

BTI 2012 | Bolivia Country Report

Status Index	1-10	6.23	# 46 of 128	
Political Transformation	1-10	6.85	# 39 of 128	➔
Economic Transformation	1-10	5.61	# 64 of 128	➔
Management Index	1-10	5.22	# 61 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	9.9	HDI	0.663	GDP p.c.	\$	4849
Pop. growth ¹	% p.a.	1.6	HDI rank of 187	108	Gini Index		57.2
Life expectancy	years	66	UN Education Index	0.749	Poverty ³	%	24.7
Urban population	%	66.5	Gender inequality ²	0.476	Aid per capita	\$	73.6

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the review period, Bolivia completed the first phase of the political and economic transformation that began with the election of Evo Morales as president in December 2005. In January 2009, a new constitution was adopted through a referendum, winning more than 60% of the votes. In general elections in December 2009, President Morales was reelected with 64% support, and his party (Movimiento al Socialismo, MAS) obtained a two-thirds majority in both chambers of the new Plurinational Legislative Assembly. The second phase of the transformation, which began in January 2010, is now mainly about implementing the new constitution. Given the comfortable majority in parliament, a series of important structural laws was able to be adopted in the course of 2010, including laws on the Electoral Organ, the Electoral Regime, the Constitutional Tribunal, the Judicial Organ, and Autonomy and Decentralization. In April 2010, elections at the departmental and municipal level were held. The 2009 constitution also envisions the popular election of members of the highest judicial organs, including the Supreme Court and the Constitutional Tribunal. These elections were scheduled for 2011, after the close of the review period. In the meantime, President Morales appointed temporary judges to fill the vacancies in February 2010. In a very general sense, the political and economic transformation promoted by the Morales government aims at establishing a “plurinational” state that combines a plural democracy (representative and participatory) with a mixed economy. Institutions of liberal and representative democracy have been supplemented by mechanisms of direct democracy and unmediated participation by civil society organizations. Ordinary state law is paralleled by indigenous systems of justice that possess equal status, despite the normative clashes and unclear priorities that this creates. The liberal state is qualified by the recognition of indigenous forms of self-governance, and individual civil and political rights are complemented by far-reaching social, economic and collective (indigenous) rights. As regards the economy, the market economy is conceived of as one part of a plural economic order that combines private initiative with heavy state involvement in the economy – a tradition since the 1952 revolution – and communitarian and social cooperative forms of economic

organization. This project of profound transformation is broadly supported by the Bolivian population, particularly by the formerly marginalized sectors of society, but is highly contested by significant minorities, especially among the traditionally privileged sectors. While the “big” regional conflicts between the government and the eastern and southern Media Luna departments have calmed somewhat during the last two years, new local social and ethnic conflicts, even within the government coalition, have been on the rise.

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 soil conducive to productive agriculture. The disparities between its geographically, ethnically and economically heterogeneous regions are enormous, and have often led to strife and conflict. Of increasing political relevance in recent times has been the regional cleavage between the highlands, where the country’s de facto or administrative capital La Paz sits, and the southeastern lowlands (the Media Luna), where successful agribusinesses and the gas fields are located. Bolivia is not only poor, but is one of the most unequal countries in Latin America. The indigenous majority of the population has been particularly affected by a historical legacy of continuous discrimination. A total of 36 indigenous peoples have been counted in Bolivia (and are now recognized in the 2009 constitution with their own languages and collective rights), the largest being the Quechua (approximately 30% of the population) and the Aymara (approximately 25%).

The 1952 revolution of the Revolutionary Nationalist Movement (Movimiento Nacionalista Revolucionario, MNR) brought agrarian reform, the nationalization of the large mining companies, universal suffrage without literacy requirements, and a wide range of social policy legislation to the country. Between 1964 and 1982, civilian and military governments alternated in power. After 1982, a short and negotiated transition to democracy led to a relatively long period of uninterrupted democratic institutional stability that lasted from 1985 until President Sánchez de Lozada’s forced resignation in October 2003. This period was characterized by the dominance of three political parties that governed in changing coalitions (“pacted democracy”). These coalition governments implemented a series of market reforms that involved the usual neoliberal package of liberalization, deregulation and privatization. In the 1990s, additional political reforms deepened decentralization and introduced popular participation at the local level.

Though a significant achievement within the context of Bolivian political history, this “pacted democracy” had an exclusionary bias. Most of Bolivia’s poor and indigenous people felt excluded and marginalized. The grievances associated with neoliberal reforms added to this. During the 1990s, indigenous and social movements increasingly challenged the system of agreements between elites. Between 2000 and 2005, a series of political crises erupted, characterized by massive social protests that forced both elected President Sánchez de Lozada

(in 2003) and his successor Carlos Mesa (in 2005) from office. In the course of this period, union leader, coca grower and Movement to Socialism (Movimiento al Socialismo, MAS) head Evo Morales established himself as the leading representative of the diverse protest movements. In December 2005, Morales was elected president, becoming the country's first head of state of indigenous origin. Since then, Morales has led a process of decisive political change that has included a profound reshaping of the country's political system through constitutional reform as well as a change of course in economic, social and coca/drug policies. In 2006 and 2007, an elected Constituent Assembly wrote a new constitution, and after a revision of the constitutional draft by Congress in 2008, a broad majority (61%) adopted the new constitution in a referendum on 25 January 2009. In terms of economic and social policies, the Morales government has significantly increased the role of the state in the economy. In the course of the "nationalization of gas," international gas companies were forced into new contractual relationships, the control of the state (and the state company Yacimientos Petrolíferos Fiscales Bolivianos, or YPF) in the hydrocarbon sector was strengthened, and taxes on gas companies were increased. Based on rising revenues from hydrocarbon and mineral resources, social spending and public investment was expanded. Regarding drug/coca policies, the Morales government abandoned the U.S.-driven emphasis on coerced coca eradication. On the one hand this change included recognition of the coca leaf's traditional role in indigenous cultures, an increase in the level of legal coca production and trade, and a push for coca's international legalization. On the other hand, the government has tried to limit the volume of coca production via community-led forms of social control, while continuing counternarcotics efforts aimed at drug trafficking. Within Bolivia, these changes have been (and still are) heavily contested. Given a weak and fragmented opposition at the national level, the resistance against Morales has come primarily from regional autonomy movements based in the eastern lowland departments of the Media Luna (Half Moon) and led by elected governors and "civic committees."

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

In Bolivia, there is no open challenge to the state's monopoly on the use of force. However, the state's actual presence does not extend to all parts of the country. Some regions are home to parallel power structures led by local landowners, narcotics traffickers or ethnic community organizations. Since 2005, regional movements demanding autonomy for the departments of Santa Cruz, Tarija, Pando and Beni (the Media Luna) have contested the central state's legitimacy and actual presence in these parts of the country. After violent outbursts in September 2008 and the adoption of a new constitution in January 2009 that integrates principles of regional autonomy, these demands are now largely pursued within the framework of the national constitution. The main representatives of the regional autonomy movements have seemed for the time being to accept the general legitimacy of the central state.

There is fundamental agreement about who qualifies as a citizen. Since 1952, all citizens have had the same rights, though many were de facto excluded from making use of them for many years. Since the first election of President Evo Morales in late 2005, the factual limits to citizenship as perceived by groups traditionally subject to discrimination (the indigenous majority, in particular) have been clearly reduced. The new 2009 constitution declares the state to be "plurinational." This departure from the mainstream model of the nation-state reflects the country's strong ethnic identities, but nevertheless stops short of calling acceptance of the Bolivian state into question. The new constitution has in fact increased identification with the state among the indigenous majority. At the same time, the new emphasis on the plurinational and indigenous character of the state has led to a certain alienation among non-indigenous sectors of society. In general, regional identities, especially in the Media Luna region, add to this relative distance vis-à-vis the central state.

Question

Score

Monopoly on the use of force

7

State identity

9

Church and state are separated, and religious dogmas have no noteworthy influence on politics or law. The new 2009 constitution has eliminated the special status formerly granted to the Catholic Church. Under the Morales government, tensions between the state and the Catholic Church have risen, with the church bolstering its role as a religion-based interest group.

No interference of
religious dogmas
10

There are functional administrative structures in Bolivia. Although the state's physical infrastructure extends throughout the country, its practical administrative reach is not complete. According to World Bank Development Data for 2008, 86% of the Bolivian population has access to improved water sources, but only 25% has access to improved sanitation. Road infrastructure is considered to be relatively poor, according to the Global Competitiveness Report 2010 – 2011. The opposition has increasingly complained that “the state is absent in many regions,” especially with respect to law enforcement. The provision of judicial functions improved once the 2009 constitution gave indigenous justice systems a status equal to the state's, despite unresolved issues of jurisdiction and coordination with the ordinary system.

Basic
administration
7

2 | Political Participation

Political representatives are determined by general, free and fair elections. There is universal suffrage and the right to campaign for elective office exists. On the whole, elections are conducted properly, and continued voter registration efforts since the mid-1990s (especially in rural areas) have rendered their outcome even more representative. Reforms in 2004 – confirmed by the 2009 constitution – broke up the monopoly held by political parties and enabled civic groups (*agrupaciones ciudadanas*) and indigenous organizations to present their own candidates. Combined with the emergence of the MAS party, which is broadly perceived as representing the interests and values of the indigenous and poor majority of the population, these measures have significantly increased the number of ballots cast in elections (and referendums), thus extending the factual universality of suffrage. In response to irregularities in the voter registration process, the National Electoral Court (CNE) produced a new, biometrically based electoral roll in 2009. There have been allegations of instances of voter fraud (in rural areas) and the abuse of state resources, and criminal charges have been made against opposition politicians. Nevertheless, the results of elections and referendums are not questioned in principle. The 2009 constitution introduced the popular election of the highest judicial tribunals' members, and for parliamentary elections, establishes special electoral districts for indigenous minority groups in rural areas. Aside from elections, additional mechanisms of political participation are included (recalls, referendums, citizens' legislative initiatives, and direct participation by “organized civil society” in the design and oversight of public policies, for example). A 2010

Free and fair
elections
9

report by UNDP Bolivia confirms a general perception among Bolivians that the political inclusion of and participation by groups traditionally facing discrimination (the indigenous, women and the poor) has improved.

Elected rulers in principle have the effective power to govern. There are no nationwide veto powers or political enclaves. Under the Morales government, the clergy, landowners, business elites and external actors (e.g., the U.S. government and international financial institutions) have lost influence. In certain cases, regional bosses or mafia can limit the government's power to govern, as can massive social protests. Examples include instances of violent resistance by landowners to the implementation of agrarian reform, and the de facto influence wielded by organized crime related to the drug economy.

Effective power to govern
8

The freedoms of assembly and association are constitutionally guaranteed, and are not limited in principle. When faced with intense mass protests and insurgency, all of Bolivia's post-authoritarian governments have tended to declare a state of emergency, temporarily suspend political liberties and the guarantees of the rule of law, and send in the military. In general, the Morales government has been more reluctant to do so, and has most of the time refrained from enforcing the state's monopoly on force against protestors, even in the oppositional Media Luna region.

Association / assembly rights
9

The freedoms of opinion and of the press are generally guaranteed. The private media (newspapers, TV and radio) are pluralistic, but tend to privilege opposition views. The role of state media – which has a pro-government bias – has increased. Tensions between the Morales government and the private media further increased during the period under review. A new anti-racism law, adopted in October 2010, was criticized by media owners, journalists and some international observers as an attempt to intimidate critics and as a violation of the freedom of the press, as the law allowed the imposition of economic sanctions on and the temporary suspension of licenses of media outlets publishing racist ideas. In January 2011, new regulations eliminated the law's vague wording and softened penalties, laying the ground for a restrictive interpretation of the law, according to Reporters Without Frontiers. In public statements, President Morales, his cabinet ministers and other political leaders have occasionally attacked "the media" (and specific media outlets). Local NGOs report increasing incidents of physical aggression against individual journalists, many of which have not led to successful prosecutions.

Freedom of expression
7

3 | Rule of Law

Formally, the 2009 constitution envisions a clear-cut separation of powers, in particular between the three branches of the state that are to be elected in popular elections (executive, legislature, judiciary). The Electoral Organ is established as a fourth power, and vaguely defined civil-society rights to direct participation and

Separation of powers
6

social control introduce an additional type of (vertical) checks and balances. In actual practice, two factors at least temporarily limit the separation of powers. First, the transition to the new constitutional order is still underway, and the new branches of state (especially the judiciary) have yet to take shape. Second, given the broad popular support for President Morales and the MAS party, general elections in December 2009 resulted in a two-thirds majority in both chambers of the new parliament. In addition, the executive's respect for the relative autonomy of both the legislature and the judiciary is traditionally weak in Bolivia, and continues to be so under the Morales government, which has intervened in all spheres of government and society. At the moment, it is mainly vertical checks and balances – that is, subnational governments and social organizations – that control and balance the power of the central government.

The judiciary continues to be the weakest branch of the Bolivian government, with restricted independence. Under the Morales government, the situation has significantly deteriorated, but progress in the transition to a new constitutional order has led to gradual (if ambiguous) improvements. After a series of resignations leading to May 2009, both the Supreme Court and the Constitutional Tribunal were effectively paralyzed. In February 2010, President Morales appointed temporary judges to the Supreme Court, the Constitutional Tribunal and the Judicial Council. An operating judiciary was thus restored, but its independence is questionable. The opposition criticized the appointments (and the law that made them possible) as unconstitutional. It is hoped that the popular election of the highest judicial organs, scheduled for 2011, will increase the judiciary's independence. Whether the elected judges will actually make use of this independence, however, remains to be seen. An additional problem to be resolved concerns the jurisdictional boundaries and coordination between the ordinary state judicial system and the indigenous justice systems that gained equal status with the 2009 constitution. The rise of “parallel structures” with a number of incompatibilities and without normative priorities (e.g., in the case of women's rights) has made problems more difficult and time consuming. Finally, “traditional” problems such as the judiciary's administrative weakness, scarce resources, limited access for ordinary (poor) people, corruption and political influence persist.

Independent
judiciary

5

Corrupt officeholders are not systematically prosecuted, although the publication of corruption scandals by the media usually leads to dismissal and penalties. During the Morales presidency, the government and the judiciary have launched selective anti-corruption campaigns against current and former officeholders from opposition parties, but also against members of the MAS party and close collaborators of the president. Attempts to address the lack of transparency and the patronage structures behind the scandals, however, have been limited. The problem of conflicts of interest has not been addressed in any systematic way. The new constitution stipulates that anti-corruption laws can be applied retroactively, a rule that has

Prosecution of
office abuse

5

already been instrumentalized by the government for judicial action and propaganda campaigns against former officials and politicians of the opposition. Institutional improvements (including a new Ministry of Institutional Transparency and the Fight against Corruption) have yet to show results.

Civil rights are guaranteed in principle. However, they are still violated occasionally, and mechanisms to prosecute, punish and redress violations of civil rights at times prove ineffective. Equality before the law, equal access to justice and due process under the rule of law are not de facto guaranteed. Discrimination especially affects women (e.g., but not only, in cases of violence against women), members of indigenous peoples and residents in remote rural communities. The 2009 constitution gives ordinary state law and indigenous (customary) law equal status, giving rise to fears that such community justice might infringe the classical individual civil rights guaranteed in the Magna Carta. However, the constitution clearly states that the indigenous juridical systems must respect the right to life and to defense along with the other rights and guarantees established by the constitution. In principle, delimitation and coordination between the two juridical systems has been resolved by a new law (“Ley de Deslinde Jurisdiccional”) passed in December 2010, which is fairly restrictive in terms of the scope provided to indigenous law, especially concerning the constitutional guarantees of individual rights such as the equality of women. Yet, much will depend on how these new rules are implemented.

Civil rights
6

4 | Stability of Democratic Institutions

Democratic institutions perform their functions in principle, and on the whole, democracy does not seem to be at stake in Bolivia despite undergoing a process of profound institutional restructuring. With the adoption of the new constitution by referendum in January 2009, general elections in December 2009, and departmental and municipal elections in April 2010, the new ensemble of democratic institutions is swiftly taking shape. The judiciary, however, remains in a transition stage. Given the need to adopt a series of structural laws to implement the 2009 constitution, the new parliament (Asamblea Legislativa Plurinacional) has taken center stage. The two-thirds majority held by the MAS allowed for a political decision-making process that was much less characterized by deadlock, antagonistic rivalries, disregard for procedure and counterproductive frictions between institutions than usual. The downside to this swift process has been manifested in frequent complaints about the marginalization of the parliamentary opposition and a lack of broad social participation. Compared to the conflict-ridden years between 2003 and 2009, however, the capability of democratic institutions to perform their functions has clearly improved.

Performance of
democratic
institutions
7

All relevant political actors accept democratic institutions, but different groups often have different concepts in mind. Approximately since the year 2000, these differences had led to a situation where significant parts of the population and influential political actors rejected existing democratic institutions. First, it was the political forces and social groups associated with Evo Morales and the MAS that rejected the old institutions of “pacted democracy.” Subsequently, it was the opposition to Morales, particularly the regional autonomy movements from the southeastern lowlands, that refused to accept the Morales government, the Constituent Assembly and the new draft constitution as legitimate. At the same time, Morales and the pro-government forces openly opposed the steps toward autonomy initiated in the Media Luna region. Since the constitutional referendum and the elections in 2009 and 2010, this stalemate of mutual non-acceptance has largely been broken – at least as far as explicit political statements are concerned. A 2010 report by UNDP Bolivia found a generalized recognition that the government led by the MAS and Evo Morales constitutes the center of political power, and that the increased levels of indigenous participation associated with this government constitute a positive development. To be sure, deep political divisions persist below this very basic consensus, as does a general lack of respect for procedural rules. Yet, at the moment, the new constitution, the new parliament and the Morales government on the one hand, and the departmental governments and their general right to departmental autonomy on the other, are not openly called into question by any relevant political actor. Threats to oppositional departmental governors related to alleged corruption and other misdemeanors (e.g., in Potosi) have at least been handled by the appropriate subnational parliaments and concern persons, not institutions. The same was true for the suspension of Tarija Governor Cossío in December 2010. Nevertheless, the suspension of a series of oppositional officeholders at the subnational level for obvious (party) political reasons does constitute a potentially serious problem for democracy.

Commitment to democratic institutions

6

5 | Political and Social Integration

For many years, Bolivia has had an unstable (and unbalanced) party system characterized by high fragmentation, substantial polarization and high volatility due to the parties’ limited anchoring in society. On the whole, the party system continues to be unstable and only weakly anchored, but the governing MAS party constitutes a clear exception: Even if not an organizationally unified political party in the traditional sense, but rather an umbrella organization uniting a series of social movement organizations, the MAS is socially rooted, has relatively stable linkages with societal organizations and, since 2005, has received remarkably stable support in elections, referendums and opinion polls. While the MAS and especially its

Party system

5

undisputed leader Evo Morales have proved able to articulate and aggregate a broad range of societal interests and values, contemporary opposition parties mostly have not.

The traditional party system in place since 1985 finally collapsed in 2005. Its three main parties – the Revolutionary Nationalist Movement (MNR), the Nationalist Democratic Action (ADN), and the Movement of the Revolutionary Left (MIR) – have all but disappeared, as have a number of smaller regional or personality-driven parties. The 2005 elections established the Social and Democratic Power party (Poder Democrático y Social, PODEMOS), a conservative alliance led by former President Jorge Quiroga, as the leading opposition party to the MAS government. However, PODEMOS quickly disintegrated. With a view to the December 2009 elections, a new conservative alliance was formed: Plan Progreso para Bolivia-Convergencia Nacional (PPB-CN) received around 26% in the parliamentary elections, and its presidential candidate Manfred Reyes Villa a little more. Although now the leading opposition party, PPB-CN is no more than loose alliance, lacking any institutionalized organization or programmatic base, and is founded almost entirely on its members' shared rejection of Morales and the MAS. A third, relatively stable, but minor force is Unidad Nacional (UN); this is led by businessman Samuel Doria Medina (who started his political career in the MIR), and occupies a rather moderate center-right position.

At the subnational level, the MAS is again the dominant political party. However, a broad spectrum of diverse local and regional forces exists at this level, some of which have rather stable social roots and represent an institutionalized organization. This holds true, in particular, of the regional autonomy movements in Santa Cruz and Tarija, which combine department-based political organizations, socially well-rooted civic committees and popular governors (Rubén Costas and – until his suspension – Mario Cossío). These regional and local forces, however, lack systematic representation at the national level.

As a result, Bolivia's contemporary party system combines a dominant majority force with highly fragmented and unstable opposition parties. The degree of polarization is somewhat lower as compared to the situation in 2007 and 2008, but is still high. In addition, the internal heterogeneity within the MAS alliance holds some potential for friction and conflicts. In 2010, tensions between the MAS government and its social allies erupted on several occasions. In August 2010, mass protests paralyzed Potosí for almost three weeks. Although the department is a MAS stronghold and governed by a MAS governor, far-reaching material concessions by the central government were necessary to settle the conflict – pointing to rising expectations, increasing impatience and intensifying divisions within the broader MAS alliance. In December 2010, a government decision to dramatically increase the prices of fuel and diesel gasoline provoked massive

protests in La Paz, forcing President Morales to back down. In general, cohesion within MAS and the pro-government camp depends very much on the president and the government's fiscal capacity to respond to claims.

There is a broad network of interest groups that reflect diverse and partially competing interests and values: organizations representing capital and labor, agriculture, and a number of sectoral and regional interests as well as indigenous peoples and communities. During Morales's first term in office, these diverse groups tended to ally and split along the country's primary political fault line: The traditional Bolivian Workers' Central (COB), the national peasants' federation CSUTCB, indigenous confederations from the Altiplano (CONAMAQ) and the lowlands (CIDOB) as well as powerful community organizations (e.g., the powerful neighborhood committees in El Alto) joined the MAS and its member organizations such as the federation of coca growers in defending the Morales government. Meanwhile, the oppositional autonomy movements in the Media Luna region united well-rooted civic committees, strong regional associations of businessmen, youth organizations and departmental governments.

Interest groups
6

Given the political program and the social basis of the MAS government, labor, peasant and indigenous groups have since 2006 experienced a significantly increased capacity to pursue their interests and values in the political arena. The predominance of business and elite interests that had since 1985 characterized the post-authoritarian period has clearly passed. However, partially contradictory interests, ideological differences and a general tendency to prefer confrontational tactics over cooperation produce a persistent risk of conflict within the new configuration of power. Even within the camp of generally pro-government forces, some serious confrontations have erupted since 2006, both between interest groups and between social organizations and the state.

Support for democracy, as measured in Latinobarómetro's opinion polls, is fairly high. In 2008, 2009 and 2010 around 70% of respondents declared democracy to be the most preferred political system. This level of support constitutes a remarkable increase from less than 50% in 2004 and 2005, and places Bolivia among the top five in Latin America. (When asked in a slightly different way – "Democracy may have problems, but it is the best system of government" – a full 75% agreed in the 2010 poll.) Correspondingly, the share of respondents saying they would never support a military government has increased significantly (to 74% in 2010, with the Latin American average at 63%). With regard to actual democratic performance, satisfaction with democracy has declined from an all-time high of 50% in 2009 to 32% in 2010, only slightly above the average for 1996 – 2010. Trust in specific democratic institutions is even lower: The 2010 data ranges from 17% (political parties), 24% (judiciary) and 28% (parliament) to 38% (armed forces) and 42% (government).

Approval of
democracy
7

Throughout the country, there is a large number of autonomous, self-organized groups, associations and organizations. At the local level, the sense of solidarity seems to be rather high. Many indigenous groups display rich and institutionalized communal and communitarian traditions. Even in urban settings characterized by a largely informal economy (e.g., in El Alto), the degree of social self-organization is remarkably high. Nevertheless, general interpersonal trust is relatively low, according to Latinobarómetro data. This mirrors the high degree of fragmentation along sectoral, regional and ethnic lines.

Social capital
5

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

In Bolivia, social exclusion is still quantitatively and qualitatively widespread and structurally embedded. Significant levels of poverty combine with multiple social inequalities. During the last decade, the poverty rate has declined, but according to Economic Commission for Latin America (CEPAL) data for 2007, more than half the population (76% in rural areas) still lives below the poverty line, defined here in terms of basic needs. CEPAL statistics show that more than 30% live in extreme poverty while World Bank data shows that 22% live on less than \$2 a day (in purchasing power parity terms). Inequality as measured by the Gini coefficient has fallen throughout the decade, but remains very high in regional and worldwide comparison (at 57.2, according to World Bank data for 2007). The UNDP has noted continuous improvements in human development since 1975; Bolivia's Human Development Index (HDI) score (0.64 in 2010) is in the middle human development category, placing the country at rank 95 out of 169 countries. Between 2000 and 2010, life expectancy at birth increased by over three years (to 66.3), mean years of schooling by almost two years (to 9.2), and gross national income per capita by 22% (to \$4,357, on purchasing power parity terms). Such average improvements, however, mask still dramatic inequalities. Socioeconomic discrimination particularly affects indigenous peoples, rural areas and women. UNDP's Gender Inequality Index (2008) gives Bolivia a score of 0.672, ranking it 96th out of 138 countries. A 2010 report by UNDP Bolivia concluded that the increased political and legal equality has yet to translate into a systematic reduction in socioeconomic inequalities. This observation confirms the structural character of Bolivia's multiple socioeconomic barriers.

Socioeconomic
barriers
3

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	13120.5	16675.0	17340.0	19649.7
GDP growth	%	4.6	6.1	3.4	4.1
Inflation (CPI)	%	8.7	14.0	3.3	2.5
Unemployment	%	5.2	-	-	-
Foreign direct investment	% of GDP	2.8	3.1	2.4	3.2
Export growth	%	3.1	2.2	-10.8	9.9
Import growth	%	4.4	9.4	-10.2	11.0
Current account balance	\$ mn.	1591.2	1992.7	813.5	873.7
Public debt	% of GDP	41.0	37.5	40.5	37.4
External debt	\$ mn.	4992.3	5527.8	5743.0	5266.6
Total debt service	\$ mn.	741.3	946.2	591.6	646.6
Cash surplus or deficit	% of GDP	1.2	-	-	-
Tax revenue	% of GDP	17.0	-	-	-
Government consumption	% of GDP	14.1	13.3	14.7	13.8
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	4.7	4.4	4.8	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.8	2.0	2.0	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

On the whole, basic institutional conditions for market-based competition exist. Yet, there are significant imbalances between competitive export-oriented sectors (e.g., agribusiness), weak national industries and a huge informal and subsistence economy in both urban and rural areas. Under such conditions, efforts to increase market-based competition since 1985 have produced highly uneven results. The Morales government, in charge since 2006, has not sought to promote market competition further. Accordingly, the fundamentals of market-based competition were better secured in early 2005 than in 2010. Since 2005, the role of the state in the economy has expanded, and there is now substantial state intervention in and

Market-based
competition
4

state control of strategic sectors. This particularly concerns Bolivia's hydrocarbons sector, as the "nationalization" declared in 2006 has led to increased duties on gas and oil companies and restored the traditional state-owned petrol company YPF as a major player in the sector. Further "nationalizations" have affected individual (foreign) companies in a variety of strategic sectors (including mining, energy and telecommunications). Market-based competition was also deliberately limited by the Agrarian Reform Law of 2007 (reinforced by the 2009 constitution), which allows for the expropriation of land "not fulfilling its economic and social function," and lays the groundwork for a more comprehensive and redistributive agrarian reform (see sections on Property rights and Private enterprises below). Administered prizes exist for petroleum products and potable water. The 2009 constitution envisions a "plural" economy consisting of "communitarian, state, private and social cooperative" forms of economic organization, and prioritizes domestic investment over foreign investment.

In principle, Bolivia's laws call for resisting the formation of monopolies and oligopolies, but the regulations have for many years been implemented rather inconsistently. Between 1985 and 2005, many new monopolies or oligopolies were formed at the regional or sectoral level, such as in the media sector or by the processes of privatization. Since 2006, the return to stronger state intervention has manifestly favored state and parastatal monopolistic tendencies. There is still no competition law nor law on mergers. However, the 2009 constitution prohibits private monopolies and oligopolies, and specifically large land holdings (the latifundio), establishing an absolute limit of 5,000 hectares.

Anti-monopoly
policy

6

Foreign trade was deregulated after 1985, and was liberalized and diversified throughout the 1990s. The change in economic policy since 2005 has affected foreign investments, but did not compromise trade. The degree of "trade freedom," according to The Heritage Foundation's Index of Economic Freedom, has in fact increased under the Morales government. Bolivia's weighted average tariff rate was 4.1% in 2008. However, there are quite a large number of non-tariff barriers, including import bans and restrictions and domestic preferences in government procurement, all of which constrain market access.

Liberalization of
foreign trade

6

Bolivia is a member of the WTO and the Andean Community (CAN), and is an associate member of Mercosur. The Morales government is critical of free trade agreements, although not in principle opposed to trade treaties. On the one hand, trade negotiations with the United States and the European Union (within the CAN framework) were stopped. On the other hand, Bolivia joined the "Peoples' Trade Treaty," originally negotiated between Cuba and Venezuela. Following a crisis in bilateral relations that included the mutual expulsion of ambassadors, the U.S. government in 2008 suspended Bolivia's inclusion in the Andean Trade Promotion and Drug Eradication Act (ATPDEA), thereby revoking a number of trade preferences. These political developments only reinforce a successful trend toward

the diversification of trade partners: While the share of Bolivian exports going to North America and Europe has declined from more than 56% in 1999 to less than 17% in 2008, the shares going to Latin America (Brazil in particular) and the Asia Pacific region have increased significantly.

Bolivia's banking system and 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. According to The Heritage Foundation (in its 2010 Index of Economic Freedom), there are 12 commercial banks in Bolivia, three of which are foreign-owned, and 45 non-bank financial institutions. During the last decade, the share of nonperforming loans as a percentage of banks' total gross loans has declined continuously, from 17.7% in 2002 to 4.3% in 2008 (World Bank data). The bank capital-to-assets ratio has declined (to 9.3% in 2008), but the ratio of bank liquid reserves to bank assets has more than doubled (to 9.7% in 2008). Given Bolivia's limited integration with the international capital market, the recent global financial crisis did not directly affect the country, but did have indirect effects in the form of declining commodity prices and remittances.

Banking system
7

8 | Currency and Price Stability

The governments of the past two decades have on the whole pursued a consistent policy on inflation and an appropriate exchange rate policy. Consumer price index inflation significantly increased in 2007 (8.7%) and 2008 (14.0%) due to rising food and energy prices, but returned to low levels in 2009 (3.3%). Thus, inflation proved to be externally driven and temporary, and the government's decision largely to resist pressures to adopt contractionary macroeconomic policies in order to bring down inflation paid off. For more than 20 years, the central bank has followed a strategy of incremental adjustments in the exchange rate vis-à-vis the dollar (a crawling peg). However, in order to guarantee stability in the context of the global financial crisis, the central bank temporarily shifted to a strategy of maintaining a fixed nominal exchange rate. This led to an appreciation in the real exchange rate. In late 2010, the central bank allowed a slight appreciation in the boliviano in order to curb "external inflationary pressures." International reserves, which have soared since 2005, reached more than \$8.6 billion in late 2009, thus guaranteeing some level of security against external shocks. Increasing public confidence in the domestic currency is demonstrated by a significantly reduced degree of dollarization, declining from more than 70% in early 2006 (88% in 2000) to about 40% in 2008 – 2009.

Anti-inflation /
forex policy
8

Bolivia's central bank is not independent, but – according to the 2009 constitution – the executive sets monetary and exchange rate policy objectives "in coordination with the central bank."

Between the late 1980s and 2005, Bolivian governments were committed to fiscal and debt policies aimed at macroeconomic (especially, monetary) stability; they even implemented strict austerity measures during some periods. In terms of overall priorities, this has changed since 2006. Yet despite the new emphasis on social policies and public investment, the Morales government to date has stuck to a consistent stability policy (an exception being the prudent decision not to resort to austerity measures to fight the externally driven hike in inflation in 2008 and 2009). Based on high commodity prices and increased revenues from gas exports due to the hydrocarbons law and “nationalization” policy, continuous budget deficits between 2000 and 2005 have been transformed into fiscal surpluses since 2006. Even in 2009, despite the global financial crisis and shrinking revenues from exports, Bolivia registered a small budget surplus (0.1% according to CEPAL data). Yet the fact that the surplus in the general government budget (4.1%) was almost entirely eaten up by the negative balance shown by public companies (due to reduced gas revenues) highlights the government’s dependence on revenues from the hydrocarbons sector. In 2009, the surplus in the current account balance also declined (though still surpassing pre-2006 levels). Nevertheless, international reserves kept rising, a trend that confirms the general focus on macroeconomic stability. Since 2003, Bolivia’s public and external debt levels have gone down, though new loans from multilateral organizations led to a slight increase in 2009. In May 2010, Standard and Poor’s raised the rating of Bolivian debt security from “B-/C” to “B/B.”

Macrostability
8

9 | Private Property

The 2009 constitution guarantees the right to private property, provided that it performs a social function, and provides for “prior just compensation” in cases of expropriation. This is not significantly different from the constitutional status quo ante and is entirely in line with the notion of a social market economy. Nevertheless, guarantees of property rights are not implemented consistently or safeguarded against state intervention. In recent cases of expropriation, appropriate compensation was not guaranteed by well-defined procedures and transparent criteria, but emerged from negotiations. With a view to land tenure, the new constitution deliberately limits the right to private property by establishing an absolute limit of 5,000 hectares (which is not, however, applied to already existing agrarian property). Land not fulfilling a “social-economic function” will be confiscated. The implementation of agrarian reform is a heavily contested process and shaped more by political struggles than by legal procedures and reliable dispute settlement.

Property rights
5

Private companies are permitted and in principle can act freely, but bureaucratic and political limitations exist. Under the Morales government and the 2009 constitution, private enterprise has lost its former status as the primary engine of economic development. State companies in particular have gained importance in quite a few sectors. Privatization is no longer a political strategy, and the privatization process (which began in 1985) has been partially reversed. However, “nationalization” – even in the hydrocarbons sector – has not led to total state domination of strategic sectors, but instead to new forms of cooperation between public and private (foreign) companies featuring significantly increased participation and control by the state. In addition, Bolivia’s regulatory environment has historically been regarded as relatively restrictive for private business (see, for example, the World Bank’s Doing Business reports).

Private enterprise
4

10 | Welfare Regime

Social safety nets are fragmented, and coverage is not distributed equally. In recent years, the government has tried to address all three of the principal problems of the country’s mechanisms of social provision, by modernizing the theoretically well-developed, but highly inefficient traditional system of social security; by extending coverage to the great majority of people who are not yet included, particularly in rural areas; and by fighting poverty among the lower-paid strata of workers (formal and informal) and marginal self-employed. Since 2006, the Morales government has regularly increased the minimum wage and has introduced a series of anti-poverty programs. Since 2006, a conditional cash transfer (“Bono Juancito Pinto”) is awarded once a year to children in return for continuing education through the sixth grade of primary school. In 2008, a tax-financed, non-contribution-based state pension for all citizens over 60 years (“Renta Dignidad”) replaced the previous “Bonosol” program. This new state pension is universal, but levels are higher for elderly people who do not receive social security payments. Since 2009, an additional cash transfer program (“Bono Juana Azurduy”) supports pregnant women and young mothers if they seek medical care during and after pregnancy. In December 2010, parliament passed a new pension law (Ley de Pensiones), under which private pension funds (the result of the privatization of social security in the 1990s) will be replaced by a public entity; the age of retirement has been reduced from 65 to 58 years; and sanctions for companies that do not contribute to the pension funds has been established. In general, the 2009 constitution establishes a series of social rights and prohibits the privatization of public social services related to the supply of water/sewage, public health and social security. Since 2006, social spending has increased significantly, but in international comparison, remains at a rather low level.

Social safety nets
5

Bolivia is characterized by multiple structural social inequalities. Although equality of opportunity is formally guaranteed, it is not achieved in actual practice. According to the UNDP, the female-to-male ratio of citizens with at least secondary education is 0.81 (2010), while the country's most recent Gender Inequality Index score was 0.67 (2008). Almost 30% of members of the current parliament are women (50% if supplementary parliamentarians are included). Members of indigenous peoples, especially from rural areas, have significantly fewer opportunities than their non-indigenous counterparts to receive higher education, get a job in the formal economy and escape poverty. This said, significant improvements can be observed, and the situation across the board is certainly better than 10 or 20 years ago. Since 1990, and in particular since 2005, indigenous access to public office has increased dramatically. Most recently, following a three-year literacy campaign assisted by Venezuela and Cuba, Bolivia was declared free of illiteracy by UNESCO in late 2008. At the level of perceived inequalities, the Morales government has had remarkable effects: According to opinion polls reported by UNDP Bolivia, broad majorities agree that the opportunity to access public office has increased for indigenous peoples and women. Even more notably, 34% of respondents regard the distribution of wealth in Bolivia as just – more than in any other Latin American country.

Equal opportunity
5

11 | Economic Performance

In terms of macroeconomic indicators, Bolivia's economic performance has continuously improved since 2003, primarily due to a substantial increase in state revenues from the export of natural gas. Growth was stable between 4% and 5% from 2004 to 2007 (the 0% growth rate reported by the World Bank for 2007 is wrong) and peaked at 6.1% in 2008. In 2009, the global financial crisis took its toll, but Bolivia's GDP still grew by a considerable 3.4% (the highest growth rate in the Western hemisphere). For 2010 and 2011, the IMF predicts respective 4.0% and 4.5% growth. GDP per capita (on a PPP basis) rose from \$3,982 in 2006 to \$4,426 in 2009. Inflation showed a worrying trend in 2007 and 2008, but this hike proved externally driven and temporary. Following an inflation rate of 3.3% in 2009, the IMF projected a rate of 1.7% for 2010. Driven by strong export growth, the current account balance has steadily improved since 2002, showing a surplus of around 12% of GDP between 2006 and 2008. Even with a 5.9% drop in exports in 2009, it remained positive (4.6% of GDP), and in 2010 increased again to 6.5% (IMF estimates). Tax revenue grew from 16% of GDP in 2004 to almost 20% in 2009, and the continuous nonfinancial public sector surplus seen since 2006 even remained (marginally) positive in 2009. Public and external debt has gone down considerably. Foreign direct investment (as a share of GDP) has fallen steadily since 1998, and was between 2.4% and 3.1% in the 2006 – 2009 period. At the same time, gross capital formation grew to 17.6% and 17.7% of GDP respectively

Output strength
8

in 2008 and 2009. The positive unemployment trend between 2005 (8.1%) and 2008 (6.7%) was reversed in 2009, when the jobless rate rose to 7.9%. Of course, all these assessments have to take into account the reality of a huge informal sector and extensive poverty.

12 | Sustainability

Environmental concerns receive relatively little attention in Bolivian economic planning at both the macro and micro level, lack an effective institutional framework, and have usually been subordinated to the goals of growth and (since 2006) redistribution. According to Yale University's Environmental Performance Index, Bolivia performs poorly: In 2010, Bolivia was ranked 137th out of 163 countries; in the Western hemisphere, only Haiti's performance is considered worse. However, following the Rio Summit in 1992, environmental concerns were made a part of the political agenda, and a series of environmental regulations and institutions were established. The 2009 constitution, drawing on indigenous principles, enhances the status of ecological concerns and broadens the legal basis for environmental policy. At the rhetorical and international levels, the current Bolivian government promotes far-reaching ecological principles. Domestically, there have been some improvements in terms of regulation and institutions, but actual implementation is another matter. National development policies clearly prioritize the exploitation of natural resources, with environmental concerns usually taking a back seat, if playing any role at all. This could be seen in the Development Plan 2010 – 2015, in the reopening of the Corocoro copper mine (closed in 1986) without an environmental impact study, and in the many (at times violent) conflicts between government agencies (including various ministries, the Comibol mining company, its Dirección de Evaporíticos, and YPBF) and indigenous peasant organizations, over issues such as the impact of the important San Cristobal mine, or problems associated with the pilot plant for lithium extraction in Rio Grande at the Salar de Uyuni. In addition, the agrarian reform policy aims at redistributing land to indigenous communities and peasant farmers, a process that reduces the pressure on protected areas and forests. Yet at times the redistribution of public land in the eastern lowlands (in favor of settling landless peasants from the highlands) has threatened protected territories, reservations and national parks. Despite these issues, environmental awareness seems to be on the rise, particularly within indigenous communities. Some (mostly Aymara) communities have gone to the courts, and one complaint on the basis of "contamination and impunity" was accepted by the Interamerican Commission on Human Rights in 2010. A number of indigenous organizations have threatened to withdraw their support from the MAS in 2014 for reasons of environmental policy.

Environmental
policy
5

The public and private institutions for education, training, and research and development are highly heterogeneous, and show clear deficits particularly in terms of R&D. They are unevenly distributed, essentially concentrated in urban areas, and often altogether lacking in rural districts. Public expenditure on education has increased from 2.4% of GDP in the early 1990s to around 6.4% in the period between 2002 and 2006. Research and development expenditures were clearly insufficient between 2000 and 2005 (0.28% of GDP) and have probably not increased in recent years. The Morales government has prioritized basic education, and in general has shown notable successes in fighting illiteracy and broadening primary education.

Education policy /
R&D

5

Transformation Management

I. Level of Difficulty

Formidable structural difficulties constrain the leadership's governing capacity, and have not substantially changed during the last two years. First, Bolivia is a landlocked country characterized by extreme geographical disparities, and is frequently hit by natural disasters (especially floods associated with the El Niño phenomenon). Second, socioeconomic constraints persist, including poverty and diverse inequalities; insufficient infrastructure; a structurally heterogeneous economy; high debt; dependency on foreign markets and primary commodity exports, donors and external veto players; an extensive informal sector; the peculiar coca economy; drug production and trafficking; and structural migration. Third, political institutions and administrative structures are chronically weak, and state capacities limited. Fourth, ethnic fragmentation, a long history of ethnicity-based discrimination, and additional cleavages along the lines of local and regional identities have eroded trust and consensus, inflamed conflicts and today make it difficult to reach a consensus on questions of national development. On the positive side of the equation, the level of political violence is low, and the democratic rules of the game are generally accepted (if frequently bypassed).

Structural
constraints
7

Bolivia is home to numerous and active civic associations. Civil society organizations of all different kinds have a long tradition. Yet, civil society is fragmented – and in part openly polarized – along communal, regional, sectoral and ethnic lines, and social trust is weak. In general, societal organizations are less characterized by a civic culture of participation in public life than by a culture of mobilization and negotiation.

Civil society
traditions
6

Conflict levels, while always high in Bolivia, rose almost continuously after the year 2000. Under the Morales government, society and political elites have become increasingly split into two camps generally associated with different regional, ethnic and social-class identities. This polarization culminated in an open political crisis in September 2008, when protests by the oppositional autonomy movements in the lowland departments peaked, with cities, streets and gas pipelines blocked, central-state institutions occupied, and violence escalating between oppositional and pro-government groups. However, fears of civil war or secession ultimately

Conflict intensity
6

gave way to a process of relative stabilization. Conflict intensity in 2009 and 2010 was notably lower than in 2007 and 2008. Nevertheless, the general situation of polarization persists, and mobilized groups and protest movements continue to play an important political role. Political protests, demonstrations, strikes and occupations occur frequently and regularly involve some amount of violence. While the most significant regional conflicts have calmed somewhat, the prevalence of local ethnic and social conflicts has been on the rise, and new elite conflicts within the MAS coalition have broken out. In April 2010, the (mostly urban) Movimiento sin Miedo led by former La Paz Mayor Juan Del Granado left the coalition.

II. Management Performance

14 | Steering Capability

When assessing the steering capacity of the current Bolivian government, the normative framework of the BTI presents some systematic difficulties. In very general terms, the strategic priorities set by the Morales government are not inconsistent with liberal democracy and the development of a market economy. Yet they are in part quite different from the specific concepts that guide the BTI. With a view to democracy, the BTI highlights elections (as the only form of political participation assessed) and the rule of law (as a crucial complement). The new Bolivian constitution rejects neither of these two dimensions of liberal democracy, but adds, *inter alia*, institutions of direct democracy, mechanisms of political participation and social control by civil society, and forms of indigenous self-governance (including indigenous justice systems) which are not considered in the BTI framework. In actual political practice, the Morales government clearly prioritizes vertical over horizontal accountability, and is much more concerned with the substance than with the form of democratic decision-making or with the rule of law. With a view to economics, the current government does not regard the market economy as the primary – let alone the only – game in town. Whereas the BTI focuses on free markets and private property rights, the current Bolivian government aims at regulated markets that encompass private enterprises and property rights, but within the framework (and the limits) of a plural economy, and directed toward the ultimate aim of “improving the quality of life and the good living of all Bolivians,” as stated by the 2009 constitution. This particularly includes an emphasis on state intervention and active state participation in the economy.

With these qualifications, the Morales government, from the very outset, has set strategic priorities and maintained them for now five years. Given the extraordinary

Question
Score

Prioritization
6

depth of the political changes given priority, and the fierce resistance offered by powerful (if minoritarian) defenders of the status quo, the government has proved remarkably capable of pragmatically adjusting policy measures and revising specific objectives in order to prevent failure. This has included the capacity to maintain a long-term perspective through periods of crisis and stalemate. Although a myriad of inconsistencies and problems could of course be mentioned, in terms of its main strategic priorities, the general balance of the Morales government has proved to be remarkable. For example, a new constitution was written and adopted that generally corresponds to MAS priorities while still incorporating the most important concerns of the opposition. Following general elections in December 2009, this new constitution is now being implemented in a rather swift process of parliamentary law-making. The “nationalization” of the gas sector led to a largely successful renegotiation of business terms with transnational companies, which by and large accepted the new framework established by the Bolivian state. A series of new social programs was initiated and implemented. The Morales government largely ended the U.S.-driven “war on drugs” in favor of a more cooperative strategy, which has led to improvements in terms of human rights while not being significantly worse than previous strategies in terms of counternarcotics results.

The government’s effectiveness in implementing its major policy priorities, in a general sense, is remarkably high. The most important declared objectives have either been realized (e.g., the passage and implementation of the new constitution; the “nationalization” of the gas industry) or realization has been initiated (e.g., indigenous community autonomy; broadening access to public social services and social security). Yet again, the government’s strategic priorities only partially correspond to the normative framework of the BTI. More importantly, effective implementation of individual policy measures is hindered by a series of political and administrative problems, and also by internal elite or group conflicts. In political terms, the government’s radical and antagonizing rhetoric, the lack of respect for proper procedures, and the instrumentalization of social movements and lawsuits as means in the political struggle have all contributed to a situation of polarization and mutual mistrust. In administrative terms, the Morales government was confronted with weak state institutions and administrative capacities. This weakness was reinforced by a dramatic change in political elites and state personnel, as well as by the profound restructuring of political institutions across all levels of the state. In addition, the depth of the political changes promoted, the lack of experience in terms of running a state, and the heterogeneity of the MAS itself almost inevitably led to a governing style characterized by an improvisational style of decision-making. This has naturally produced a series of inconsistencies.

In Bolivia, there is scarce evidence of institutionalized mechanisms of policy learning. Innovation and flexibility, therefore, emerge instead through trial and error or simply by muddling through. Under the Morales government, the political

Implementation
6

Policy learning
6

leadership has frequently begun with maximalist and often antagonistic positions, only later to shift to a search for compromise and realistic solutions. In a number of areas this strategy has ultimately been successful, but has at the same time contributed to polarization while consuming much time and energy. In any case, it is more about adaptation than about systematic learning from past experiences through effective monitoring and evaluation. In general, the balance is mixed. On the one hand, the government has reacted in a flexible way; has revised decisions, drafts and plans; and has compromised whenever it has encountered determined resistance by groups or foreign partners whose cooperation was necessary to break a deadlock and accomplish a high-priority objective. During the period under review, this could be seen in the negotiations over a transitional electoral law: Following serious contention between the government and the opposition, culminating in a hunger strike by President Morales himself, Congress finally agreed in April 2009 to a compromise which incorporated most of the opposition's demands. This paved the way for a biometrically based revision of the voter registry, and ultimately allowed for relatively undisputed general elections in December 2009. On the other hand, the government and the MAS have continued to pursue their maximalist strategy, have tended to ignore critical objections to their proposals, and have regularly insisted on polarization and mobilization instead of moderation and dialogue. Since the December 2009 elections, the two-thirds majority in parliament has greatly expanded the MAS's opportunity to do so. For example, when drafting the new anti-racism law, adopted in October 2010, the MAS virtually ignored the broad criticism of two particular paragraphs by media owners and journalists, opposition politicians, and a series of civil society groups. The MAS thereby contributed not only to polarization, but also allowed a debate on racism (in which the government was taking an important legal initiative against racism) to be replaced by a debate on press freedom (with the government being presented as trying to curb the private media).

15 | Resource Efficiency

Bolivia's public administration is on the whole (some sectoral and local exceptions notwithstanding) overstaffed, underprofessionalized, inefficient and persistently plagued by patronage and clientelism. Personnel turnover is high, from cabinet posts down to the lowest ranks. Recruiting procedures regularly lack transparency, and are not shielded from political influence. Financial and organizational resources are scarce. The budget has been balanced since 2006, in contrast to earlier years, but remains vulnerable and highly dependent on hydrocarbon exports. Public and external debt levels have been reduced since 2003 due to international debt relief and increased revenues, but both remain significant. The dramatic surge in state revenue from 2005 on has allowed for the implementation of new social programs, which seem to be relatively successful. However, the efficiency of public spending

Efficient use of
assets

4

in general saw little improvement during the period under review. The profound restructuring of state institutions implied by the new constitution added to the inefficiencies in the public administration of resources. In general, the recent increase in inclusiveness and responsiveness by the public administration has led to at least temporary losses in terms of efficiency and professionalism.

The government has to coordinate a broad spectrum of conflicting objectives, as the various groups and factions within the governing MAS (and within the larger alliance of indigenous and social movements close to the MAS) pursue different, often particularistic and contradictory interests and values. On the whole, the Morales government has been relatively successful in balancing conflicting claims. To date, it has prevented most relevant groups from definitely breaking with the MAS, and has pursued an overall policy that has secured largely continuous public support (the usual ups and downs notwithstanding). However, the coherence of this overall policy has at times been questionable. In a number of policy fields, the lack of coordination between the various government agencies and personalistic factions has become felt quite seriously. Specific policy measures and laws regularly contain contradictory or inconsistent elements, as indeed does the 2009 constitution itself. In order to avoid larger conflicts, the government has frequently given in to particularistic demands, accepting the ensuing elements of incoherence. The government's capacity to coordinate conflicting objectives is to an important extent based on informal modes of dialogue and negotiation, and depends very much on the personal capacity of President Morales, who in a rather unsystematic way usually makes the final decision.

Policy
coordination
6

Corruption is still widespread and has not changed significantly during the review period, despite improvements in the institutional framework and the implementation of various anti-corruption campaigns. According to the United Nations Office on Drugs and Crime (UNODOC), the current government has shown an "exceptional political will in the fight against corruption." In 2006, Bolivia established a vice ministry dedicated to anti-corruption. In 2009, this was given greater status, becoming the Ministry of Institutional Transparency and the Fight against Corruption. The 2009 constitution and various executive orders dealing with transparency and anti-corruption contain a series of important norms and mechanisms. However, institutional capacity is still lacking, and the new anti-corruption policy has yet to show results that go beyond highly publicized individual cases. In addition, the credibility of the government's fight against corruption is weakened by selective anti-corruption campaigns against current and former officeholders from opposition parties. Although the charges are usually not entirely unfounded, the political neutrality of the prosecution and trial (and the biased use of the law's retroactive clause) is questionable.

Anti-corruption
policy
4

16 | Consensus-Building

In Bolivia, there continues to be profound disagreement over the proper conception of both democracy and the economic order. The 2008 agreement in Congress on the revised draft constitution (which was supported by important parts of the opposition) demonstrates that it is possible to find a middle ground acceptable to most major political actors. Yet such an agreement does not express a normative consensus, but rather a pragmatic acceptance of the constellation of social forces. To the extent that there is some normative consensus uniting most major political actors, it is a very basic agreement on the need to uphold the democratic order, intrastate peace and the unity of the country. The precise features of democracy; the proper relation between participatory and plebiscitary elements, representative institutions and the rule of law; the scope and role of indigenous self-governance and law; the model under which decentralization and autonomy should be constructed; the role of the private market economy and of the state in the economy; and the meaning of a “plural” economy and the developmental model in general are all heavily contested questions.

There are no significant anti-democratic veto players in the strict sense. In recent years, the military has explicitly refused to consider coups, a regular practice in Bolivia until the early 1980s. Under the Morales government, the most important potential veto actors have been the regional autonomy movements in the Media Luna region. Particularly in Santa Cruz, this regional opposition included some anti-democratic forces, and openly acted against the democratically elected central government (partially pursuing secessionist objectives and applying racist rhetoric). Yet, the regional movements in general did not pursue openly anti-democratic objectives, but rather demanded (democratically conceived) autonomy for their departments. Since the crisis of September 2008, which was regarded by the central government as an attempted “civic coup,” and in fact involved violent resistance against the democratic central state, the regional movements have shifted to a largely institutionally focused course of action. For its part, the MAS and its allies include some anti-democratic groups, but these generally do not have any veto capacities. Morales and the MAS have been largely successful in co-opting or marginalizing openly anti-democratic forces among the leftist, social and indigenous movements. However, in a very general sense, undemocratic practices and a lack of respect for democratic procedures are common among most political and social actors.

The general problem characterizing the current political situation in Bolivia is that ethnic, class and regional cleavages have tended to overlap. The Morales government represents, first and foremost, the indigenous and poor people from the highlands. The strongest political opposition to Morales has come from regional

Consensus on goals
5

Anti-democratic
actors
7

Cleavage /
conflict
management
4

autonomy movements based in the Media Luna lowland region, and which are particularly in the non-indigenous, relatively affluent urban sectors there. Under these conditions, political leadership from both the government and opposition sides has been prone to politically exploit structural cleavages, thereby reinforcing political polarization. Yet electoral results show that on the whole, the Morales government has been partially successful in bridging some gaps. In the highlands, Morales also draws mestizo and middle-class support, and in the Media Luna, opposition to the government is far from unequivocal. Even in Santa Cruz and Tarija, large minorities back the government, and the indigenous peoples' organizations in the lowlands (e.g., CIDOB) are at least close to the MAS (and are definitely opposed to the regional autonomy movements). Since the general election in December 2009, however, the Morales government has not used (and in some cases not been able to use) its broad power base (including a two-thirds majority in parliament) to establish a broad consensus. Regular instances of negotiations across the dividing lines notwithstanding, confrontational rhetoric and decisions have persisted, perpetuating the climate of polarization. In particular, corruption charges against opposition-affiliated mayors and governors threaten their political survival. During 2010, eight mayors and one governor (Mario Cossío, of Tarija) were suspended. These decisions were taken by the respective subnational parliaments in accordance with the new Autonomy Law, yet parliamentary decisions are always political decisions (e.g., following the suspension of the oppositional Cossío, a MAS representative was appointed governor in Tarija). For its part, the regional opposition seems to acknowledge its present relative weakness and has somewhat backed away from excessively confrontational strategy, at least for the time being. In contrast, dissenting indigenous groups, mostly peasants, unions or specific local communities (ayllus), have recently stepped up levels of protest and conflict.

The political leadership takes into account and accommodates the interests of civil society actors. It even assigns an important role in deliberating and determining policies to "organized civil society" (as the 2009 constitution has it), but only selectively so. Whereas previous governments used to consult organizations representing the established urban elites, the economic associations and to some extent the unions, the Morales government has given much more consideration to the various groups of the "popular sectors," including indigenous and social movements, and trade and peasant unions. The most important among these are indigenous organizations (such as CONAMAQ or CIDOB), the federations of coca growers (especially from Cochabamba), the regional peasants' federation of the Southern Altiplano (FRUTCAS), trade unions (the miners in particular), trade union federations (CSUTCB, COB), and a whole series of territorially based local organizations (such as the federation of neighborhood organizations FEJUVE in El Alto). As a result, the involvement of civil society groups is without doubt much broader and deeper across the spectrum (and certainly high by international standards). Yet this involvement is not only politically biased, but also highly

Civil society
participation
8

informal, depending more on the goodwill of the government and the power to force the government's attention by mobilizing resistance than on established rights to participation and transparent procedures. It remains to be seen whether the implementation of the new constitution – which includes vaguely defined but potentially far-reaching rights to civil society participation – will lead to more institutionalized forms of involvement by societal organizations.

With few exceptions, the problem of reconciliation in Bolivian society does not focus on the perpetrators and victims of past military dictatorships. Rather, the major historical injustices the Morales government is addressing concern the centuries of discrimination against the indigenous majority of the population. However, the major thrust of government policies is not primarily aimed at reconciliation, but rather at overcoming the multiple modes of discrimination faced by the country's indigenous peoples. In this latter sense, the Morales government has already achieved remarkable progress, even if much remains to be done. At the same time, the new emphasis on the “plurinational” character of the Bolivian state and on indigenous rights has led to fears of reverse discrimination among certain non-indigenous sectors of society.

Reconciliation

7

17 | International Cooperation

During the period under review, the political leadership drew on the support of a large variety of international partners. However, the Morales government is in general highly focused on its own development agenda, and is less inclined than previous governments to accept international know-how and external advice. According to OECD data, the most important donors in 2009 included the United States, Spain, Germany, the Netherlands, Japan, the European Union, the World Bank and the Inter-American Development Bank. Since Morales came into office, additional financial assistance has come in particular from Venezuela. The National Development Plan outlines the government's long-term strategy of development, and at least officially, donors have aligned their priorities with this plan.

Effective use of support

7

A different case could be made for private investors. The Morales government has launched an ambitious plan to break with the traditional manner of raw material exploitation and instead combine the extraction (and processing) of Bolivia's vast lithium resources at the Salar de Uyuni under the control of a public enterprise for the industrialization and commercialization of Bolivia's “evaporating resources” (EPSICREB). This is further combined with a comprehensive project for the industrialization of the whole region. The sum total scared away many foreign investors, who went to Chile and Argentina instead. But there remain a number of international, private and state investors interested in becoming strategic partners in the exploitation of Bolivia's lithium.

In general, persisting weaknesses in making effective use of international support (which are real and significant) are due less to inconsistencies in the development agenda than to the lack of efficient infrastructure and the low institutional capacity of the public administration.

During the last two years, the level of confidence inspired by the government among international partners for its democratic and market-economic reform policies has not changed significantly. With regard to market reforms, international partners recognize (and largely accept) that Bolivia is not aiming at “more market.” Most bilateral and multilateral donors (with Venezuela being an obvious exception) regard the economic model promoted by the Morales government as lacking promise and sustainability, but they – including the IMF – acknowledge that actual macroeconomic policies have been rather pragmatic and successful. Confidence among foreign investors is certainly low (given the series of “nationalizations,” and also recent irritation over the status of (non-)agreements with Iran and Japan), yet there has been no general withdrawal of international private capital. In terms of democracy, the 2008 congressional agreement on the draft constitution, the constitutional referendum in 2009, and the successful elections in 2009 and 2010 have on the whole bolstered the government’s democratic credentials. Yet at least in private, most (northern-hemisphere, Western) governments express serious doubts regarding its reliability.

Credibility
5

Bolivia’s political leadership cooperates with its counterparts in many neighboring states, has intensified cooperation and is engaged in regional integration processes. However, it rejects certain rules set by international organizations (e.g., regarding foreign investors’ rights and the World Bank’s International Center for Settlement of Investment Disputes), and has abandoned the free trade agenda previous governments pursued in negotiations with the United States and the European Union. Within Latin America, Bolivia cooperates in all relevant organizations and with all its neighboring countries. Even relations with Chile, strained since the Pacific War in the 19th century, have improved during the presidencies of Morales in Bolivia and Michelle Bachelet in Chile (although the election of a conservative president in Chile in January 2010 led again to some deterioration). Relations with Peru experienced a short-lived diplomatic crisis in June 2009, but have significantly improved since then. In October 2010, the two governments signed a deal that allows Bolivia to build and operate a small port on the Pacific Ocean. The only – and relatively remote – “neighbor” in the region with whom bilateral relations remain in open diplomatic crisis is the United States. Although there have been some signs of hope for improvement since the election of President Barack Obama, the ongoing bilateral dialogue between the two governments has yet to bear fruit.

Regional
cooperation
7

Strategic Outlook

At the moment, there is no plausible political alternative to the Morales government. While Evo Morales and the MAS are certainly not aiming at political and economic reforms that are perfectly in line with the normative frame of the BTI, it is hard to imagine that an alternative government could turn back the recent political and economic transformations in order to reset the country on a path toward “minimalist” liberal democracy and a free market economy. Whether this would be normatively desirable is yet another question. In any case, the political and economic order taking shape in Bolivia is both fundamentally democratic and consistent with the existence of a market economy (if within clear-cut limits). When accepting Bolivia’s legitimate entitlement to search for a politico-economic order that is deemed appropriate for the country, it is all the more clear that actors (domestic and international) that aim at supporting democracy should not try to undermine or reverse the changes envisioned by the 2009 constitution, but should rather work for its implementation in the most democratic and inclusive way possible. In particular, five main problems or risks have to be confronted:

(1) Politically, it will be crucial that the political dominance of the MAS is not used by the government to definitely exclude opposition forces and critics from public debate and political decision-making roles. Morales and the MAS should use their overwhelming political power to combine a consistent implementation of the constitution with a style of governing that is inclusive, participatory and oriented toward dialogue, and furthermore respects the basics of the rule of law. Serious efforts at dialogue and consensus-building will also be necessary to avoid exacerbating cleavages and escalating conflicts within the broader MAS alliance (as evidenced by the August 2010 protests in Potosí and the December 2010 protests in La Paz).

(2) With respect to the legal and territorial order, the task of incorporating indigenous systems of justice and indigenous self-governance without compromising either basic civil rights or collective indigenous rights will remain a difficult issue – and a source of constant conflict – well beyond the adoption of the implementing law (Ley de Deslinde). So too will be the distribution of competences among the various levels of autonomous governments. Indeed, the task of making the departmental autonomy statutes compatible with the constitution remains outstanding.

(3) In terms of institutional capacities, the focus on restructuring political institutions (including independent courts of law) should now give way to a strategic priority on strengthening and empowering these institutions (including their administrative capacities and relative autonomy).

(4) With respect to social policy, the existing system of social security and the important social programs initiated by the Morales government should be further deepened and strengthened.

However, while signaling a clear political will to approach the state of universal social rights as established in the constitution in a progressive manner, the government will have to contain rising expectations.

(5) Economically, the dependence on (export of) primary resources constitutes the country's main weakness. There is a real danger that the (fiscal) income generated by resource exploitation will be spent on public investments that may generate some economic growth (and reduce poverty), but do not generate the basis for an alternative development model. Incipient initiatives to promote the industrialization of nonrenewable resources (including lithium as the richest source of potential) are important. But good ideas on how these could become part of a plural, diversified and ecologically sustainable Bolivian economy still deserve elaboration – and will require the political will to adopt a long-term perspective.