal suffrage for all ethnic groups without literacy requirements, as well as state-interventionist policies directed at domestic development. The MNR regime, which remained civilian until 1964, and then a military regime until 1971, made significant progress in advancing participation, integration and social assistance, but it was unable to initiate steady economic growth and diversification. It also failed to reduce Bolivia's dependency on foreign capital and markets. Even under its two civilian presidents, Paz Estenssoro and Siles Zuazo, the MNR reflected a more traditional clientelistic and populist – rather than democratic – mode of government, and its policies were largely continued under the first three military rulers between 1964 and 1971.

General Banzer's bureaucratic-authoritarian regime (1971 – 1978) was less repressive than the military regimes of the Cono Sur, but its potential for modernizing the country and solving its many problems remained limited. After an interlude of attempted democratization, factious strife within the military and a more brutal (if short) traditional dictatorship in alliance with the cocaine mafia (García Meza 1980 – 1981), the transition from dictatorship to democracy began in 1982. Short and negotiated (1982 – 1985) the transition resulted in a restoration of the constitution and, for the first time in Bolivian history, a relatively long period of uninterrupted democratic institutional stability that lasted until President Sánchez de Lozada's forced resignation in October 2003 amidst severe popular protest, strikes and violence. Despite the civil unrest, succession was conducted in accordance with the constitution. A minimum of democratic legitimacy was thus preserved as Vice President Carlos Mesa came to

power – an outcome that would have been rather unlikely in pre-1985 Bolivia. Two years later in June 2005, once again amidst nationwide protests and riots, Bolivia's congress finally accepted Mesa's repeated wish to resign and set general elections (presidential, congressional and for the Departmental Prefects) for 18 December 2005.

The outcome of these elections has marked a significant threshold in the trajectory of Bolivia's transformation: it ended two decades of efforts to stabilize democracy through agreements made among the parliamentary elite and brought to power representatives of those who had been excluded. Evoking a populist tone, the latter called for a "new" set of policies and politics meant to be more participatory and reflective of indigenous populations. They also advocated greater state intervention, arousing memories of the 1952 revolution.

Bolivia's new democracy has so far remained defective, or rather, an illiberal and delegative democracy. There are severe shortcomings, particularly in terms of stateness and the rule of law. In addition, the government has failed to enhance inclusion and social integration in an ethnically fragmented country with a high level of poverty. An extraordinary revolutionary tradition that has embodied high levels of mobilization and participation sets high expectations among a population easily disappointed and frustrated.

Bolivian politics since 1985 have been characterized by a number of specific constellations and outcomes. In the first twenty years since then, continuous and explicit efforts have been made to overcome the defects of democracy, to stabilize its institutions and increase participation, and to make the market economy more effective. Progress, though limited, was made. Social and economic policies in particular have not been able to reduce poverty and inequality significantly.

Institutional stability, as well as political and economic reforms have, until 2003, been achieved largely through elite agreements between the traditional parliamentary parties. Though a great achievement against the background of Bolivian history, this mode of governance has had an exclusionary bias. Most of Bolivia's poor and many of its indigenous communities have felt excluded and marginalized, underscoring the fact that the post-revolutionary strategy of "controlled inclusion" has not worked. They have given voice to their growing demands for redress, immediate action and empowerment through protest, efficient mass mobilization in unions, peasant militias, local or regional civic action groups, youth gangs, strikes, and, at times, violence. Most of these examples are common means of mobilization that stem as much from rich ethnic traditions as the legacies of the revolution. Their movements have long suffered from personal rivalries and factionalism along ethnic, regional and social lines, such that they usually have only been able to obstruct rather than shape politics constructively, as was the case between 2002 and 2005. The 2005 victory of Evo Morales, the marginalized's most political and moderate leader, has clearly changed things, even if factionalism persists. Morales' victory has demonstrated that the

reformist strategy of stabilizing democracy through parliamentary elite agreements could not continue indefinitely as it left too many problems unsolved. By 2002, the government's ability to act had become so limited by structural constraints (poverty, deficits, economic downturn, unemployment, debts), its own weak performance (inefficiency, corruption, unresponsiveness, exclusion) and foreign influence (IMF, banks and corporations, U.S. drug control and eradication policies), that it could no longer build viable and effective reformist coalitions. The government was often caught between the interests of the political elites and the social movements, and between the various factions of the business community (domestic and foreign, legal and illegal) and external actors like the United States and the international financial institutions. It was within this context that Evo Morales' populist agenda advocating a return to anti-oligarchic (anti-liberal), anti-imperialist (anti-United States), jingoistic (anti-Chile) and state-interventionist policies found support, leading to his electoral victory in 2005.

Greater disparities have emerged as well between the more traditional and poor areas of the Altiplano (highland) region, the recently impoverished coca production enclaves near Cochabamba, and the more modern and export-oriented regions of the media luna (half moon) in the east and south, particularly Santa Cruz and Tarija. As boom towns, rich in natural gas resources and successful in commercial agriculture, these two are drawing vast numbers of internal migrants in search of economic improvement. Since early 2005, demands for decentralization and greater regional autonomy have been on the rise. A series of calls to secede have culminated in (revolutionary) "cabildos abiertos" in the departments of Santa Cruz, Tarija, Beni and Pando. Six out of nine departments, including La Paz and Cochabamba, announced in November and December 2006 their intent of "breaking ties" with the Morales government.

Bolivia's transformation so far has been marked by three subsequent processes. The first, beginning in 1985, produced stable democratic institutions and a liberalized market economy. The second, which began in the 1990s, built and extended the institutions guaranteeing the rule of law, improved the quality of democracy and began to increase the channels of participation. The third process was triggered by the various social protests and riots from 2000 – 2002 on, which produced a situation of limited destabilization reaching its first peak with the ousting of Sánchez de Lozada in October 2003. Since then, destabilization continued, though the Mesa government contained it through a number of short-term, muddling through strategies. The electoral victory of Morales and the MAS in December 2005 changed the course substantially at last: since January 2006, the goals of securing democracy (in institutional terms), the rule of law and the market economy were no longer given categorical priority over competing objectives of substantial economic and social reforms. These reforms, along the lines of "socialist," anti-globalist, anti-imperialist and state-interventionist programs, follow in part the tradition of the 1952 revolution (e.g., nationalization of the mines and of the gas and oil reserves, new contracts on royalties and taxes, or land reform), but reflect in

part an attempt to enhance indigenous communities' participation (e.g., indigenous empowerment, decentralization and drastic constitutional reform to build a "new" Bolivia). Democratization in Bolivia has thus triggered mobilization and participation, which precipitated first a contained institutional destabilization, then an alternative strategy to create new institutions. Conflict and social unrest, however, have not been diminished, although extreme violence has so far been contained. By autumn and winter 2006 – 2007 thousands of miners, coca growers, farmers, teachers and many others, not to mention the elites of six departments were up in arms once again, or at least in the streets or on barricades, protesting against the Morales government. The president even sent troops in to contain riots held by the coca growers unions, over which he still presides.

## Transformation Status

### I. Democracy

Since 1985 Bolivia has been a defective – illiberal and also delegative – democracy with clear deficits in stateness, the separation of powers and the rule of law. The structural limitations posed by Bolivia's fragmented and poorly integrated society, geographic and ethnic heterogeneity and economic and social problems, particularly extreme poverty, exclusion, informality and dependency have frustrated efforts to combat these deficiencies. By 2002, significant progress had been achieved in stabilizing the country's democratic institutions through parliamentary pacts, in designing the basic mechanisms of rule of law and judicial review (the implementation of which has, however, often been flawed), and in laying the institutional foundation for decentralization and municipal autonomy. However, attempts at improving dialogue between the traditional political elites and the mobilized social movements (which represent the majority of the excluded) and at expanding representation and participation from above (the liberal variant of "controlled inclusion") have not worked. Instead, the mobilizational capacities and empowerment strategies of the various ethnic and social protest movements have, since 2002, destabilized the institutions, brought down two presidents (2003 and 2005) and broken up the party system (2004 – 2005). When in December 2005 the voters finally gave an absolute majority to the strongest faction of these movements, thus installing left-wing populist Evo Morales and his MAS party in government, the course of Bolivia's democratic transformation changed significantly. Participation, mobilization, inclusion and the demands of "socialist," anti-imperialist and state-interventionist programs now took priority over parliamentary pacts, institutional stability and the rule of law. These programs partly followed the tradition of the revolution of 1952, and partly aspired at building a "new," more indigenous and more "communitarian" Bolivia; most of their first implementations in 2006 either faced gridlock (as in the Constituent Assembly) or ended in compromise (nationalization of gas and oil and land reform). Conflict, social unrest and regional protest have remained as intense, violent and disruptive as in the years before. So far the alternative strategies of integration have also failed; polarization and fragmentation have continued, if not increased.

## 1 | Stateness

Bolivia has a number of stateness problems. The state's monopoly on the use of force does not always extend to every corner of the country. Particularly in the judicial system, we find inefficiency and corruption. The loyalty of the civil service and of the police is often questionable. In some remote provinces, we find parallel power structures of local landowners and narcotics traffickers. A more recent phenomenon is violently articulated demands for regional autonomy. In January 2005, the assembly of Santa Cruz businessmen (Comité Cívico) declared independence for a few days, triggering the resignation of the governor and the minister for "popular participation." In April 2006, a neighborhood committee kidnapped three cabinet members in Puerto Suárez, and in November and December the prefects of six departments "broke ties" with the government. The departments of Santa Cruz, Tarija, Beni and Pando organized insurgent "cabildos abiertos," requesting "complete administrative autonomy."

Monopoly on the use of force

There is fundamental agreement about who qualifies as a citizen. Since 1952, all citizens have the same rights, even if many may be de facto excluded from making use of them. However, many ethnic groups identify primarily with their own community and consider that allegiance more important than their Bolivian citizenship. Due to the more accentuated regional disparities and discrepancies in wealth and chances, some of the more developed (Santa Cruz, Tarija) or developing (Beni, Pando) regions also have recently voiced demands for more autonomy or federal structures, and eventually articulated separatist tendencies.

State identity

Church and state are separated, and religious dogmas have no noteworthy influence on politics or the law. Some of the traditional conflicts between religious and non-religious education have re-emerged; in such cases, the government tries to mediate.

No interference of religious dogmas

There are functional administrative structures in Bolivia. Although the state's physical infrastructure extends throughout the entire territory, its practical administrative reach is not complete.

Basic administration

## 2 | Political Participation

The rulers are determined by general, free and fair elections without restrictions. There is universal suffrage and the right to campaign for elective office. Elections are, on the whole, conducted properly, and their outcome has been made even more representative. The electoral reforms of 1996, which established that half of the members of parliament are to be elected in territorial constituencies, improved representation for the highly populated regions (traditionally under-represented)

Free and fair elections

and hence also increased fragmentation, although still along (increasingly regional) party lines. Continued voter registration efforts since the mid-1990s have significantly enhanced a factual universality of suffrage (especially in rural areas). Reforms in 2004 have broken the monopoly of parties in the municipal elections (and since December 2005 also in the elections of the departmental prefects) and introduced candidacies of civic groups (Agrupaciones Ciudadanas, AC) and indigenous peoples (Pueblos Indígenas, PI), which turned out to be highly successful. In 2005, some overdue (though minimal) redistricting has been achieved. Combined with the emergence of a viable political alternative to the “old” elites (i.e., MAS) these measures have contributed to the fact that the number of ballots cast in the 2005 elections surpassed those of 1997 by one third.

Elected rulers in principle have the effective power to govern. There are no nationwide veto powers or political enclaves in the hands of the military or other groups. But, in certain cases, regional bosses or mafia can limit the government’s power to govern, as can insurgent mass protest and violent riots.

Effective power to govern

The freedoms of assembly and association, of opinion and of the press are not limited in principle. When faced with intense mass protests, however, all post-authoritarian governments have tended to utilize the traditional instrument of declaring a state of emergency to suspend temporarily political liberties and the guarantees of the rule of law, and thus send in the military. This tactic has enabled the government to outlaw the activities of political organizations, unions and other groups and to send political opponents to jail for some time.

Association / assembly rights

The media are mostly private and pluralistic; their number (42 private TV and 825 radio stations) has gone up substantially since 2000. Journalists covering corruption stories are occasionally intimidated or attacked. In May 2006, President Morales attacked “the media,” among others, in one of his populist diatribes against various intermediary organizations and institutions.

Freedom of expression

### 3 | Rule of Law

Separation of powers had improved by 2005, but remains restricted. Checks and balances are not fully in place, nor could this be expected to be the case in a presidential system with a structurally weak and increasingly fragmented parliament, which until 2005 only could show its muscle when electing the president in a run-off. Bolivia’s “parliamentary presidentialism” between 1985 and 2005 has, in fact, given the parliament more weight than before, but within limits. With few exceptions, the government has not been subject to rigid parliamentary control, nor to an effective control by the judiciary. The absolute majority of Morales and the MAS in the 2005 presidential and parliamentary elections has further weakened parliament’s leverage. The anti-intermediary and

Separation of powers

anti-representative effect of the government's populist concept of "direct" democracy (governed by "plenipotentiary" assemblies) has contributed to this weakness, as the conflicts over the power and functions of the Constituent Assembly have shown. During his 2006 campaign, President Morales frequently accused the judiciary and other independent institutions of inefficiency, "corruption," bureaucratic insolence, etc., showing his disregard for some of the constitutional institutions. Five of the Supreme Court's twelve judges resigned shortly thereafter.

The judiciary has become more independent and institutionally differentiated since the judicial reforms of the mid-1990s. This refers particularly to the reforms of the penal code and the code of criminal procedure, the reorganization of internal administrative controls to protect citizens' rights (in the absence of systematic administrative control by the judiciary), the establishment of a Constitutional Court and of the office of the ombudsman (Defensor del Pueblo). Since 2000, particular efforts have also been directed toward developing an alternative *justicia comunitaria* with elements from the traditions of the various indigenous communities. Nevertheless, the judiciary continues to be the weakest branch of the Bolivian government. Political patronage is persistent in the judiciary as well as the state bureaucracy, which is still under-professionalized, and lacks a merit system and open competition. Thus, the executive branch and the parties continue to control the judiciary council (Consejo de la Judicatura) and the appointments of public prosecutors and judges. So far, the Morales government, instead of continuing reform, has exploited even further the problems presented by the judiciary for populist campaigning purposes.

Independent  
judiciary

Corrupt officeholders are not yet prosecuted adequately or systematically, although they have been increasingly exposed to scandals by the media, which have become more sensitive to these issues. The decision of Congress in October 2004 (126:21) to prosecute former president Sánchez de Lozada (implemented in February 2005) was a political decision. President Morales in 2006 has often launched selective anti-corruption campaigns along the lines of populist rhetoric (even against members of his own party), but has not tried to reform the lack of transparency and the patronage structures behind the scandals.

Prosecution of  
office abuse

Civil liberties are guaranteed in principle and since the judicial reforms of the 1990s citizens can claim their rights in due institutional channels. However, civil rights are still violated temporarily and not implemented in some parts of the country. In contrast to the countries of the Cono Sur, Bolivia has not systematically addressed human rights violations by the previous authoritarian rulers, in part because they were comparatively less repressive than elsewhere and dramatic excesses were few, except for the brutalities of the regime under García Meza, who was in fact sent to jail for decades.

Civil rights

#### 4 | Stability of Democratic Institutions

The performance of the democratic institutions has been mixed; in essence they have remained stable and performed their functions despite increasing pressure since 2002 from social and regionalist movements. Protests in 2003 and 2005 forced two presidents to resign, but the transitions more or less followed the rules. Fair elections were held, (albeit after long debates over details), and in some cases the democratic potential of Bolivia's democratic procedures even increased, as evidenced by high electoral participation, redistricting and election of the prefects. Local protests, violent riots, strikes, road blockades and the autonomist energies of four departments have been, on the whole, contained so far. Political players who are disloyal or semi-loyal to democratic institutions, such as Felipe Quispe, the populist leader of the peasants' union and of Aymara ethnic radicalism, and other ethnic or local politicians, have not been allowed to play a major role. There have been some signs of progress and stabilization, even in the most turbulent months of the Mesa government in 2004 and 2005, thanks to democratic procedures and institutional decision-making. Examples of the latter include the referendum on natural gas use, municipal elections that produced an overall moderate majority and the hydrocarbons law in particular. Bolivia's key institutional problem since 1985 (and clearly visible since 2002), namely the lack of communication and intermediation between the elite world of the political pacts and the world of the excluded majority and their social movements, was finally resolved in December 2005 by democratic procedures within government institutions. By voting Morales and MAS, the strongest, most moderate and most "political" faction of these movements, into office with an absolute majority, the voters determined the general course of the near future, and at the same time tried to bind the new government to democratic institutions and procedures. Whether or not the populist government and other political actors (like regional prefects and majorities, union leaders or organized ethnic communities) will always accept these bonds still remains to be seen. Obvious signs of frictions and antagonisms have emerged, owing in part to the government's unmediated and "direct" concept of democracy and its disdain for intermediary agents and institutions, which have led to its campaigns against the judiciary and the media, and conflicts over the role and the rules of the Constituent Assembly. Other signs include, the insubordination, illegal actions and at times violent open rebellion of regional, social and ethnic elites and movements.

All relevant political actors accept democracy, but they usually have different concepts in mind. The existing institutions of representative democracy receive unconditional support from the traditional elites and their diminished parties now in the opposition, as well as some regional or ethnic parties and movements. The majority now in government wants a different type of democracy and for some

Performance of  
democratic  
institutions

Commitment to  
democratic  
institutions

“new” institutions to be framed by the Constituent Assembly. It also lacks respect for many procedural rules and institutions. The litmus test for them and for many of the regional movements aspiring to more autonomy will be whether or not they will be prepared to pursue the goal of institutional change within due process of constitutional reform.

## 5 | Political and Social Integration

Bolivia has an unstable party system characterized by high fragmentation, substantial polarization and high volatility due to the parties' limited anchoring in society – even if, in early 2007, the governing party MAS can be characterized as anchored in societal organizations, and the party system in the national parliament may appear only moderately fragmented. The stronger – and more moderate – traditional party system that had been in place since 1985 and was based on three relevant parties (MNR, ADN, MIR), began to falter and finally collapsed by 2005. In the national elections of 2002, ADN broke down almost completely, and two of the anti-elitist indigenous protest movements turned into parties were successful, obtaining 20.9% (MAS) and 6.1 % (MIP) respectively; in addition, the NFR of erratic regional caudillo Manfred Reyes also won 20.9% (a short-lived success). As a result, MAS, under the leadership of Evo Morales in its new role as a “responsible” major national actor became more cooperative and pragmatic, though somewhat intermittently. In the municipal elections of December 2004, the two remaining traditional parties (MNR and MIR) lost more than half of their 1999 voters and shrank to insignificance, receiving only 6.6% and 7% of the vote respectively. The NFR suffered catastrophic losses, even in its home region of Cochabamba. Only the MAS could consolidate itself as a national party with a total of 18.4%, though this percentage was lower than expected. The big winners, however, were the several recently enfranchised civic groups (AC, 341 in total) and indigenous peoples (PI, 63 in total). They were so popular that many local caudillos and mayors refused to run on their traditional party tickets and presented themselves successfully on AC or PI tickets. The political parties lost influence, a tendency partly continued in the elections of the prefects in 2005, but clearly reversed at the national level in the elections of the Constituent Assembly of 2006.

### Party system

In the national elections of December 2005, the voters finally ratified the MAS' leading role with an absolute majority of 53.7%. The MNR shrank to 6.5%, Quispe's MIP to (2.2%), and the NFR and the MIR disappeared; some of the latter's votes may have gone to Doria Medina's UN, the third largest force (7.8%). Quiroga's conservative coalition PODEMOS established itself decisively in second place (28.6%); though it may have attracted a substantial number of former ADN votes, it is nevertheless a new and much more complex entity. As

these results have been structurally corroborated by the outcome of the elections to the Constituent Assembly in 2006 (MAS 50.7%, PODEMOS 15.3%, UN 7.2%), it might be suggested that the crisis of the Bolivian party system may have led to a certain degree of restructuring and realignment, at least for the time being. However, whether or not this will prove correct depends on a number of issues, for example: the outcome of the Constituent Assembly; the future development of regional and ethnic cleavages; the intensity of nationalist mobilization; the date of the next national elections; Morales' presence and performance; the party affiliation of a number of local and regional caudillos, etc. Electoral volatility is still high in Bolivia.

During the period under review, Bolivia's close network of interest groups, particularly in capital and labor, agriculture and certain sectors and regions, has become more fragmented and split along ethnic lines. This is also true for the various organizations of coca growers and other peasants and small farmers. The strong associations of Santa Cruz and Tarija businessmen have weakened the national organization of industrialists (CEPB) and limited the influence of those of the Altiplano. Among the labor unions, the once-powerful Bolivian Workers' Central (COB), the miners' union and the peasant organizations (close to the MNR until 2004) have lost much of their leverage because of the economic downturn and poor leadership. Many of them have, however, recovered and renewed their mobilization potential during the agitations of 2005 and 2006, particularly the miners' union. The COB has regained political influence in the Morales government, open conflicts over issues such as the minimum wage notwithstanding. Vice President Alvaro García Linera, a long-time intellectual and ideologue of the labor movement, has close union ties, and the president himself has (in defiance of the constitution) insisted on continuing in his position as president of the union of the coca growers. The powerful neighborhood committees (Federación de Juntas Vecinales, FEJUVE), which are neither union nor party-related and whose president, Abel Mamami, has become an influential member of the government, have played a leading role in organizing the protests and blockades of the last five years, particularly in areas around La Paz and El Alto. The Quispe's Peasant Workers' Union (CSUTCB) and the CIDOB in the east remain influential, but have become highly politicized. Functioning and stable patterns of representation for mediation between society and the state exist in Bolivia either for the institutionally integrated groups at the national level (like teachers, state bureaucrats or students) or for most of the others at the regional level (where patterns of representation have also grown increasingly polarized along ethnic cleavages).

Consent to democracy in Bolivia in recent years has usually been moderate, and political protests occasionally tend to call the constitutional framework into question. Support for democracy, which had fallen since the mid-1990s according

Interest groups

Consent to democratic norms

to Latinobarómetro data (1996: 64%, 2001: 54%), has gone up again since 2004, and especially in 2006: 2004: 45%, 2005: 49%, 2006: 62%. The same is true, though to a lesser extent, for satisfaction with the way democracy is working in Bolivia (from about 20% in 2005 to about 40% in 2006). The authoritarian potential has not changed recently (17% in 1996 and 2001; 19% in 2005 and 2006) and lies below the Latin American average, but almost half of the respondents said in 2004 that they would accept a non-democratic government if it could solve the country's economic problems. Approval of democracy has a good chance of improving, but depends on the government's performance. This does not preclude dissatisfaction with the current government: President Morales' approval ratings in the course of 2006 have fallen significantly, from more than 80% to around 60%.

Social self-organization and social capital formation (with more than 13,000 registered organizations, among them 1,700 to 2,000 foreign and domestic NGOs) has considerable success in Bolivia, but is highly fragmented along sectoral, regional and ethnic lines. It is lacking on the national scale however, as coalitions and alliances remain mostly spontaneous, temporary and limited to protest (as in the various "wars" on water, gas or against taxes, increased prices, etc.); trust among the population and trust in institutions are low. Many ethnic groups such as the Quechua, Aymara and others display rich and institutionalized communal and communitarian traditions, which have also inspired the coca producers' fight (mostly in the Chapare near Cochabamba) against the U.S.-Bolivian coca eradication programs threatening their livelihood.

Associational  
activities

## II. Market Economy

With the 1985 reforms of the "New Economic Policy," Bolivia began to eradicate the state corporatist system of the post-revolutionary period, and it also began to structurally transform its economic order. From then until 2003, Bolivia pursued a liberal policy of deregulation, privatization, decentralization and modernization to induce stability, growth and a greater potential for development. During this period, most economic indicators improved, but the growth rates were not high enough to trigger a substantial reduction of poverty and inequality, nor to help overcome the structural obstacles to social development, particularly in terms of social exclusion, dependency on foreign markets for capital and raw materials, insufficient diversification and infrastructure, a narrow internal market, a weak entrepreneurial class and inefficient state management. Hence, a process of broad delegitimation of liberal economic policies set in which, since 2002 – 2003, under the pressures of violent popular protest, began to reverse the strategies followed for twenty years, widening from the focus on the deregulation of the

hydrocarbons and energy sector. In the elections of December 2005, Bolivians finally installed a government with an anti-liberal economic program that favored state interventionism, nationalization of key resources and state control in all strategic sectors of the economy. Over the course of 2006, the Morales government began implementing this program, though often at different speeds depending on the sector, and allowing for compromise, particularly when meeting domestic or foreign resistance.

## 6 | Level of Socioeconomic Development

Bolivia's level of development does not permit most of its citizens adequate freedom of choice. Social exclusion is quantitatively and qualitatively marked and structurally embedded. Almost two-thirds of the population, 62.7% (higher in rural areas) live below the poverty line, about 23% (according to some figures 30%) live in absolute poverty (less than \$1 a day). GDP per capita is the lowest in South America, infant mortality the second highest in all Latin America. Open urban unemployment has increased since the mid-1990s and is reported at around 10%, and more than 70% work in the informal economy. The crisis at the end of the century has made problems even worse: between 1998 and 2002, the statistical per capita income fell from \$990 to \$900. The standard development indicators lie below — sometimes considerably below — the average for Latin American states (HDI 0.692, GDI 0.687). The ratio of the richest to the poorest 10% is 168.1. Inequality has grown during the last years (Gini 60.1), and there are significant regional disparities.

Socioeconomic  
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	7,905	8,092	8,713	<b>9,334</b>
Growth of GDP	%	2.5	2.9	3.9	<b>4.1</b>
Inflation (CPI)	%	0.9	3.3	4.4	<b>5.4</b>
Unemployment	%	5.5	-	-	-
Foreign direct investment	% of GDP	8.6	2.4	0.8	<b>-3.0</b>
Export growth	%	5.7	12.5	16.4	<b>9.6</b>
Import growth	%	13.1	0.9	5.3	<b>13.5</b>
Current account balance	\$ mn.	-351.9	75.6	337.5	<b>498.4</b>
Public debt	\$ mn.	3,514.5	4,153.7	4,550.8	<b>4,564.0</b>

		2002	2003	2004	2005
External debt	\$ mn.	5,003.0	5,795.3	6,215.2	<b>6,390.3</b>
External debt service	% of GNI	6.2	5.6	6.2	<b>5.9</b>
Cash surplus or deficit	% of GDP	-8.7	-7.6	-5.4	<b>-3.8</b>
Tax Revenue	% of GDP	13.2	13	15.1	<b>16.6</b>
Government consumption	% of GDP	16.0	16.5	15.3	<b>14.3</b>
Public expnd. on edu.	% of GDP	6.2	6.4	-	-
Public expnd. on health	% of GDP	4.1	4.3	4.1	-
R&D expenditure	% of GDP	0.3	-	-	-
Military expenditure	% of GDP	2.1	2.2	2.0	<b>1.6</b>

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

## 7 | Organization of the Market and Competition

The fundamentals of market-based competition were better-secured in early 2005 than in 2007. This is because state intervention in and state control of strategic sectors has expanded, particularly since the hydrocarbons law was passed in May 2005, which raised the duties of the gas and oil companies from 18% to 50% and restored the traditional state agency YPFB in business as a major player. With the substantial change in political and economic priorities associated with the Morales government, the tendency toward traditional state interventionism has increased. This is particularly evident in the process of rewriting gas firms' contracts after "nationalization" between May and November 2006. Other examples include the return of several important water companies to the public sector and the initial legislation for land reform. The informal sector plays a major role. There are strong discrepancies between the more developed eastern and southern "half moon" and more traditional regions such as the Altiplano; that is, between an export-oriented, modern sector dominated by international companies, and a weak national industry. The internal market in rural areas is still underdeveloped.

Market-based competition

In principle, the formation of monopolies and oligopolies should be obstructed or fought, but the regulations are implemented rather inconsistently. Many new monopolies or oligopolies have been formed at the regional or sectoral level, such as in the media sector and in the process of privatization of social security. In addition, the return to stronger state interventionism since 2005 has favored state and parastate monopolistic tendencies.

Anti-monopoly policy

Foreign trade, which was deregulated after 1985 and liberalized and diversified throughout the 1990s, has been, since 2005, affected by the (announced and eventually, though erratically or incrementally, implemented) nationalization of gas and oil production and the return to state interventionist policies. These include raising royalties and taxes (for some companies temporarily up to 82%), expropriation of substantial parts of companies' shares (to be handed over to the YPFB) with contested compensation procedures, unilateral political decisions about pipeline construction, export quotas, gas prices and guaranteed limited capital returns. Even if these policies so far may not have reversed the direction of Bolivian trade liberalization, they have certainly slowed down the process of diversification of Bolivia's trade relations and caused a significant decline in private investment. In February 2007, most gas companies still appeared reluctant to consider even those investments already agreed upon (\$3.4 billion according to the government) and needed by Bolivia in order to cope with its long-term delivery obligations (e.g., to Argentina) before the government formulates its new investment regulations. There also are numerous differentiated tariffs and special rules or exemptions for individual sectors, countries or companies. The predominance of the state was also visible in the "Peoples' Trade Treaty" between Bolivia, Venezuela and Cuba of April 2006 which swapped 200,000 barrels of subsidized Venezuelan diesel fuel a month for 200,000 tons of Bolivian soybeans a year (besides securing Venezuelan funds for paying the Cuban doctors and teachers sent to Bolivia). By the end of 2006, however, most of the foreign companies and states, particularly the neighbors Brazil, Argentina and Chile as well as the United States, had accepted, in principle, the Bolivian terms (and the Bolivians often compromised over the numbers) so that the payments and prices could be set through negotiations. Even in the highly contested question of legalized coca production (an essential for the Morales government) the negotiators came to terms allowing a six-month renewal of Bolivia's participation in the programs under the U.S.-Andean Trade Promotion and Drug Eradication Act (ATPDEA) in December 2006.

Liberalization of  
foreign trade

The banking system and the capital market are differentiated, open and internationally oriented, but still subject to fluctuations due to a lack of supervision and high dependency on foreign markets. Most domestic banks have some degree of foreign participation.

Banking system

## 8 | Currency and Price Stability

The governments of the past two decades have pursued a consistent policy on inflation and an appropriate exchange rate policy. During the 1990s, the average annual inflation rate amounted to about 8%, and later went down to less than 1% in 2001. It has gone up since to just below 5% in the years from 2004 to 2006. The central bank has been formally independent since 1995.

Anti-inflation /  
forex policy

Since the late 1980s, Bolivian governments have committed themselves to fiscal and debt policies aimed at stability; they have even implemented hard austerity measures for some periods. But institutional safeguards are limited and have been subject to populist policy changes in the wake of violent mass protest. The budget deficit, which had gone up from around 4% of GDP in 2000 to 9% in 2002, has been reduced to about 6% in 2004 and 2.3% in 2005, mostly by cutting or postponing payments (including salaries), by international stand-by assistance and by increased revenues from natural gas exports. In 2006, due to tax revenues from the hydrocarbons law, the budget showed a surplus of about 5% of GDP. Most plans to significantly increase the tax income from non-extractive incomes, consumption or other sources have so far failed and led to more capital flight. Most of Bolivia's external debt of around \$6.1 billion (2004) is under control in close cooperation with the World Bank, the IMF, the Inter-American Development Bank and other financial institutions. According to estimates by the Economist Intelligence Unit, there will even be a substantial debt reduction in 2006 (\$4.4 billion), also due to Bolivia's better economic performance. In 2004, Bolivia's total debt service amounted to 12.6% of exports and 5.9% of GDP (as compared to 7.9% in 1990).

Macrostability

## 9 | Private Property

In principle, Bolivia offers the conditions for a functioning private sector. Property rights and the acquisition of property are adequately defined for most of the economy. However, there are exceptions and sectoral problems, particularly with regard to the extraction of natural resources and in some rural areas where property rights are disputed. Mobilized landless peasants, for example, periodically have threatened legal owners with invasions and occupations in the eastern tropical lowlands. The reforms of the Morales government of 2006 have brought the instrument of expropriation back into everyday politics: de facto, the gas and oil companies have been partially expropriated in the process of "nationalization" (meaning 51%), and land held illegally or "not fulfilling its economic and social function" has been expropriated under the renewed land reform legislation.

Property rights

Private companies can act freely in principle, but there are political limitations in a number of sectors. Traditional state companies, particularly in the mining and oil sectors and public utilities (most of them legacies of the revolution of 1952), were substantially privatized between 1985 and 2001, for reasons of principle and in order to increase the state revenue. Since 2002, however, this process has been first slowed down and then reversed, particularly in the fields of water supply, energy and natural resources, namely gas and oil, and since October 2006, mining. The July 2004 referendum cleared the way to repeal the liberal

Private  
enterprise

hydrocarbons law of 1996, re-allow nationalization, reconstitute the state oil and gas company YPFB and to ensure that 50% of the proceeds from gas sales were made available for social development. The first step towards implementation was the hydrocarbons law of 2005, which secured an additional 32% tax on gas and oil production in addition to the 18% royalties already in place. The Morales government in 2006 has spread nationalization to include all firms exploiting gas and oil, such as refineries and pipelines, obliging them to hand over 51% of their shares to the YPFB and to renegotiate their contracts and duties (which most of them did), and the various measures of land reform. Demands for renationalizing substantial parts of the mining sector have so far not been successful. On the contrary, in October 2006 thousands of state-employed miners of the Huanuni region staged a violent protest and a strike, asking for better payments, comparable to those of the privately employed miners. This unrest culminated in a march on La Paz of more than 20,000 members of mining cooperatives in February 2007 against higher taxes and new plans for nationalization (as it applied to certain cases, such as the Vinto tin smelter), which helped to further dilute the government's initiatives. In the struggle against expanding timber companies, indigenous peoples' organizations in the lowlands and the Chaco have claimed control rights over both the territory and its natural resources.

## 10 | Welfare Regime

Social safety nets are fragmented and not distributed equally. Bolivia first faced the task of modifying and modernizing the traditional system of social provision, particularly in the mines and in urban industry; second, coverage had to be extended to the great majority of people not yet included, most of them in rural areas. The first task has been easier to achieve than the second, in which progress has remained very limited. The low coverage rate of social security (around 12%) of the employed has not changed much since the 1980s. The privatization of social security, which started in 1997, has made the situation worse for many of the insured, who now receive less than before, particularly women. In addition, private pension funds (such as BBVA and Zurich Financial) have suffered from the nationalization of gas and oil in May 2006, which cost them considerable parts of their shares. In 2006, the Morales government substantially tripled the minimum wage and set additional funds aside from its increased gas revenues for anti-poverty programs, schools and grants for students. A campaign for literacy drew upon funds from Venezuela. The initial measures of land reform provided some land for poor landless farmers. Public expenditure on health in 2003 – 2004 had improved compared to 2000 – 2001, but was still insufficient (4.3 up from 3.5% of GDP). Welfare expenditure is estimated at about 15% of GDP. These indicators suggest that Bolivia cannot combat poverty systematically on its own.

## Social safety nets

There are a number of domestic and international institutions and programs to compensate for gross social inequality. Programs have been launched in the context of the HIPC, PRSP and Millennium Development Goals, as well as by the participatory social movements with communitarian and indigenous traditions, which can count on stronger government support than in the past. The number of agencies promoting the cause of women has increased. In urban areas, women (like men) have significantly better access to education than in rural areas. In 2004, the females rated 87% in literacy opposed to males' 98%, and the female-to-male ratio of enrollment in primary and secondary education was 1.01 and 0.99 respectively. As many women are not aware of their legal rights, campaigns aimed at raising this awareness have multiplied during review period. On the whole, however, structurally embedded unequal opportunities continue: World Bank data have shown that the existing programs to compensate for major social differences have had virtually no impact on the gap between indigenous and non-indigenous poverty rates.

Equal opportunity

## 11 | Economic Performance

According to the macroeconomic data, Bolivia's economy has grown moderately to strong between 4.1% and 4.6% during the period under review. In 2006, it seems to have recovered from the downturn of 1999 and the last dramatic slump of 2001, and to have resumed the average growth rate of the 1990s, around 4%. Other indicators show a similar trend. Based on a strong export growth of 25% per annum since 2003, the current account balance was positive at 5% in 2005 and 2006. Similarly, the budget balance, as another notorious problem of Bolivia's economic performance, was, for the first time in years, positive, and tax revenues rose spectacularly.

Output strength

## 12 | Sustainability

Environmental concerns receive relatively little attention in economic planning at the macro and micro levels, lack an effective institutional framework and are usually subordinated to the goals of growth and stability. Some segments of the indigenous protest movements and parties have launched the first processes of awareness building in the eastern lowlands and in the coca production zones.

Environmental policy

Bolivia's physical infrastructure needs significant development, starting with road construction. In 2004, 85% of the population had access to an improved water source (72% in 1990), and 46% to improved sanitation (with tremendous urban/rural differences), 60% to electricity (45% in 1997). The public and private institutions for education, training, research and development are highly heterogeneous and show clear deficits in research and development. They are

Education policy / R&D

unevenly distributed, essentially concentrated in urban areas, and often lacking in rural districts. Public expenditure on education had improved from 2002 to 2004, compared to 1991 (6.4 : 2.4% of GDP), but was still insufficient. Research and development expenditures were also insufficient, at 0.3% of GDP from 2000 to 2003.

# Transformation Management

## I. Level of Difficulty

Formidable structural difficulties still constrain the political leadership's governing capacity. Difficulties have even been exacerbated during the last two years, not only by the growing regional economic, social and political disparities and their polarizing consequences, but also due to the political turmoil of 2005 and the abrupt change of political priorities in 2006, which has weakened the institutions and affected the mechanisms of rule of law. The clusters of difficulties have not changed:

Structural  
constraints

First, economic and structural factors remain, including in particular poverty and exclusion, insufficient infrastructure (and intermittently natural disasters), high debt, dependency on foreign markets, donors and external veto players, an extensive informal sector, the peculiar coca economy and, more recently, structural migration.

Second, there is a set of institutional and political legacies, among them revolutionary traditions that set high expectations in terms of participation and social provisions; insufficiently consolidated democratic institutions and market economic structures; intense mobilizing and polarizing energies on the basis of caudillismo; populism; frequent outbursts of violence; and chauvinistic obsessions that have ultimately barred landlocked Bolivia from cooperating effectively with its neighbors.

Third, ethnic fragmentation has placed limits on political loyalty and cooperation at local and regional levels, it has eroded trust and consensus, flamed conflicts, and precluded civil society from developing at the national level.

And fourth, we have to account for the more recent economic disparities between the various regions, which have increased fragmentation and localism and have eventually triggered separatist tendencies.

The traditions of a nationwide civil society are weak, despite high levels of mobilization and societal organization in certain sectors and regions. The increased mobilization along communal, regional and ethnic lines has weakened them still further.

Civil society  
traditions

Ethnic, regional and class cleavages divide the political elites and society at large into groups with their own loyalties. The various groups and protest movements are highly mobilized and can, despite their fragmentation and rivalries, destabilize institutional politics with ease. Since 2006, the government has also contributed to destabilization. Violent incidents have occurred frequently during the last seven years. Even the installation of the leading faction of the protest movements in government in 2006 has not reduced violence; on the contrary, in some sectors it has even become more entrenched (mines, land disputes, unions, separatism).

Conflict intensity

## II. Management Performance

During the period under review, the political leadership's performance in governance and political management has been mixed, showing signs of clear, if gradual, deterioration. The country's structural problems and the level of difficulty have not changed much, though the latter has been exacerbated by rising regional disparities, substantial change in political priorities, weakened institutions and increased levels of conflict. Civil society has remained highly fragmented. Efforts to increase participation, inclusion, responsiveness and democratic legitimacy have met with success, though at the expense of existing intermediary institutions. Progress toward a higher capability for political learning and flexible adaptation of policies has also been made. The new left-wing populist and hence more conflict-exploiting and polarizing policy orientation of the Morales government has, however, emphasized political cleavages and reduced the scope of agreement on political goals as well as the government's ability to set and implement a clear, coordinated policy agenda. Steering capacity has declined, even if domestic trust in the government seems to be higher and more stable than before.

### 14 | Steering Capability

In the two years under investigation, steering capability has declined considerably. The Mesa government, like its predecessors, still pursued long-term aims of improving liberal democracy and market economy, but increasingly had to postpone them in order to pacify massive and violent popular protest. The years 2004 and 2005 were characterized by a weak government, populist mobilization from all sides, disintegration and institutional gridlock. The strongest faction of the opposition, led by Evo Morales, offered only temporary and conditional support for the reforms. In March 2005, Morales was back on the protest road, finally driving the president to resign despite his still

Prioritization

considerable popularity. The most notable achievement of this period, the hydrocarbons law of May 2005, which the president refused to sign, was more a success of the opposition, following from the referendum of 2004, and did not advance the promotion of a market economy. After Morales and the MAS had taken over government in January 2006, priorities changed considerably. Instead of a liberal democracy, the government proclaimed unmediated participatory democracy as its long-term goal, and instead of more market economy, a return to state interventionism and (moderate) “nationalization” with Socialist and communitarian tendencies. However, negotiations with foreign companies and states, and the often openly violent resistance of domestic groups have prevented Morales from pursuing his declared program consistently.

Accordingly, the government’s effectiveness in implementing reform policies has decreased. Under both the Mesa and the Morales governments, intense resistance and gridlock hampered most efforts, and what reforms were implemented did not adhere to the objectives of democracy cum rule of law and a market economy. Such was certainly the case with the hydrocarbons law of 2005, as with most of the “big” issues of the Morales government in 2006: the nationalization of the gas and oil resources, of water and energy, land reform, or the policies of the Constituent Assembly.

Implementation

Political learning seems to have improved slightly in 2006. Bolivia’s political leaders after 2000 had been, on average, less innovative and less able to learn from events, reactions and context than those who initiated the transformation in the 1980s. The Mesa government in particular was mostly reactive, making erratic and inconsistent moves without considering conceptual change. Short-term interests, tactical motivations and the mechanisms of muddling through dominated, until the president gave up completely in spring 2005. The same was the case with the strongest force of the opposition: the MAS around Evo Morales, who supported the government’s reformist policies through most of 2004 but returned to the old populist protest rhetoric after the municipal elections at the end of this year. Once in government in 2006, Morales and MAS performed significantly better, at least in certain sectors. One sees the necessity of compromise in their negotiations of new contracts with foreign companies after the nationalization of gas and oil production, which usually limited total taxes to 50%, guaranteed a specific level of returns on capital, accepted compensation and granted special conditions. Negotiations with Brazil and Argentina over pipeline construction and a “reasonable” gas price also required the government to take a more moderate position. Other examples include the temporary suspension of the takeover of shares by the YPFB in August 2006, refraining from nationalizing the mines, moderate distributive social policies even in times of a budget surplus, and coming to terms with the United States, for the time being, in December 2006 on coca production, despite Morales’

Policy learning

much more radical stance on this issue. Many of the violent protests of January and February 2007 against government policies, which led to a substantial cabinet reshuffle, were directed against the government's ability to learn and to respond to mistakes of the past.

## 15 | Resource Efficiency

The government could have made more efficient use of available economic and human resources. Public administration is, on the whole (some sectoral and local exceptions notwithstanding), overstaffed, under-professionalized, inefficient and still plagued with patronage and clientelism. Turnover of personnel is high, from cabinet posts down to the lowest ranks. The budget is not balanced, at least structurally, and frequent policy change renders it unpredictable and unreliable. In 2005 and 2006, the surge in state revenue could have financed more programs, but the modest increase in public spending fell short. Despite major economic successes, debt remains high, due to internationally monitored structural reduction programs and, more recently, increased revenues. Auditing is of low quality. The decentralization programs, which have transferred important responsibilities for health and education to the cantons, have continued to suffer from lack of control over expenditure, scarcity of funds, incompetence, political sabotage and corruption. Structural deficits and the lower degree of political stability and programmatic continuity have frustrated the development of procedures and institutions to reform and modernize public administration, leaving them behind as compared to many neighboring states.

Efficient use of assets

The findings analyzed above clearly reveal that the government often fails to coordinate between conflicting objectives and interests. Different parts of the government tend to compete among each other, dissent in the cabinet is frequent, and policies repeatedly have counterproductive effects on other policies. Unfortunately, these difficulties most often stem from structural problems and the existing political and organizational framework offers no immediately viable alternative. During the last two years the situation has worsened, having weathered the agony of the last months of the Mesa presidency and now exposed to the often erratic and unsystematic approach and limited personal capacity of President Morales, for which the efforts of Vice President García Linera cannot always fully compensate.

Policy coordination

Corruption is still widespread and has not changed significantly between 2005 and 2007 despite the various (often symbolic) anti-corruption campaigns of President Morales and a number of highly publicized cases in which "corrupt" officials have been dismissed, including a number of ministers, heads of state-run agencies and even the leader of MAS in parliament.

Anti-corruption policy

## 16 | Consensus-Building

Overall, there is a limited and often fragile consensus among the major political actors on democracy and on a market economy. The strong and explicit consensus shared by the traditional parliamentary parties gave Bolivia an unprecedented two decades of institutional stability. However, this consensus began to lose footing in 2002, and was finally rejected by the voters in December 2005. The rise of some of the ethnic and social protest movements that had been excluded from this consensus (MAS in particular) has significantly narrowed the scope of issues on which all major actors can agree. Increased centrifugal tendencies of some of the more modern regional business elites have had a similarly divisive impact. However, all factions agree on democracy and market economy in general terms; the divisions concern the details of interpretation and definition. The ethnic and social movements prefer mechanisms of more direct and participatory democracy to those of representation and insist on more extended guarantees of social responsibility, that is, more state regulation within the market economy in order to secure better chances and material opportunities for the underdogs and the excluded. The performance of the two governments in the years 2005 and 2006, on the one hand, and the reactions of the various protest movements, on the other, have shown that neither camp has done enough to intensify the dialogue between the former establishment (now in the opposition) and the former outcasts (now in government).

Consensus on goals

There are no significant anti-democratic veto actors in a strict sense at the national level, but violent social, ethnic and regional unrest can have a destabilizing effect that could eventually lead to the destruction or suspension of democratic institutions. Even the government's own particular conception of direct democracy may threaten democratic institutions. However, more than one year of the MAS in government has helped to defuse the radicalization of the largest segment of the social movements.

Anti-democratic veto actors

Political leadership during the period under review has grown increasingly less capable of containing the escalation of cleavage-based conflicts. The Mesa government, in its final phase, was no longer able to contain conflict, and the social movements of the opposition finally terminated their temporary cooperation. The Morales government has always exploited structural cleavages in its populist rhetoric for the sake of polarization and winning votes, and its policies in 2006 have not reduced, but rather accentuated and emphasized cleavages. In addition, inter-regional conflicts reached an unprecedented high in November and December 2006, particularly in Santa Cruz, Tarija, Beni and Pando.

Cleavage / conflict management

The political leadership takes into account and accommodates the interests of civil society actors. A country with such an inclusive revolutionary tradition and a high degree of mobilization, if fragmented, leaves no alternative. So far, protest movements of the underdogs have been more successful in sectoral or regional terms than the organizations of the traditional establishment; the most prominent result being the victory of Morales and the MAS in the elections of December 2005. Good examples of these protest movements are the Aymara organizations in and around El Alto, neighborhood organizations like FEJUVE, civic groups in Cochabamba, as well as the Santa Cruz farmers and recently again the miners' union. Most of Bolivia's rich civil society organization is limited to the boundaries of ethnic communities and/or social class. The ethnically and socially inclusive consensus behind the 1952 revolution demonstrated however that those boundaries are malleable. Politicians able to mobilize the memories of this consensus and its achievements in a credible way (like Mesa, Morales, or even Paz Estenssoro), so far have been more successful than those who have not (like Banzer or Sánchez de Lozada). The Morales government has assigned a greater role to the civil society actors of the "popular" movement of the formerly "excluded" in deliberating and determining policies than earlier governments (which consulted organizations of the established urban elites instead). But even these mechanisms of a broader inclusion do have a structurally exclusive bias. What appears to be a higher level of government responsiveness vis-à-vis civil society organizations can also be seen as mere shift in direction.

Civil society participation

With few exceptions, the problem of reconciliation in Bolivian society does not rest between the perpetrators and the victims of military dictatorship. Rather, reconciliation in the Bolivian context concerns the demands for structural integration of the majority of the population still excluded on ethnic or social grounds, which so far have not been addressed adequately (see above 10.2).

Reconciliation

## 17 | International Cooperation

During the period under review, the political leadership's ability and willingness (which is a different aspect) to use the support of international partners to improve its domestic reform policies on the whole has been less convincing than in the periods since the beginning of the country's transformation in the 1980s. Then, the goals and priorities of the international programs and those of national policies were more in synch with each other, particularly with regard to privatization and the acceptance of the mechanisms of international capitalism. Bolivia has continued to take part in many World Bank sectoral programs, and to profit substantially from the various PRSP and debt relief programs of the World Bank and the IMF (e.g., in June and December 2005 and in March 2006), and

Effective use of support

from that of the Inter-American Development Bank in January 2007. It also has succeeded in securing external concessions in crucial areas such as trade and in winning external support, or at least toleration, for adjustments in specific programs or sectors such as coca eradication and hydrocarbons. In addition, the government has mobilized new external funds from Venezuela to support new priorities by new means. In April and May 2006, it concluded a number of selective bi- and trilateral assistance treaties with the hemispheric outsiders Venezuela and Cuba. On the whole, however, the Bolivian initiative to participate in new traditional international programs has slowed compared to previous years, be it by inertia and lack of coordination as in the last months of the Mesa government, or due to alternative priorities as under the Morales presidency.

In addition to the increased problems of governance presented by the more polarized sectoral and regional cleavages, the international community's trust in the confidence-building activities of the Bolivian government and the latter's credibility have substantially suffered in 2006. Factors that have influenced this decline include the fact that market-based representative democracy is no longer the ultimate goal of reform for the Morales government, the endangered institutional stability, and a number of worrisome and unpredictable measures such as the expropriation and nationalization of gas, oil and land, which were unilaterally decreed and often implemented in ways different than announced, at the cost of foreign companies, states and investors. The government may also no longer be considered a reliable partner with regard to a number of transactions, but as in many cases, so far neither Bolivia nor its partners have had an alternative but to continue negotiating until they reach a solution. Since they remain economically interdependent, Bolivia's partners accept the "semi-reliability" that the current administration has continued to offer. Many of Morales' proposed reforms ended in compromise; the land reform turned out much more reformist, incremental and acceptable than expected; the conflicts over pipeline construction were settled with Brazil and Argentina; most of the gas contracts were renewed, particularly those with the Brazilian state agency Petrobras; and the quantity of shares to be handed over by the gas companies to the YPFB are still being negotiated. Bolivia's Standard and Poor risk rating has not changed between 2005 and 2006 (B-/neg/C).

Credibility

The political leadership cooperates selectively with many neighboring states and on the whole complies with the rules set by regional and international organizations. A significant though seemingly not unsurmountable limitation here stems from the country's historical conflicts with Chile and the unwillingness of many mobilized nationalist and populist groups and their leaders to cooperate, including some sectors of the government. Bolivia is an active member of the Andean Community and an associated member of the

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Mercosur. Under Morales it has developed an especially close relationship with Hugo Chavez's Venezuela and with Cuba, and has at least rhetorically sided with some of Chavez's projects for a South American Union. On the one hand, the nationalist, populist and anti-imperialistic (hence anti-North American) ideology of the MAS and the government has somewhat obstructed its claim to Latin American solidarity and limited its room for maneuver in practical politics. On the other hand, unsystematic moves, differentiations and personal interventions (like Bolivia's candidacy for the UN Security Council) leave hope for improved cooperation in the future. Even relations with Chile in early 2007 seem to have improved significantly since 2003 and 2004.

## Strategic Outlook

In order to address its economic, social, ethnic and regional problems successfully, Bolivia needs a stable but flexible institutional environment capable of guaranteeing a minimum of cohesion, consensus and delivery. The last five years, however, have shaken Bolivia's institutional stability, which the governments since the mid-1980s had used to strengthen democracy, the rule of law, and the market economy. Violent protests, strikes and blockades since 2003 have demonstrated that the corporatist model of elitist Bolivian politics are bankrupt, that its consensus was too narrow and that greater political participation and inclusion are required. Neither the established politicians behind the Mesa government nor the heterogeneous movements of the excluded represented by Morales could produce adequate agents to negotiate their differences. The populist strategies that helped Evo Morales and the MAS secure a clear and legitimate electoral victory in 2005, though having produced a legitimate majority rule government, have undermined attempts to build a consensus since then.

Clearly, the MAS government has strengthened the mechanisms of political participation in accordance with its self-appointed role as the agent of the excluded popular and indigenous masses. However, its form of unmediated democracy, which has eroded institutional stability and the state of democracy in Bolivia, combined with its "socialist" policies of expropriation and "nationalization," have shocked several other states as well as foreign companies and investors. So far, Morales and the MAS have created an institutional stalemate, revitalized old conflicts while provoking new – often violent – conflicts, and they have done little to improve dialogue and consensus between Bolivian society's various groups. Once again, a Bolivian government seems to have failed to build the broad reformist coalition needed to acknowledge and deal with the problems of cultural, ethnic and regional heterogeneity and economic disparities. It has also failed to provide effective instruments to that end, such as federalism, regional autonomy statutes, effective local self-government and a respective adjustment of the tax system.

Much depends on how and when the Constituent Assembly will prove able to overcome its present stalemate, and whether it will succeed in satisfactorily rewriting the constitution. The constitution should extend political participation, establish more empowerment mechanisms for the under-represented indigenous communities, but it also needs to respect the institutions and address the interests of those seeking greater self-government and autonomy. Should it meet these demands, the constitution could strengthen the consensus between the

traditionally polarized political forces and factions. The Bolivian public holds high expectations, namely that their country can and will be “re-founded.” The likelihood of disappointment is thus relatively great. The assembly is scheduled to deliver the rewrite by August 2007, and President Morales has announced that if this deadline is met, he will set general elections for 2008 instead of waiting until his term has ended in January 2011. At the time of this writing (March 2007), observers have been wondering whether the government will be able to show the same degree of flexibility and compromise in domestic and institutional politics as it has shown in its negotiations with foreign and international partners.

Economically, the government has been more successful, overall, than its predecessor has, on at least two counts. First, it has steered away from the neoliberal model à la Sánchez de Lozada, and, under popular pressure, reinstated some corporatist elements, state interventions and guarantees in certain key sectors, thus promoting a more mixed economic model. This model fits the country’s needs better, is more acceptable to the population, and has not deterred too many investors for too long, due to the government’s willingness to compromise in the negotiations on gas and oil exports as well as in matters of mining, land reform and other issues. In addition, the government has continued and even extended many of the debt reduction and anti-poverty programs (which should be better coordinated) and other national and international efforts to improve infrastructure, education, human development and basic services – even if those programs still fall short of earlier levels of prominence.

Second, the economic outlook seems brighter than in previous years due to the expected rapid expansion of revenue from the new hydrocarbons taxes (by about 35%), which will widen the state’s room for maneuver in infrastructural and social programs, not to mention the highest tin price since 1985. The budget for 2007 foresees a sharp rise in spending and again a moderate deficit in the end. Government planners have proceeded cautiously, even with regard to expenditure for infrastructure, pensions and education. In this context, much will depend on how the government implements the National Development Plan of June 2006, which affords them a total of \$12.7 billion until 2010, and how the more short-term priorities of the tentative (counter-cyclical) stabilization fund will be set from 2007 on, in which the government plans to store most of the windfall gas revenues.

Structurally, much depends on the country’s ability to generate sustained trust among investors, not only in the gas and oil business, but also in traditional mineral extraction and in agriculture. In the gas and oil sector, a key issue will be the final settlement of the details of the contracts concerning “nationalization,” particularly the amount and price of the shares to be handed over to the YPBF. In mining, the iron ore exploitation and steel production of

the Jindal Steel and Power from India in El Mutún near Puerto Suárez involving about \$2.3 billion in investments in the course of ten years, has prompted some conflict and made little progress since 2006. In agriculture, soybeans, one of the successful non-traditional export crops, is generating a good profit. However, government plans for the ominous industrialization of the coca plant – an alternative to the traditional U.S.-sponsored eradication programs – still have to be fleshed out, and in a way that is also acceptable to the U.S. agencies. The latter may be essential for many coca producers, such as in the Chapare, Evo Morales' home turf. The economic implications of these plans for the population make them a top priority for the government. Providing at the very least a minimal livelihood – which Bolivians expect – is essential to winning the population's support for democracy as well as institutional stability.