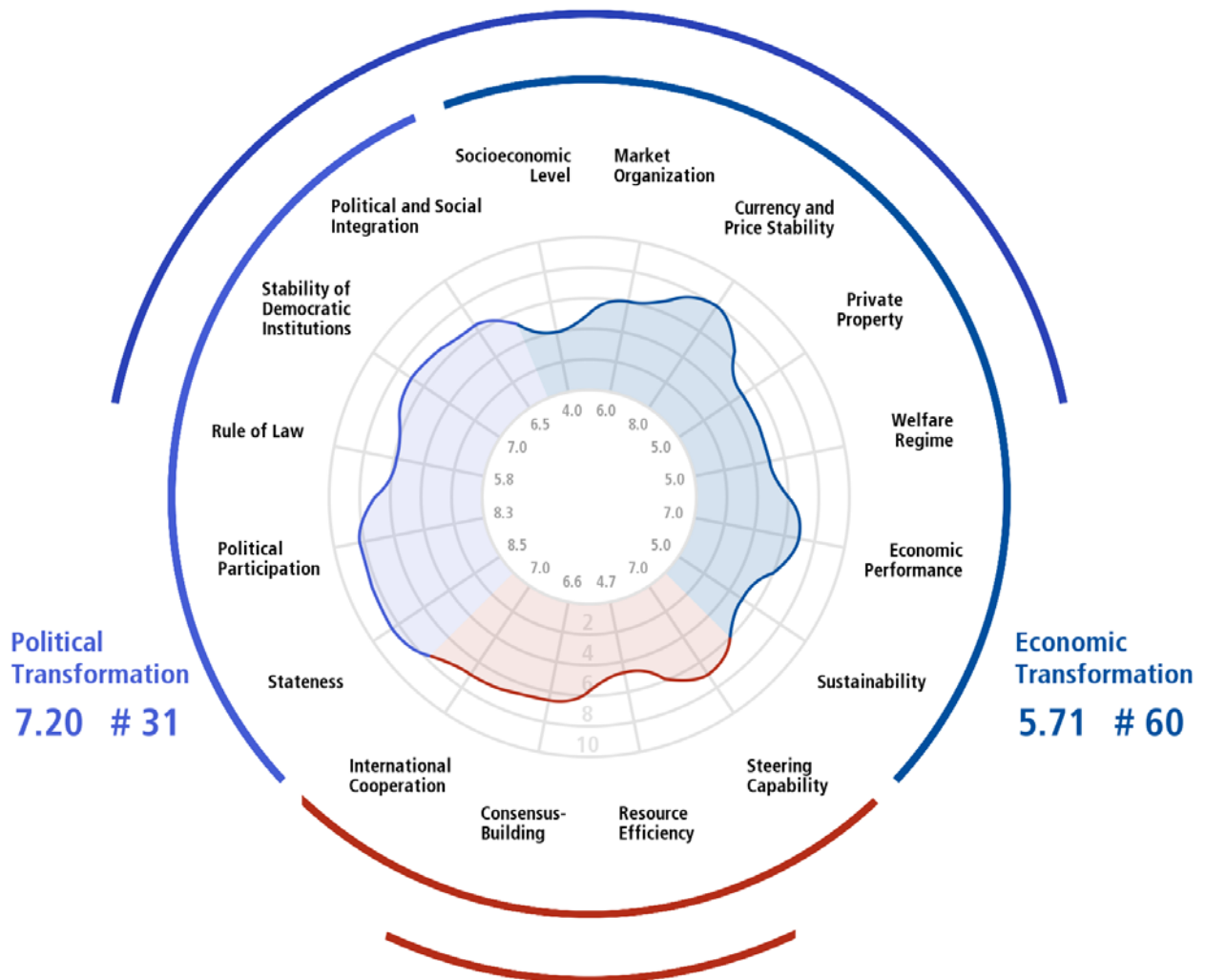


Bolivia

Status Index

6.46 # 39

on 1-10 scale out of 129



Political Transformation
7.20 # 31

Economic Transformation
5.71 # 60

Governance Index

5.66 # 41

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	10.9	HDI	0.674	GDP p.c., PPP \$	7236
Pop. growth ¹	% p.a.	1.5	HDI rank of 188	118	Gini Index	45.8
Life expectancy	years	68.7	UN Education Index	0.687	Poverty ³	% 12.9
Urban population	%	68.9	Gender inequality ²	0.446	Aid per capita \$	73.4

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

After years of profound change in Bolivia, the period under review (February 2015 to January 2017) can be largely characterized as one of continuity. President Evo Morales, in office since 2006, was reelected in 2014 with more than 60% of the vote for a term that will end in 2019. The president's party, Movimiento al Socialismo (MAS), has held a two-thirds majority in parliament since 2009. Opinion polls show Morales and his government continuing to receive high approval ratings. Despite the dramatic fall in global commodity prices, on which Bolivia's economy crucially depends, the economic situation has remained remarkably stable – particularly in comparison to some of Bolivia's neighbors. Overall, no substantial changes have been recorded during the current review period.

Notwithstanding, recent developments suggest that the economic growth and political stability of recent years – historically exceptional – is coming to an end. In February 2016, the government narrowly lost a referendum that intended to relax presidential term limits in order to enable Morales and his vice-president, Álvaro García Linera, to run again in 2019. This defeat marked the first time that the MAS government had lost a national referendum. Given the opposition's persistent weakness and fragmentation, the referendum result exposes a gradual erosion of the broad sociopolitical alliance that has sustained the MAS government as well as waning support for Morales. More generally, the referendum's outcome is a positive sign for Bolivian democracy: it has demonstrated that political outcomes remain fluid and that the government will accept a defeat. Of concern, however, is a December 2016 decision by the MAS to nonetheless push for Morales's renewed candidacy. At the time of writing, it is unclear whether the government will again attempt to amend the constitution or whether it will push for a blatantly unconstitutional reinterpretation of existing law.

A decline in prices of Bolivia's most important export goods (hydrocarbons and minerals) is straining both economic growth and public spending. A severe drought, which exposed serious administrative problems in the water sector, has exacerbated these challenges. Deficits in both the

current account and fiscal budget emerged during the review period, resulting in shrinking international reserves and growing public-sector debt. The MAS government's modernization strategy combines state-led, socially inclusive development (characterized by high levels of public investment and active social policy) with countercyclical macroeconomic policies. Even if foreign reserves remain relatively high, external debt moderate, and economic growth robust, this neo-developmental strategy is subject to growing pressure. In addition, the government's capacity to respond to social protests with public spending has been significantly compromised.

While these developments have increased political and economic uncertainties at the macro-level, recent years have been overshadowed by a myriad of single-issue, labor-related and/or local conflicts. These conflicts have pitted the government against individual social, indigenous or regional organizations that had traditionally supported Morales and the MAS. Such conflicts have, at times, involved violent clashes, but to date, the government has managed to prevent a broader escalation of antigovernment protests.

History and Characteristics of Transformation

Bolivia is one of Latin America's poorest countries, although it is one of the richest in fossil and mineral resources and soil conducive to productive agriculture. The disparities between its geographically, ethnically and economically heterogeneous regions are enormous. These disparities have often led to strife and conflict. Of increasing political relevance in recent years has been the regional cleavage between the highlands, where the country's administrative capital La Paz sits, and the southeastern lowlands (the Media Luna), where successful agribusinesses and the gas fields are located. Until recently, Bolivia was one of the most unequal countries in Latin America. The indigenous majority of the population has been particularly impacted by a historical legacy of discrimination. The 2009 constitution recognizes a total of 36 indigenous peoples, the largest being the Quechua (approximately 30% of the population) and Aymara (approximately 25%).

The 1952 revolution brought agrarian reform, nationalization of the large mining companies, universal suffrage and a wide range of social policy legislation. 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, lasting 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 involving the typical 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 in terms of democratic stability and societal peace, this "pacted democracy" had an exclusionary bias. Most of Bolivia's poor and indigenous people felt excluded

and marginalized; the neoliberal reforms added additional grievances. During the 1990s, indigenous and social movements increasingly challenged existing power structures among 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. During this period, the union leader and coca grower Evo Morales established himself as the leading representative of these 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 and social policies. In 2006 and 2007, an elected Constituent Assembly authored a new constitution and, after a revision of the constitutional draft by Congress in 2008, a broad majority (61%) of voters approved the new constitution in a referendum on January 25, 2009.

In terms of economic and social policies, the Morales government has increased the state's role in the economy. Based on rising revenues from hydrocarbon and mineral resources, social spending and public investment were expanded. During the first years of the MAS government, an emphasis on agrarian reform led to impressive gains in the titling and redistribution of land. As a result, poverty rates have fallen dramatically and socioeconomic inequality has been significantly reduced. Regarding the structure of the economy, the current government – like many governments before it – aims to reduce the dependency on commodity exports by pushing for an industrialization of extractive resources (gas, minerals and lithium); such efforts have thus far met with only limited success. Given a weak and fragmented opposition at the national level, opposition to Morales during his first years in power came primarily from conservative autonomy movements based in the southeastern lowland departments, led by right-wing governors and “civic committees.” More recent years, however, have seen an increase in conflicts among the broad and heterogeneous group of social, indigenous, labor, and regional organizations that had supported Morales and the MAS throughout previous confrontations with the “old elite.”

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

Transformation Status

I. Political Transformation

1 | Stateness

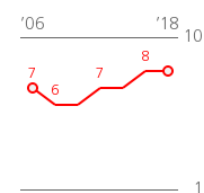
In Bolivia, there is no open challenge to the state's monopoly on the use of force. In contrast to previous years (2005 – 2009), regional autonomy movements no longer openly compete with the central state in this regard. However, the state's actual presence is not equally strong throughout all parts of the country. Some marginal regions are home to local parallel power structures dominated by landowners, narcotics traffickers or ethnic community organizations that, however, normally do not openly compete with the state. Police strikes and other expressions of strained relations between the state and security or military forces may temporarily pose a challenge to the state's capacity to exercise its monopoly on the use of force, but do not fundamentally undermine it.

While the official concept of Bolivia as a “plurinational state” remains contested, it is no longer actively challenged by any major group. The Bolivian state is generally accepted as legitimate by all relevant actors in society. There is no disagreement within Bolivia as to who qualifies as a citizen and access to citizenship is not denied to any particular group. The 2009 constitution has significantly broadened citizenship rights, in particular, with a view to economic, social and cultural rights, including collective indigenous rights. Under the Morales government (since 2006), the factual limits to citizenship of groups traditionally subject to discrimination (the indigenous majority, but also the Afro-Bolivian minority) have been clearly reduced, although de facto discrimination persists.

Question
Score

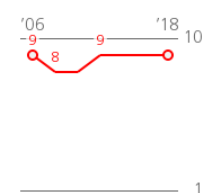
Monopoly on the
use of force

8



State identity

9



Church and state are separated, and religious dogmas have no noteworthy influence on politics or law. The 2009 constitution has eliminated the special status formerly granted to the Catholic Church. The period of the Morales government has been characterized by tensions with the Catholic Church. The latter has, in turn, bolstered its role as a religious-based interest group. The significant reduction in interference of religious dogmas was, most recently, confirmed in May 2016 when parliament passed a new Gender Identity Law that allows Bolivians to change their gender on official documents.

No interference of religious dogmas

10



There are functioning administrative structures in Bolivia. Although the state's physical infrastructure extends throughout the country and its presence has significantly increased over the last couple of years, its practical administrative reach is incomplete. According to World Bank development data, between 2005 and 2015 access to improved water sources increased from 83% to 90% and access to improved sanitation facilities rose from 42% to 50%. Overall infrastructure (e.g., roads) remains relatively poor, but has likewise seen significant improvements under the current government. Limited resources and a lack of professionalism coupled with politicization and corruption restrict country-wide application of jurisdiction/access to the judicial system and the provision of law enforcement. Indigenous (community) justice systems (officially recognized by the 2009 constitution with status equal to ordinary law) provide judicial functions, but also lead to tensions and conflicts with state law.

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 ever more representative. Still, the playing field is far from level given the absence of government financing for electoral campaigns, unequal access of political parties to private donations, and de facto use of state offices and resources by the governing parties (at various levels) for campaign purposes. Such asymmetries are also reflected in access to media, though state media are obliged to grant free and equal access to all political parties during electoral processes. After having observed the most recent general elections in 2014, an Organization of American States (OAS) mission praised the high level of citizen participation but also noted that the country's electoral institutions are overburdened, recommending that Bolivia should implement an effective system for transmitting and disseminating preliminary results. The OAS electoral observation mission also reported "repeated complaints from different political parties regarding the constant dissemination, during the campaign period, of the current government's achievements." With a view to the 2015 subnational elections, an OAS mission noted some improvements, but also criticized the

Free and fair elections

9



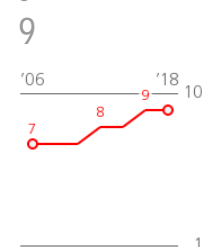
disqualification and substitution of candidates. Furthermore, the absence of regulations ensuring equitable media access of all parties was noted. In general, the results of elections and referendums are not questioned. Furthermore, the defeat of the government-supported option in the 2016 constitutional referendum shows that the opposition can win even on the national level. The 2009 constitution introduced the popular election of the highest judicial tribunals' members and, for parliamentary elections, established special electoral districts for indigenous minority groups in rural areas. Aside from elections, the constitution provides for additional mechanisms of political participation such as recalls, referendums, citizens' legislative initiatives, and direct participation by "organized civil society" in the design and oversight of public policies.

In principle, elected rulers have 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 United States government and international financial institutions) have lost influence, although this certainly does not mean that they have no political influence whatsoever. Still, the influence that remains, in general, simply reflects the fact that - as in any democracy embedded in a capitalist society - social groups and actors that control economic resources usually have disproportionate political influence. At the same time, social protests also limit the government's power to govern, as do certain regional bosses and mafia at the local level.

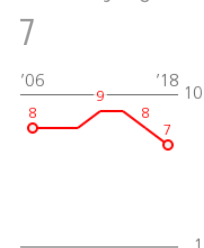
Freedom of assembly and association is constitutionally guaranteed and not restricted in principle. Under the Morales administration, the state has relied far less on overt repression (including deploying the military and declaring a state of emergency) when confronted with mass protests than it did under previous governments. Nevertheless, in the period under review some protests were met with repression and police violence. Also, the government regularly attacks and intimidates civic groups that it perceives as oppositional. In 2013, new regulations for NGOs were adopted that have received criticism from international human rights organizations because they allow for the dissolution of NGOs, for instance, when they act against their declared aims. Civil society organizations also lament complex registration processes. In 2015, 38 organizations were declared "irregular" (but not dissolved) by the Ministry of Autonomy because they had failed to reregister under the new regulations. The government has reportedly also encouraged divisions within social movement organizations (particularly within indigenous organizations) in order to weaken the opposition.

Freedom of expression is generally guaranteed. Private media (newspapers, TV and radio) are pluralistic, but tend to privilege the view of the opposition. The importance of state media - which has a pro-government bias - has grown throughout the Morales era. This also includes an internet presence by the government news agency (Agencia Boliviana de Información), where it likewise competes with private and

Effective power to govern



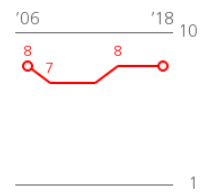
Association / assembly rights



Freedom of expression

8

“social” media. According to the 2011 telecommunications law, television and radio frequencies have to be distributed equally between the state, the private sector and community-based, small farmer and indigenous groups. Tensions between the Morales government and private media persist, though some private media outlets have become more pro-government after a change in ownership. Reporters Without Borders notes a climate of self-censorship driven by financial pressure (i.e., denial of state advertising), threats and abuse against media personnel. At times, private media outlets and individual journalists become the target of legal proceedings. 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 violating press freedom. Regulations adopted in January 2011 tightened up the law’s vague wording and softened penalties, laying the foundation for a more restrictive interpretation of the law. According to international rankings on press freedom (Reporters Without Borders, Freedom House), the situation in Bolivia roughly corresponds with the majority of South American countries (and is significantly better than in Colombia and Venezuela). There is still no law on freedom of information.

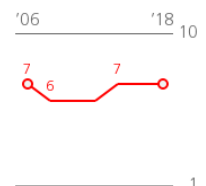


3 | Rule of Law

Formally, the 2009 constitution envisions a clear-cut separation of powers, in particular between the three branches of the state that are 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 social control introduce an additional form of (vertical) checks and balances. In practice, the separation of powers continues to be limited. This is, on the one hand, the result of entrenched practices related to the executive’s meddling in legislative and judicial affairs, as well as of general patterns of politicization and corruption. On the other hand, it is due to the simple fact that the MAS party, since the general elections in December 2009, has had a two-thirds majority in both chambers of the new parliament. This has resulted in a fusion of powers (as is often the case in parliamentary systems) and has severely limited the ability of the opposition to control the executive, shape legislation and influence the pre-selection of candidates for judicial elections. Accordingly, the highest judicial tribunals are generally perceived as close to the government and the MAS, even if they have, in individual rulings, demonstrated certain independence. As a partial substitute to these weak institutions of horizontal accountability, Bolivian democracy is characterized by strong vertical checks and balances: subnational governments and strong social organizations that monitor and balance the power of the central government.

Separation of powers

7



The judiciary is traditionally the weakest branch of the Bolivian government and its independence continues to be restricted in practice. The election of high court judges by popular vote, introduced by the 2009 constitution, has not improved independence. Given that the MAS majority in parliament controlled the pre-selection of candidates,

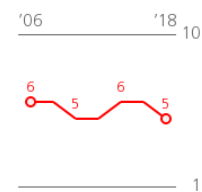
Independent judiciary

5

the judges elected in 2011 were perceived from the outset as close to the government. Since 2012, there have been some tentative early indications of some judicial independence, such as the Constitutional Court's decision regarding the TIPNIS consultation, its rulings against the criminalization of "desacato" (insulting public officials) and retroactivity of the current anti-corruption law, and its declaring unconstitutional those articles in the Autonomy Law that allowed for suspending elected officials on the basis of a formal accusation. In recent years, however, several elected judges have faced charges in parliament and three of the seven judges of the Constitutional Court have been effectively removed from office. At the same time, "traditional" problems persist, such as the judiciary's administrative weakness, scarce resources, limited access for ordinary (poor) people, corruption and political influence. An additional challenge concerns the jurisdictional boundaries and the coordination between the ordinary state judicial system and the indigenous justice systems, which are regulated by a 2010 law ("Ley de Deslinde Jurisdiccional") but continue to be problematic in practice.

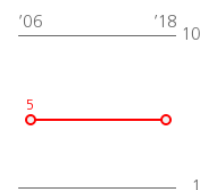
Officeholders who break the law and/or engage in corrupt practices are not systematically prosecuted, but they are regularly held to account, both legally and politically, when such behavior becomes public knowledge. During the Morales presidency, the government and the judiciary have launched selective 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. Major corruption scandals have involved important persons and institutions of the Morales government. Attempts to address the lack of transparency and the structures of patronage behind the scandals, however, have been limited. The 2009 constitution and a 2010 law stipulate that anti-corruption legislation can be applied retroactively, a rule that the government made use of to initiate judicial action against former officials and politicians of the opposition. This retroactivity clause, however, was abrogated by a 2012 ruling of the Constitutional Court. Institutional improvements (including a new Ministry of Institutional Transparency and the Fight against Corruption) have yet to show results. There is broad consensus that widespread corruption is one of the major problems confronting the Bolivian government but there is also strong resistance to systematic tackling of this problem.

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. Due to extremely poor prison conditions (i.e., massive overcrowding), prisoners face systematic rights violations. 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,



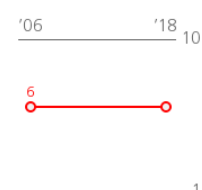
Prosecution of office abuse

5



Civil rights

6



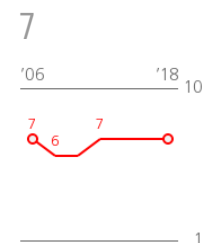
the constitution clearly states that the indigenous juridical systems must respect the right to life and to defense along with the other rights and guarantees established by the constitution. The corresponding law (“Ley de Deslinde Jurisdiccional”) is fairly restrictive in terms of the scope provided to indigenous law. Nevertheless, implementation is problematic and even clearly illegal violations of basic civil rights (e.g., lynching), that are at times justified by the perpetrators as expressions of community justice, are not reliably prevented nor systematically prosecuted.

4 | Stability of Democratic Institutions

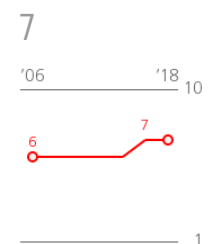
Democratic institutions exist and, in principle, perform their functions. The fact that Bolivian democracy enabled and survived the major political changes associated with the Morales government demonstrates a remarkable capacity to perform the most important functions of a democratic regime: to translate widespread public discontent with the status quo into political change, and to channel sociopolitical conflict in a way that prevents major bloodshed. The three elected branches of the state generally perform their functions, though limitations particularly impact the judiciary. At the level of the central state, the two-thirds majority held by the MAS in the Plurinational Legislative Assembly has enabled a political decision-making process featuring much less deadlock, antagonistic rivalry, disregard for procedure and counterproductive friction between institutions than formerly. The downside to this process has been manifested in frequent complaints about marginalization of the parliamentary opposition and a lack of broad social participation. At the subnational level, democratic institutions also generally perform their functions, but a number of departmental and municipal governments have seen a suspension of governors or mayors. Compared to the conflict-ridden years between 2003 and 2009, there has been a clear improvement in the capability of democratic institutions to perform their functions. Still, the effectiveness and efficiency of democratic institutions, in particular of public administration and the judiciary, continue to be limited.

All relevant political actors generally accept the democratic institutions as legitimate, even if they may harshly criticize the persons that represent them. While the 2009 constitution was initially rejected by a significant minority of the population and by important (oppositional) actors, it is now – at least de facto – largely accepted as the basic legal framework of the democratic system. According to opinion polls (such as Latinobarómetro), the empirical legitimacy of democratic institutions has clearly improved under the Morales government. To be sure, deep political divisions persist, as does a general lack of respect for procedural rules. A major democratic challenge may be looming. In December 2016, the MAS opted to pursue the candidacy of Evo Morales for another presidential term, against the rules stipulated in the constitution and the February 2016 referendum outcome, in which voters rejected the government’s proposal to alter the constitution. At the moment of writing, it remains unclear whether the ruling party will follow the “legal” (but still problematic) path of

Performance of democratic institutions



Commitment to democratic institutions



launching a second attempt to change the constitution (including another referendum) or try to circumvent the constitution by way of clearly unconstitutional “interpretations.” On the whole, however, the constitution, national parliament, and Morales government, on the one hand, and departmental governments and their general right to departmental autonomy, on the other, are not openly called into question by any relevant political actor. In this sense, and in contrast to previous years, Bolivia’s democratic institutions today are generally accepted as legitimate by most relevant actors.

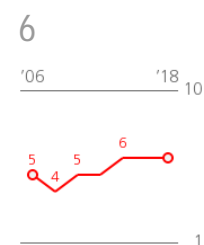
5 | Political and Social Integration

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. The MAS and its undisputed leader Evo Morales have proven able to articulate and aggregate a broad range of societal concerns and values. Some opposition parties are organizationally institutionalized and/or socially rooted, but at the departmental or local rather than the national level.

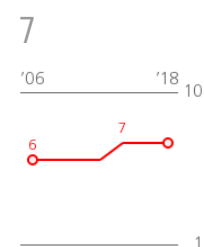
In sum, Bolivia’s current party system combines a dominant majority force with highly fragmented, unstable or only regionally based opposition parties. For some years now, voter volatility (particularly inter-bloc volatility) has been remarkably low (with a stable absolute majority supporting the MAS and a third supporting the center-right opposition). In the period under review, however, MAS support has gradually decreased, evidenced by the 2016 constitutional referendum in which the government for the first time since 2005 lost a vote. This reflects the continued erosion of the broad alliance of social forces that unite behind the MAS. Polarization is lower level than in 2007 and 2008, but remains high.

There is a broad network of interest groups that reflect diverse and partially competing interests and values: organizations representing capital and labor, agricultural and (semi-)urban sectors of society, indigenous peoples and communities as well as a number of area-specific, regional, and local interests. The spectrum of interest groups generally incorporates all (competing) interests and values, and no strong interests are able to dominate the rest. Nevertheless, the actors involved are often unwilling to cooperate, and competing groups at times go so far as to clash violently.

Party system



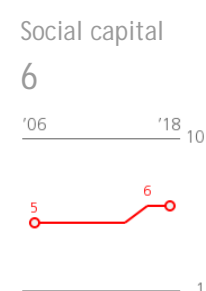
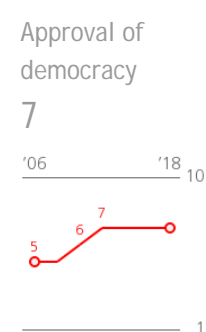
Interest groups



During Morales's first term in office, the spectrum of interest groups was polarized between those supporting the "process of change" initiated by the MAS government (labor, campesino, indigenous and leftist organizations) and those opposing it (business, elite, non-indigenous and right-wing organizations). Since 2009, however, conflicts have erupted within the camp of (former) pro-government forces, in particular, both between different social/interest groups and between social organizations and the state. At the same time, increasing cooperation between the MAS government and business sectors (in particular, agribusiness in Santa Cruz) has mitigated conflict in this area and raised these interest groups' political influence. In general, societal interests that are articulated by interest groups and social (movement) organizations allied with the MAS are much better represented in the political system than others.

Support for democracy, as measured in Latinobarómetro's opinion polls, is fairly high. Under the Morales government, the share of respondents agreeing that democracy is preferable to any other system of government (support for democracy) initially increased from 49% (2005) to 67% (2007) and has remained generally stable (64% in 2016). The "authoritarian potential" has remained relatively low (at 33% in 2016 compared to the Latin American average of 47%). With regard to actual democratic performance, satisfaction with democracy, after declining from an all-time high of 50% in 2009 to 28% in 2011, increased again to reach 41% in 2016 (between 2000 and 2005, satisfaction in Bolivia ranged from 16% to 25%; in 2016, average satisfaction with democracy in Latin America was at 34%). Trust in specific political institutions (political parties, parliament and the judiciary) has also seen important increases under the Morales government, but generally remains low. Exceptions include the government and president, who continue to receive unusually high approval ratings.

Throughout the country, there are many autonomous, self-organized groups, associations and organizations. At the local level, a strong sense of solidarity tends to prevail. Many indigenous groups have 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, the share of people surveyed responding that one can trust the majority of people has increased (15% in 2016, up from 11% in 2013), but remains slightly below the Latin American average (17%). This mirrors the stark fragmentation along socioeconomic, regional and ethnic lines. While the relatively high level of cooperation and mutual support for purposes of self-help expresses (if anything) a fairly high level of social capital, the level of rivalries and conflicts between civil society organizations suggests that this social capital is rather bonding (in-group oriented) than bridging (uniting different groups).



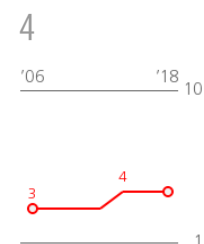
II. Economic Transformation

6 | Level of Socioeconomic Development

In Bolivia, socioeconomic barriers are quantitatively and qualitatively widespread and structurally embedded. Significant levels of poverty combine with multiple social inequalities. However, under the Morales government, poverty rates and income inequality have declined remarkably. According to Economic Commission for Latin America (CEPAL) data, the share of people living in poverty (defined in terms of basic needs) has been reduced from 63.9% in 2004 to 32.7% in 2013. Extreme poverty has fallen from 34.7% (2004) to 16.8% (2013). Poverty rates in rural areas are higher (2013: 54.1% poverty, 36.3% extreme poverty), but also significantly lower than previously (2004: 80.6% poverty, 58.8% extreme poverty). In terms of income inequality as measured by the Gini index, CEPAL data documents a significant reduction between 2007 and 2011 (from 0.565 to 0.472), followed by a setback in 2013 (0.491). Preliminary data from the Bolivian government's Unidad de Análisis de Políticas Sociales y Económicas (UDAPE) for 2015 suggests, however, that the Gini index has again decreased. Overall, the reduction in income inequality is clearly above the Latin American average and means that Bolivia is no longer among the countries in the region with the worst distribution of income. The UNDP has noted almost continuous improvements in human development since 1975; Bolivia's Human Development Index (HDI) score (0.662 in 2014, slightly lower than in 2013: 0.667) is in the medium human development category, giving the country a rank of 119th out of 187 countries. UNDP's Gender Inequality Index also reports gradual improvements, giving Bolivia a score of 0.67 in 2008 and 0.444 in 2014 (ranked 94th out of 187 countries). This progress notwithstanding, dramatic inequalities persist. Socioeconomic discrimination in particular affects indigenous peoples, rural areas and women. The female 2014 HDI value for Bolivia is 0.637 in contrast with 0.684 for men (UNDP). The poverty rates of women, rural populations, indigenous and Afro-Bolivian people are above average, confirming the structural character of Bolivia's multiple socioeconomic barriers.

Question
Score

Socioeconomic
barriers



Economic indicators		2013	2014	2015	2016
GDP	\$ M	30659.3	32996.2	33000.2	33806.4
GDP growth	%	6.8	5.5	4.9	4.3
Inflation (CPI)	%	5.7	5.8	4.1	3.6
Unemployment	%	2.9	3.5	3.5	3.7
Foreign direct investment	% of GDP	5.7	2.0	1.7	1.0
Export growth	%	4.1	10.9	-5.9	-5.7
Import growth	%	8.2	15.1	-5.4	-4.2
Current account balance	\$ M	1054.0	478.4	-1853.7	-
Public debt	% of GDP	34.2	34.9	38.7	43.4
External debt	\$ M	8201.3	8917.2	9913.8	11015.3
Total debt service	\$ M	551.7	980.4	975.6	776.0
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	13.8	14.7	17.5	17.5
Public education spending	% of GDP	6.3	7.3	-	-
Public health spending	% of GDP	4.2	4.6	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.8	1.9	1.7	1.7

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

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 has not sought to promote market competition further. Since 2006, the role of the state in the economy has expanded (through public investment, public enterprises and state regulation), and there is now substantial state participation and

Market-based
competition
4

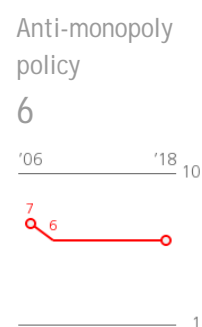
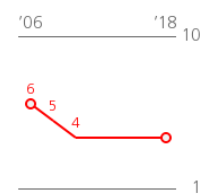
intervention in strategic sectors. This particularly concerns Bolivia's hydrocarbons sector, as the "nationalization" declared in 2006 has led to increased duties on gas and oil companies and restored the traditional state-owned petrol company YPF as a major player in the sector. Further "nationalizations" have affected individual (foreign) companies in a variety of sectors (including mining, energy and telecommunications). At the same time, the 2009 constitution prohibits any international arbitration of investment disputes. As a result, the degree of "investment freedom" as measured by The Heritage Foundation's Index of Economic Freedom has worsened (from "moderately unfree" to "repressed"). Administered prices exist for petroleum products, potable water and certain staple foods.

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 general, however, Bolivia is open to foreign trade and investment, and the 2014 investment law guarantees equal treatment for national and foreign companies. Bolivia's currency, the Boliviano, is freely convertible and profits can be repatriated with a 12.5% withholding tax (with the exception of private profits from natural resources, which, according to the constitution, have to be reinvested in the country).

Bolivia's 2009 constitution prohibits private monopolies and oligopolies. Still, there is no economy-wide competition law and no comprehensive merger control system. Sector-specific regulations against anti-competitive practices do exist, but for many years these have 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 through privatization. Since 2006, the return to stronger state intervention has favored state and parastatal monopolistic tendencies. The 2009 constitution also prohibits large land holdings (the latifundio), establishing an absolute limit of 5,000 hectares. The latter clause is, however, not applied retroactively – thereby severely limiting its effect on land distribution.

Foreign trade was deregulated after 1985 and further liberalized and diversified throughout the 1990s. Bolivia's average tariff rate is 4.2%. However, there are a number of non-tariff barriers. The Morales government has also introduced restrictions (i.e., export quotas) on agricultural and agribusiness exports. Overall, according to The Heritage Foundation's Index of Economic Freedom, the degree of "trade freedom" has slightly improved during the Morales government (changing from "moderately free" to "mostly free"). This upward trend is confirmed by the World Bank's Doing Business reports (indicator "Trading Across Borders").

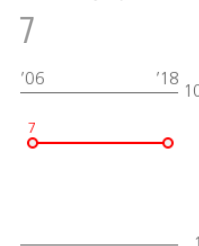
Bolivia is a member of the WTO and the Andean Community (CAN), and is in the process of joining Mercosur. The Morales government is critical of free trade agreements, although it is not opposed to trade treaties in principle. On the one hand, the government ended trade negotiations with the United States and the European Union. On the other hand, Bolivia joined the "Peoples' Trade Treaty," originally



negotiated between Cuba and Venezuela. Following a crisis in bilateral relations that included mutual expulsion of their respective 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 have reinforced a trend toward the diversification of trade partners, with export markets in Latin America (Brazil in particular) and the Asia Pacific region (China in particular) significantly gaining in importance.

Bolivia's banking system and capital market are differentiated, open and internationally oriented, but subject to fluctuations due to the small size of the economy, a lack of oversight and a high dependency on foreign markets. According to the Autoridad de Supervisión del Sistema Financiero (ASFI), there are currently two state-owned banks, 13 private general banks as well as several smaller and specialized financial entities and cooperatives operating in Bolivia. Since 2002, the share of nonperforming loans as a percentage of banks' total gross loans has declined almost continuously, from 17.7% to 1.6% in 2015. The bank capital to assets ratio is at 7.7% (2015, World Bank data). Over the last decade, the share of dollar deposits in the banking system has also been greatly reduced. In 2013, a new Financial Services Law was enacted that establishes a comprehensive legal framework for the regulation of financial services and institutions. These new regulations enable the executive, inter alia, to define maximum lending rates and minimum lending quotas for the productive sector and social housing. According to the IMF, the financial system is solid and well capitalized, but there are some risks related to credit growth, funding, and credit concentration.

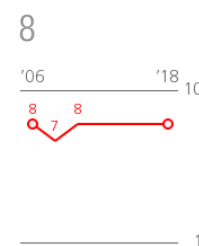
Banking system



8 | Currency and Price Stability

The Morales government has pursued a consistent policy on inflation and an appropriate exchange-rate policy. Countercyclical monetary and exchange-rate policies have generally corresponded well to the government's overall economic policy. According to the IMF, consumer price index (CPI) inflation was between 3% and 7% in the last couple of years and will remain at about 5% in the medium term. Within what is officially a crawling peg regime, the central bank has maintained a stable nominal exchange rate vis-à-vis the U.S. dollar since late 2011. This policy has successfully prevented devaluation expectations and enabled what the IMF calls "tremendous progress on de-dollarization": as of mid-October 2016, dollarization of deposits was at around 17% and credit dollarization at around 3%, both historically unprecedented levels. International reserves, which had soared since 2005, decreased in 2015 and 2016 due to the plunge in commodity prices and corresponding current account deficit, but remained high: at around \$10 billion (or 32% of GDP) as of mid-October 2016 (IMF data). At the same time, the stable exchange rate of the Boliviano against the U.S. dollar has meant that Bolivia's real exchange rate has been on the

Anti-inflation /
forex policy

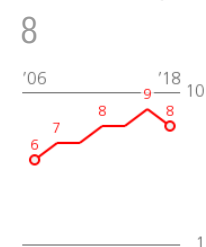


rise, in particular, given depreciations among major trading partners such as Argentina and Brazil.

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.” The president of the central bank is appointed by the Bolivian president on a proposal from the parliament.

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 has stuck to a consistent policy of macroeconomic stability. Based on high commodity prices and increased revenues from gas exports due to the hydrocarbons law and “nationalization” policy, continuous budget deficits before 2006 were transformed into fiscal surpluses. With the end of the commodity boom, however, twin deficits (in the current account and fiscal budget) reemerged in 2015 and continued to expand in 2016. Sizable international reserves, which had been built up during the times of the commodity boom, now operate as a buffer to finance the current account deficit. At the same time, central bank lending to the public sector (to the central government and, in particular, to state-owned enterprises) as well as increased international borrowing have enabled the government to avoid austerity measures. Continued public investment, thereby, has enabled economic growth rates that, though gradually falling, remain quite high by regional standards (3.7% GDP growth in 2016, according to IMF estimates). Bolivia's public and external debt levels, which had decreased significantly since 2003, have started to increase. According to the IMF, however, gross public debt remains moderate (at 43% of GDP in August 2016).

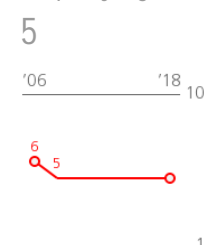
Macrostability



9 | Private Property

The 2009 constitution guarantees the right to private property, provided that it performs a social function; expropriation requires “prior just compensation.” 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” can be confiscated. Still, this has happened only in individual cases and, since 2011, the government's political will to redistribute land appears to have slowed

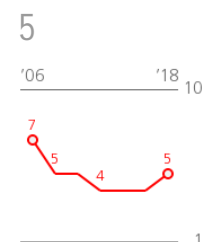
Property rights



down significantly. At the same time, there have been increased efforts to prevent or combat land seizures.

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. Public 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). In 2014, President Morales promulgated a new investment promotion law. The government has also increased cooperation with, and support of, private companies in the agribusiness sector. In general, the private sector is treated much more as a partner of the government than as an opponent (as tended to be the case during the first years of the Morales government).

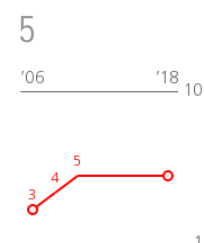
Private enterprise



10 | Welfare Regime

Social safety nets are fragmented and coverage is not distributed equally. Given the limited reach of the traditional system of social security, cash transfer programs are the principal mechanism of providing (limited) social security and fighting poverty. Since 2006, a conditional cash transfer (“Bono Juancito Pinto”) has been awarded once a year to children in return for continuing their 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”) has supported 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) were replaced by a public entity, the age of retirement was reduced from 65 to 58 years and sanctions were established for companies that do not contribute to the pension funds. Furthermore, since 2006, the Morales government has regularly increased the minimum wage and has introduced subsidized tariffs for electricity and water for poor households. 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. Overall, social spending (per capita) has increased significantly over the last decade, as has public investment in basic social services.

Social safety nets



Bolivia is characterized by multiple structural social inequalities. Although equality of opportunity is formally guaranteed and recent years have seen improvements, it is not achieved in actual practice. After the 2014 elections, the share of parliamentary seats held by women further increased to the record level of 50% (Inter-Parliamentary Union). According to World Bank data, the ratio of female to male enrollment in education is 1.0 (primary and secondary) and 0.8 (tertiary) (gross enrollment ratios are at 111.5, 84.7 and 38.4, respectively). The female 2014 HDI value for Bolivia is 0.637 in contrast with 0.684 for men (UNDP). Female labor force as a percentage of the total amounted to 44.5% in 2014.

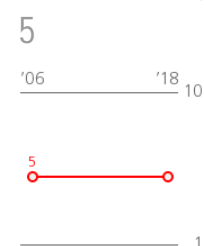
Members of indigenous peoples, especially from rural areas, have significantly fewer opportunities than their non-indigenous counterparts to receive higher education, get a job in the formal economy and escape poverty. That said, significant improvements can be observed, and the situation across the 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. The introduction of popular elections for the highest judicial organs has also significantly increased the number of female and indigenous judges at this level of the judiciary.

In late 2008, following a three-year literacy campaign assisted by Venezuela and Cuba, Bolivia was declared free of illiteracy by UNESCO. Still, most recent World Bank data on the adult literacy rate points to persisting gender-based inequalities. The female literacy rate (92.9%) remains significantly lower than the rate among the male population (97.4) (with a total literacy rate at 95.1, that is rank 7 among 21 Latin American countries in the BTI sample). In terms of gender-based discrimination, a new law from 2016 grants transgender people the right to change their name and gender in official documents.

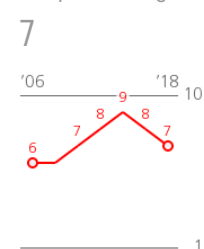
11 | Economic Performance

In terms of macroeconomic indicators, Bolivia's economic performance had continuously improved since 2003, primarily due to a substantial increase in revenues from the export of hydrocarbons, minerals and agricultural goods. The country has recently been confronted with what the IMF has dubbed one of "the largest terms-of-trade shocks" in Bolivian history, but macroeconomic indicators have remained remarkably robust, in particular when compared to other Latin American economies. According to World Bank data, GDP per capita has increased from \$4,180 (PPP, 2005) to \$6,881 (PPP, 2015) and gross capital formation has almost continuously increased from around 14% of GDP (2005 – 2006) to around 20% (2013 – 2014). According to the IMF, in recent years, real GDP growth has seen a gradual slowdown from rates between 5% and 7% between 2011 and 2014 to 4.8% in 2015 and an estimated 3.7% in 2016. CPI inflation is projected to stabilize at around 5%. Sharply reduced commodity prices have, since 2014, led to falling exports and, as a

Equal opportunity



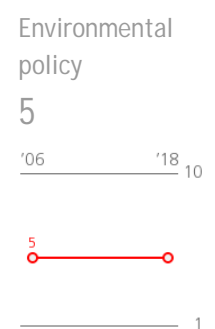
Output strength



consequence, to a widening deficit in the current account. In this context, foreign direct investment, which had shown a remarkable increase to 5.7% of GDP, has also trended downwards (despite a temporary increase to 4.1% in 2015). Given continuously high levels of public spending and a gradual decrease in tax revenues, the fiscal deficit has also widened. Public and external debt levels have consequently increased, but remain moderate. The positive trend of decreasing unemployment has given way again to a gradual increase (to 4.4% in 2015). All these assessments, however, should be seen in the context of a huge informal sector, lingering extensive poverty and the structural weaknesses of a natural resource-dependent economy.

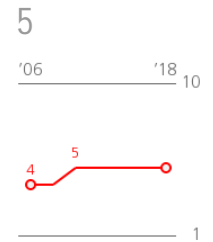
12 | Sustainability

Environmental concerns receive relatively little attention in Bolivian economic planning at both the macro and micro level. There is no effective institutional framework for these concerns, and they have usually been subordinated to the goals of growth and (since 2006) redistribution. However, following the Rio Summit in 1992, environmental issues were included in 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. This was reinforced in October 2012 with the promulgation of the new environmental law – the first law to give rights to the environment. 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. According to Yale University’s Environmental Performance Index (EPI), Bolivia has seen significant improvements over the last 20 years. Still, national development policies clearly prioritize the exploitation of natural resources, with environmental concerns usually taking a back seat, if they play any role at all. This was, again, confirmed by a 2015 presidential decree that facilitates gas and oil exploitation in protected national parks. In general, environmental impact assessments, if conducted at all, usually have a limited impact on resource extraction projects in the hydrocarbon and mineral sectors (e.g., the incipient lithium extraction in the Salar de Uyuni). Bolivia’s climate action plan (Nationally Determined Contribution, NDC), as submitted in the context of the U.N. Framework Convention on Climate Change, contains an ambitious agenda at both the national and global level, but refrains from setting a national target for reducing greenhouse gas emissions. In the agricultural sector, the government has largely returned to previous policies of actively promoting the expansion of agribusiness, at the expense of the protection of forests.



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 increased from 2.4% of GDP in the early 1990s to 6.3% in 2006 and further to 7.3% in 2014. Research and development expenditures are traditionally very low (the most recent data report 0.2% of GDP in 2009). The Morales government has prioritized basic education, and in general has shown notable successes in fighting illiteracy and broadening primary education. Furthermore, the government has established three indigenous universities (where the teaching language is Aymara, Quechua or Guaraní). In general, universities have benefited from their share of gas revenue. The gross enrollment ratios are 111.5% (primary), 84.7% (secondary) and 38.4% (tertiary). The ratios of female to male enrollment are 1.0 (primary and secondary) and 0.8 (tertiary). The adult literacy rate for women (92.9%) is significantly lower than for men (97.4%) (World Bank Development Indicators 2016).

Education policy /
R&D



Governance

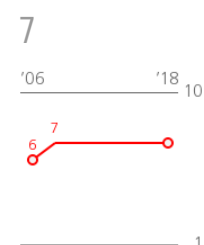
I. Level of Difficulty

Formidable structural difficulties constrain the leadership's governing capacity and have not substantially changed in recent 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; currently, a severe drought). Second, socioeconomic constraints persist: poverty and multiple inequalities, insufficient infrastructure, a structurally heterogeneous economy, dependency on foreign markets and primary commodity exports, an extensive informal sector, the peculiar coca economy, and drug production and trafficking. 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 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).

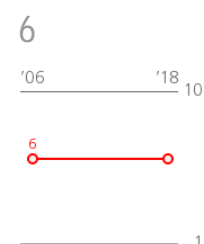
Bolivian society is characterized by an unusually broad and active range of civic associations. Civil society organizations of all kinds have a long tradition and public and civic engagement is remarkably high. Yet, civil society is fragmented – and in part openly polarized – along communal, regional, sectoral and ethnic lines, and social trust is weak. In general, societal organizations are less characterized by a civic culture of participation in public (let alone national) life than by a culture of mobilization and negotiation. While the relatively high level of cooperation and mutual support for purposes of self-help expresses a fairly high level of social capital, the level of rivalries and conflicts between civil society organizations suggests that this social capital is rather bonding (in-group oriented) than bridging (uniting different groups).

Conflict levels, while always high in Bolivia, rose almost continuously after 2000. With the rise of indigenous/social movements and the MAS in particular, society and political elites became increasingly split into two camps generally associated with different regional, ethnic and class identities. This polarization culminated in an open political crisis in September 2008, when protests by autonomy movements in the

Structural
constraints



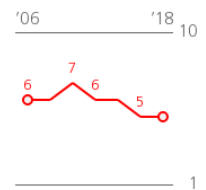
Civil society
traditions



Conflict intensity

5

lowland departments peaked, with cities, streets and gas pipelines blocked, central state institutions occupied, and violence between oppositional and pro-government groups escalating. However, fears of civil war or secession ultimately gave way to a process of relative stabilization. Conflict intensity in 2009 and 2010 was notably lower than in 2007 and 2008, but in recent years, the number and intensity of conflicts have once again risen. Since 2010, a series of major conflicts between the MAS government and former allies among the social and indigenous organizations (and among these organizations) has escalated. In 2016, for instance, a conflict between the government and the so-called cooperative miners (cooperativistas) led to violent clashes between the police and protestors which, according to a report by the Defensoría del Pueblo, culminated in the deaths of five mine workers (four killed by bullets, one by an accident while handling dynamite) as well as the kidnapping and, ultimately, murder of the deputy minister of the interior. In general, political protests, demonstrations, strikes and occupations occur frequently and regularly involve some degree of violence. The overall picture, however, is one of fragmented, mostly single-issue, sector-specific and/or local conflicts that do not reflect major divisions or a polarization of society at large.



II. Governance Performance

14 | Steering Capability

In very general terms, the strategic priorities set by the Morales government are not inconsistent with liberal democracy and a market economy. With a view to democracy, the new Bolivian constitution rejects neither elections nor rule of law, 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). 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.

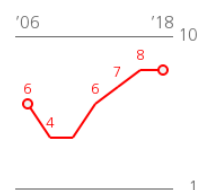
With a view to economics, the current government does not regard the market economy as the primary – let alone the only – game in town. The current Bolivian government aims at regulated markets that encompass private enterprises and property rights, but within the framework (and the limits) of a plural 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 more than a decade. In view of the

Question
Score

Prioritization

8



extraordinary depth of the political changes prioritized, and the fierce resistance offered by powerful 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, internal contradictions and problems could, of course, be mentioned, in terms of its main strategic priorities, the general balance of the Morales government is remarkable. For example, a new constitution that generally corresponds to MAS priorities while still incorporating the most important concerns of the opposition was written, adopted and implemented (to a large extent). The “nationalization” of the gas sector led to a largely successful renegotiation of business terms with transnational companies, with most accepting the new framework established by the Bolivian state. A series of new social programs was initiated and implemented, and agrarian reform was significantly accelerated. The Morales government also transformed the United States-driven “war on drugs” toward a more cooperative strategy, which has led to improvements in terms of human rights. Its performance in terms of counternarcotics is, at least, no worse than previous strategies.

In recent years, the government’s strategic priorities have shifted from enacting change to sustaining achievements. This includes consolidating both the MAS’s political power and its project of neo-developmental modernization. In this context, the government has had to confront increasing opposition from former allies (e.g., from indigenous organizations) but also increased cooperation with its former opponents, most notably the agribusiness sector in the country’s lowlands. Overall, the capacity of the government to define and maintain its strategic priorities is clearly outstanding. This capacity is, however, mostly political in nature. It depends, to a significant extent, on key individuals, and is not adequately complemented by institutional and administrative capacities.

In a general sense, the government has been remarkably effective at implementing its major policy priorities. Regarding its original agenda, its primary declared objectives have either been realized (e.g., the passage and implementation of the new constitution; the “nationalization” of the gas industry) or the process of implementation has begun (e.g., indigenous community autonomy; broadening access to public social services and social security; industrialization of extractive resources).

However, effective implementation of individual policy measures is hindered by a series of political and administrative problems, by programmatic tensions and also by internal conflicts within the elites and groups involved. In political terms, the government’s radical and antagonizing rhetoric, its lack of respect for proper procedures, and the instrumentalization of social movements and lawsuits as means in the political struggle have all contributed to polarization and mutual mistrust. In

Implementation

7

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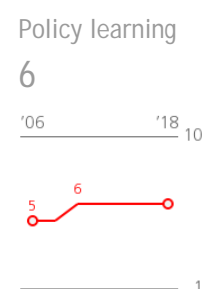


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recent years, former allies of the government have increasingly mobilized against government decisions, at times forcing the latter to back down and compromise. In programmatic terms, the political agenda promoted by the MAS government is at times contradictory, particularly when it comes to tensions between its neo-developmental, neo-extractivist orientation and its emphasis on indigenous and environmental concerns (it is obvious that the government's main project is aiming for a kind of neo-developmental modernization). In administrative terms, the Morales government has been confronted with weak state institutions and administrative capacities. This weakness was reinforced by dramatic changes 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 improvised decision-making. This has naturally produced a series of inconsistencies. A key area in which the government openly admits that it has largely failed to achieve its political objectives concerns the judiciary, which had seen a far-reaching restructuring with the 2009 constitution. Given persisting, if not exacerbated, problems, President Morales has launched a renewed attempt to reform the judicial system (with uncertain prospects). Serious delays, blockades, technological problems and general uncertainties also concern some of the major resource industrialization projects such as the iron and steel works at Mutún and the large-scale industrialization projects of the lithium reserves in the Salar de Uyuni. The severe drought that, since 2016, has led to serious water shortages across the country, including in the de facto capital La Paz, has laid open the serious administrative weakness of the public water sector (in particular, of the water control authority AAPS and state water company EPSAS).

In Bolivia, there is scant evidence for institutionalized mechanisms of policy learning. Innovation and flexibility, therefore, emerge instead through trial and error or simply muddling through. Under the Morales government, the political leadership has frequently begun with maximalist and often antagonistic positions, only to shift later to a search for compromise and pragmatic 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, the administration's approach has generally involved adaptation rather than learning systematically 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, revising decisions, drafts and plans, and compromising 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. On the other hand, the government and the MAS have tended to ignore critical objections to their proposals and have regularly insisted on polarization and mobilization instead of moderation and dialog.

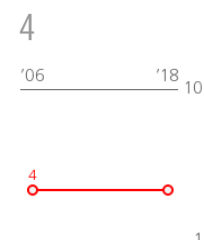


15 | Resource Efficiency

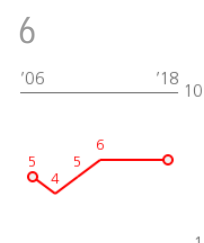
Bolivia's public administration is on the whole (some departmental and local exceptions notwithstanding) overstaffed, under-professionalized, inefficient and persistently plagued by corruption and clientelism. Personnel turnover is high, from cabinet posts down to the lowest ranks. Recruiting procedures regularly lack transparency and are not shielded from political influence. Financial and organizational resources are scarce. The budget has been mostly balanced since 2006, though it has been negatively affected since 2014 by falling commodity prices. Public and external debt levels, which had been significantly reduced since 2003 due to international debt relief and increased revenues, have started to gradually increase again. The dramatic surge in state revenue from 2005 on has allowed for the implementation of new social programs and a public investment program that seem to be relatively successful. While the efficiency of public spending in general saw little improvement during the period under review, the government reports significant increases in the capacity to execute its public investment program. A new State Integral Planning System, approved in January 2016, aims to better coordinate development plans at the various state levels.

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 social groups and organizations 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. However, in recent years, conflicts have multiplied and the government has often been ineffective at handling them. In a significant number of conflicts, the government was eventually forced to concede to the protestors' demands – often merely postponing issues rather than solving problems. In general, the government's capacity to coordinate conflicting objectives is primarily based on informal modes of dialog and negotiation, and depends very much on the availability of financial resources. As falling commodity prices have tightened fiscal constraints, the capacity of the government to respond to protests with generous concessions has been significantly reduced. In 2016, for instance, this could be seen in the protests by disabled people (whose demands were not met) and in the resistance against the closure of the loss-making state-run textile factory Enatex. The government's overall capacity to coordinate conflicting objectives and interests depends very much on the personal skills and standing of President Morales. In this regard, the constitutional referendum of February 2016, in which Morales for the first time since 2006 lost a vote at the national level, demonstrated that support for his government and for him personally has significantly declined. In institutional terms, coordination between different governmental departments and agencies remains limited.

Efficient use of assets



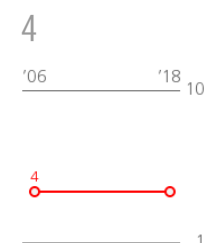
Policy coordination



Corruption is widespread at all levels of society and this has not changed significantly during the review period. Indeed, according to opinion polls by the Latinobarómetro from 2016, corruption is seen as the main problem facing Bolivia. This is reflected in a series of high-level corruption scandals that involved, inter alia, the then president of the state-owned hydrocarbon company YPFB, a network of (former) government officials engaged in systematic corruption and extortion, a high-level anti-corruption official and the state-administered Fondo Indígena that distributes funds to indigenous organizations. In 2016, President Morales was, for the first time, personally involved in a scandal. This scandal concerns a former lover who later worked for a Chinese company with various contracts with the Bolivian government, though no available evidence suggests that Morales engaged in influence peddling.

At the same time, the MAS government has strengthened the institutional and legal framework to fight corruption. In 2006, Bolivia established a vice ministry dedicated to anti-corruption, which was elevated to the Ministry of Institutional Transparency and the Fight against Corruption in 2009. The 2009 constitution and various executive orders dealing with transparency and anti-corruption contain a series of important norms and mechanisms. In 2010, an anti-corruption law (Marcelo Quiroga de Santa Cruz) was passed, establishing, inter alia, a National Council against Corruption, Illicit Enrichment, and Money-Laundering. Generally speaking, party financing is regulated and the Comptroller General is responsible for auditing state spending. However, institutional capacity and resources are still lacking, and the new anti-corruption policy has yet to show results that go beyond highly publicized individual cases. When corruption charges do become public, officials (even high-level ones) are usually dismissed, investigated and prosecuted. There is no specific law providing for access to public information.

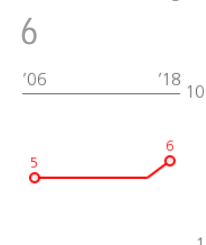
Anti-corruption policy



16 | Consensus-Building

Although no major political actor openly calls into question the maintenance of the democratic order, there is profound disagreement over the proper conception of democracy. The 2008 agreement in Congress on the revised draft constitution (which was supported by important segments of the opposition) demonstrates that it is possible to find a middle ground acceptable to most major political actors (and social groups). Recent years have not seen attempts to fundamentally challenge the existing political order. Yet, this relative lack of outright contestation does not reflect a normative consensus, but rather a pragmatic acceptance of the balance of power. 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 relationship between participatory and plebiscitary elements, representative institutions and the rule of law; the importance of different kinds of human rights and liberties; the scope and role of indigenous empowerment, self-governance and law;

Consensus on goals

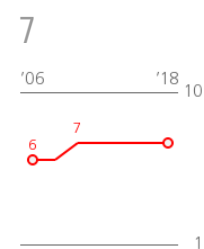


and the model for decentralization and autonomy – these are all heavily contested questions. De facto, however, the 2009 constitution has become the accepted normative framework for most political actors (even if disputes about proper interpretation persist).

The same basically applies to the question of economic order. Again, there are competing conceptions of the proper economic system. In line with the 2009 constitution, the economic order is not understood as a (private) market economy, but instead as a plural economy combining state and private, communitarian and cooperative forms of economic organization. This, generally, constitutes a reasonable normative compromise given the structural heterogeneity of the Bolivian economy. Still, what such a plural economic order exactly entails and how the different elements are to be weighted and articulated is controversial. Related to this is the open contestation about the development model. Here, roughly speaking, the neo-developmental modernization project promoted by the government clashes with anti-extractivist/post-developmental conceptions promoted by some indigenous, leftist and environmental groups, on the one hand, and with the neoliberal agenda of the center-right opposition and economic elites, on the other. Overall, however, opinion polls and electoral results suggest that the governmental position in this contest does represent the view held by the majority of the population and by a broad range of civil society organizations. Both the anti-extractivist and neoliberal reform agendas only attract the support of minority groups.

There are no significant anti-democratic veto players. There are, however, a number of actors and groups semi-loyal to democracy. Even among democratic loyalists there are many who do not share the concept of “embedded democracy” (i.e., democracy with rule of law). 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, for some time, openly acted against the democratically elected central government (partially pursuing secessionist objectives and employing racist rhetoric). However, 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 “civil coup,” and in fact involved violent resistance to the democratic central state, the regional movements have shifted the primary focus of their activities to institutional approaches. For its part, the MAS and its allies include some anti-democratic groups, but these are clearly under control. At the same time, in a very general sense, undemocratic practices and a lack of respect for democratic procedures are common among most political and social actors. The actors that most clearly have anti-democratic interests, and are frequently able to pursue them effectively, are those engaged in the drug economy/organized crime. The drug economy, by definition,

Anti-democratic actors



escapes state control and clearly influences state institutions and policies, but the corresponding actors (individuals and organizations) do not present themselves as political (veto) actors.

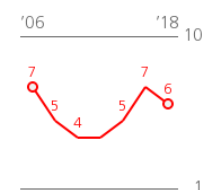
During the first years of the Morales government, political, ethnic, class and regional cleavages tended to overlap. At that time, the MAS, first and foremost, represented the indigenous and poor people from the highlands, while the strongest political opposition to Morales came from regional autonomy movements based in the Media Luna lowland region, particularly in the non-indigenous, relatively affluent urban sectors there. Under these conditions, political leadership from both the government and opposition parties has been prone to politically exploit structural cleavages, thereby reinforcing political polarization. Yet, from the outset, the political strength of the MAS has been also based on its capacity to at least partially bridge these cleavages (e.g., indigenous and poor sectors in the Media Luna region have mostly supported the MAS, as have important parts of the urban mestizo and middle-class populations in the highlands).

In recent years, cleavages have been blurred even further. On the one hand, important parts of indigenous organizations no longer identify with the MAS government and, in general, the indigenous movement is characterized by deep tensions and splits. Important divisions also affect organized mine workers, pitting the traditional trade union federation of Bolivian mine workers (FSTMB) against the federation of cooperative miners (FENCOMIN). On the other hand, the MAS government has pursued an increasingly cooperative strategy in dealing with (agri-) business elites in the lowlands and, particularly, in Santa Cruz. The results of the 2014 elections confirm this picture of increasingly cross-cutting cleavages, as support for the government in its highland strongholds has tended to decrease. MAS has done impressively well in the Media Luna region (in fact, beating the center-right opposition in all but one department, including in Santa Cruz). At the same time, the constitutional referendum of February 2016 saw the government losing in the department of Potosí, which reflects an unresolved conflict between the Morales government and several traditionally pro-government forces in what was a MAS stronghold. In sum, the polarized conflict between the indigenous and poor majority population represented by the MAS and the “old” elites represented by the regional autonomy movements has mostly given way to a much more complex setting of multiple cleavage-based, but mostly issue-, sector-, and/or area-specific conflicts.

Across these diverse conflicts, confrontational rhetoric persists and the capacity (or willingness) of the Morales government to use its broad power base (including a two-thirds majority in parliament) to establish a broad consensus has been limited. Serious cleavages within the broader MAS alliance include the split (and open conflict) between state miners and cooperative miners as well as between indigenous peoples from the lowlands and (migrant) indigenous small farmers (colonos, cocaleros) from the highlands. Also, in the area of resource extraction, the government’s restrictive

Cleavage /
conflict
management

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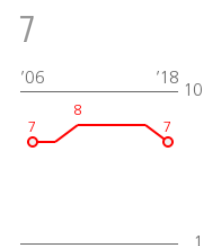
interpretation and frequently manipulative implementation of consultation rights has provoked local conflicts. In the period under review, the government has somehow managed to prevent conflicts based on these cleavages from escalating too far, but – as the 2016 conflict with the cooperative miners indicates – it has yet to find ways to constructively deal with these conflicts.

The political leadership takes into account and accommodates the interests of civil society actors. Officially, the state even assigns an important role in deliberating and determining policies to “organized civil society” (as the 2009 constitution states it). In actual practice, however, the government does so only selectively, largely by informal means and in a manipulative way. Whereas previous governments would 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 movement organizations, and trade and small farmer unions. The main mechanisms of civil society participation are (a) through the MAS party, which, in part, still operates as an umbrella organization of social movements; (b) via direct representation of social-movement leaders in government or parliament at the national or subnational level; and (c) through informal, but direct dialog and negotiation between government/MAS leaders and social movements/organizations.

This said, the extent of participation is clearly politically biased and depends 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. The new constitution – which includes vaguely defined, but potentially far-reaching rights to civil society participation – and the corresponding 2013 law on participation and social control have yet to lead to more institutionalized forms of involvement by societal organizations. This also includes the indigenous peoples’ right to prior consultation, which is officially recognized by the 2009 constitution. Yet, in actual practice, indigenous consultation rights are frequently neglected, interpreted in very restrictive ways and instrumentalized as vehicles for political manipulation, intimidation, and blackmail. In the hydrocarbon sector, most notably, a 2015 presidential decree introduced strict timeframes and extensive government control over consultation processes. In very general terms, however, the contemporary involvement of civil society groups in the political process is without doubt much broader than under previous governments (and certainly high by international standards).

In December 2016, parliament established a Truth Commission tasked with clarifying crimes committed during the military dictatorships between 1964 and 1982, including the particularly severe human rights violations committed by the government of Luis García Meza (1980 to 1981), and declassified official records from the military, police and other authorities in order to facilitate reconstruction of the events. In this way, the state finally responded to claims made for many years by victims’

Civil society participation



Reconciliation

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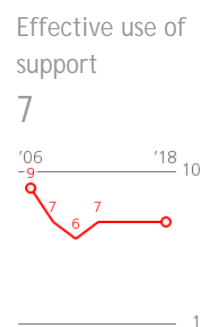
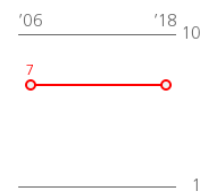
organizations and human rights groups. In 2015, the government had already announced the creation of a genetic data bank to help identify victims of disappearances. The overall issue at stake here, however, is not so much about achieving reconciliation between the victims and the perpetrators of these past injustices, but rather about establishing the truth, fighting impunity, and offering adequate reparation to the victims.

Further processes that are concerned with past acts of injustice are conducted through regular judicial proceedings. Most notable are the trials of former Pando prefect Leopoldo Fernández for the so-called Massacre of Porvenir in 2008 and the prosecution of former president Sánchez de Lozada for the violent repression of protests in the context of the so-called Gas War of 2003. With a view to the latter case, Bolivia continues to demand Sánchez de Lozada's extradition from the United States. In these cases, the government's aim is not reconciliation and they are, accordingly, heavily criticized as "politically" motivated by the (right-wing) opposition.

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. Overall, Bolivia's dependence on external (financial) support has been significantly reduced, though there has been a gradual increase in recent years. According to OECD data for 2014 and 2015, the most important donor has been the Inter-American Development Bank followed by the World Bank's International Development Association; official development assistance (ODA) by the European Union, Switzerland and Germany is also at significant levels. Under the Morales government, which expelled USAID from the country in 2013, the role of the United States has been dramatically reduced. At the same time, Bolivia has benefited from financial assistance and loans from new donor countries such as Venezuela (during the first years of the Morales government) and China. The National Development Plan outlines the government's long-term development strategy. At least officially, donors have aligned their priorities to this plan. On the part of the Bolivian government, the low institutional capacity of the public administration continues to significantly restrain an effective use of international support.

Bolivia is an active and reliable member of diverse international organizations at the regional and global level. It has joined and ratified most existing international agreements and is in compliance with most international norms. Exceptions include the Morales government's explicit refusal to accept international investment dispute settlements (e.g., Bolivia has withdrawn from the International Centre for Settlement



Credibility

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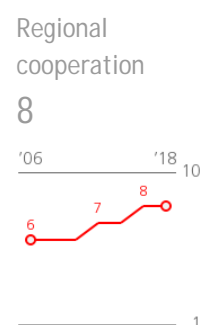
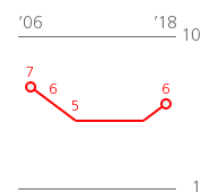
of Investment Disputes and revised or cancelled bilateral investment treaties) and its rejection of the prohibition on the coca leave by the Single Convention on Narcotic Drugs (i.e., Bolivia left and then rejoined the Convention with a reservation concerning this specific norm).

The Morales government has largely pursued cooperative relations with most of the international community in most policy areas, with the exception of relations with the United States (see 17.3). In the area of international trade, the Morales government rejects bilateral trade agreements of the kind pursued by the European Union and United States, but has joined regional initiatives such as Mercosur and ALBA.

Generally speaking, most countries around the world, and particularly those loosely organized in the Non-Aligned Movement, probably conceive of Bolivia as a minor, but mostly credible and reliable partner. Among North-Western governments, private investors from these countries, and international human rights organizations, skepticism and concerns dominate as to whether the Morales government is willing to adhere to what these actors see as Bolivia's international commitments. Reflecting the political-ideological divisions in contemporary Latin America, right-wing governments in the region will likewise regard the Morales government as neither very credible nor reliable. In 2016, Bolivia was elected to a non-permanent seat in the U.N. Security Council, receiving the support of 183 of the 193 member states.

Bolivia's political leadership cooperates with its counterparts in all neighboring states, has intensified cooperation within Latin America and is engaged in all regional integration processes. In the period under study, Bolivia finally joined Mercosur (in July 2015), in addition to the Andean Community, CELAC, OAS and the Union of South American States (UNASUR). With its neighbors, Bolivia has mostly cooperative and friendly relations, with the exception of Chile, where relations have traditionally been affected by the Bolivian demand for access to the Pacific. In this regard, Bolivia has pursued a strategy based on international law, having instituted proceedings against Chile before the International Court of Justice demanding that Chile negotiate the "sovereign access of Bolivia to the Pacific Ocean." In 2016, Bolivia was nominated by the Group of Latin American States to become one of the non-permanent members of the U.N. Security Council.

Quite confrontational, however, has been Bolivia's relationship with the U.S. government, which is characterized by mutual mistrust. Following a brief interlude of improvement, with the signing of a bilateral framework agreement in November 2011, the 2013 expulsion of USAID added to a series of previous expulsions that included the U.S. ambassador and the U.S. Drug Enforcement Agency. At the same time, the United States government has continued to "decertify" Bolivia (against all evidence) for failing "demonstrably" in its counter-narcotics efforts.



Strategic Outlook

Bolivia is once again entering a period of rising political and economic uncertainty. Although the political opposition remains fragmented and weak, the hegemony of the Morales government is challenged. This weakening of power was visible in the 2016 constitutional referendum, when a narrow majority of voters rejected the government's attempt to weaken presidential term limits. It remains to be seen how the governing MAS party will undertake to run President Morales for a fourth term in 2019 in spite of this popular vote and how the political opposition and general population will respond.

This political struggle will be influenced by economic developments. The government has proven to be remarkably capable of navigating the stormy macroeconomic climate produced by the fall in global commodity prices. Nonetheless, the significant reduction in export income and corresponding decrease in state revenues mean that the government's reliance on public investment is under increasing pressure. This undermines one of the key pillars of popular support for the Morales government: its performance in socioeconomic development. Furthermore, shrinking fiscal revenues constrain the government's capacity to respond to social protest with generous concessions. On the contrary, fiscal constraints increase the likelihood that the government will adopt policies that challenge the established benefits of privileged groups. This has already contributed to escalating social protests during the period under review.

The 2009 constitution provides a framework to manage these political, economic and social challenges. This democratically legitimized framework establishes a fundamentally democratic order and supports the existence of a market economy (albeit within clear limits that reflect the predominant view in Bolivian society). Actors – whether domestic or international, governmental or non-governmental, close, critical, or in opposition to the MAS – should not try to undermine or reverse the constitution, but rather work for its most democratic and inclusive implementation. Even if the MAS succeeds in changing or officially reinterpreting the constitution so as to allow for the renewed candidacy of President Morales, this does not imply the failure of the constitution nor the end of democracy. In the end, it will be the Bolivian people who decides whether Morales should remain in the presidency beyond 2019. Given the ongoing intra-Bolivian debate about the appropriate political order and development model, the principal aim should be to guarantee a peaceful handling of unavoidable political struggle and social conflict. More specifically, four main challenges must be confronted:

- Politically, it is crucial that both the governing MAS party and (fragmented) political opposition – in the national parliament, regional departments and municipalities – agree on institutionalized processes for respecting and dealing with one another. This includes implementing a working regime of delimitation and cooperation between the central and subnational levels of government as well as an more independent judiciary able to stand above political party struggles.

- The same holds true for relations between the government and social (movement) organizations. Increasing social conflicts within the camp of (former) MAS allies show the limits and risks of the government's largely informal and ad hoc processes for dealing with critique voiced by social groups. As suggested by the 2009 constitution, the state and MAS party need to develop institutionalized mechanisms that enable reliable modes of participation, consultation, and accountability.
- With respect to social policy, the existing system of social security and social programs initiated by the Morales government should be further deepened and strengthened. However, while the government should signal a clear political will to progressively deliver the universal social rights established in the constitution, the government must also contain expectations.
- Economically, the dependence on exporting primary resources constitutes the country's main weakness. The industrialization of nonrenewable resources is one important solution, though it has its limits. The ongoing conflict between competing development models – extraction-based neo-developmentalism versus a post-extractivist agenda in line with indigenous and environmental rights – not only calls for reliable institutions of conflict resolution, but also for innovative ideas about what a plural, diversified, and ecologically sustainable Bolivian economy could look like.