

BTI 2014 | Bolivia Country Report

	scale	score	rank	trend
Status Index	1-10	6.50	# 39 of 129	
Political Transformation	1-10	7.10	# 37 of 129	➔
Economic Transformation	1-10	5.89	# 53 of 129	➔
Management Index	1-10	5.34	# 54 of 129	

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. 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	10.5	HDI	0.675	GDP p.c.	\$	5276.5
Pop. growth ¹	% p.a.	1.7	HDI rank of 187	108	Gini Index		56.3
Life expectancy	years	66.6	UN Education Index	0.743	Poverty ³	%	24.9
Urban population	%	67.2	Gender inequality ²	0.474	Aid per capita	\$	46.6

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, Bolivia embarked on the second phase of the political and economic transformation that began with the election of Evo Morales as president in December 2005. This transformation, in a very general sense, encompasses establishing a “plurinational” state that combines a plural democracy (representative and participatory) with a mixed economy. The 2009 constitution combines institutions of liberal and representative democracy with mechanisms of direct democracy and unmediated participation by civil society organizations. Ordinary state law is paralleled by indigenous systems of justice that have equal status. The liberal state is qualified by the recognition of indigenous forms of self-governance, and individual civil and political rights are complemented by far-reaching social, economic and collective (indigenous) rights. As regards the economy, the market economy is conceived of as one part of a plural economic order that combines private initiative with heavy state involvement in the economy – a tradition since the 1952 revolution – and communitarian and social, cooperative forms of economic organization. This project of profound transformation is broadly supported by the Bolivian population, particularly by the formerly marginalized sectors of society, but is highly contested by significant minorities, especially among the traditionally privileged sectors and elites.

The current phase of the transformation was inaugurated by the general election in late 2009 which resulted in the reelection of President Morales and a two-thirds majority for his Movimiento al Socialismo (MAS) party in the new parliament. The phase starting in 2010 has, on the one hand, been marked by continuity in terms of the government’s overall political agenda. Most notably, the popular election of the highest judicial organs, including the Supreme Court and the Constitutional Tribunal, in October 2011 concluded the transition to the new institutional order as envisioned by the 2009 constitution. On the other hand, recent years have been shaped by increasing tensions and open conflicts within the broader alliance of social forces that traditionally supported Morales and his MAS. This is best exemplified by the conflict concerning the plan to build a road through the Isiboro-Sécure Indigenous Territory and National Park (TIPNIS), which

in 2011 escalated into an indigenous protest march against the government. The hotly contested consultation process in 2012 failed to resolve the issue. In addition to this high-profile conflict, the period under review saw myriads of single-issue, labor and local conflicts involving mineworkers, employees from the public health sector, universities and police. Given the continued weakness of the formal political opposition (from the center-right parties and the regional autonomy movements), challenges to the government and its political agenda have come from conflicts with and between social and indigenous organizations. At the same time, economic development has been smooth overall. The Bolivian government has continued to combine a focus on state-led development, emphasizing public investment and social policy, with countercyclical macroeconomic policies.

History and Characteristics of Transformation

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

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

Though a significant achievement within the context of Bolivian political history, this "pacted democracy" had an exclusionary bias. Most of Bolivia's poor and indigenous people felt excluded and marginalized. The grievances associated with neoliberal reforms added to this. During the 1990s, indigenous and social movements increasingly challenged the system of agreements

between elites. Between 2000 and 2005, a series of political crises erupted, characterized by massive social protests that forced both elected President Sánchez de Lozada (in 2003) and his successor Carlos Mesa (in 2005) from office. In the course of this period, the union leader and coca grower Evo Morales established himself as the leading representative of the diverse protest movements. In December 2005, Morales was elected president, becoming the country's first head of state of indigenous origin. Since then, Morales has led a process of decisive political change that has included a profound reshaping of the country's political system through constitutional reform as well as a change of course in economic, social and coca/drug policies. In 2006 and 2007, an elected Constituent Assembly wrote a new constitution, and after a revision of the constitutional draft by Congress in 2008, a broad majority (61%) adopted the new constitution in a referendum on 25 January 2009. In terms of economic and social policies, the Morales government has significantly increased the role of the state in the economy. In the course of the "nationalization of gas," international gas companies were forced into new contractual relationships, the control of the state (and the state company Yacimientos Petrolíferos Fiscales Bolivianos, or YPF) in the hydrocarbon sector was strengthened, and taxes on gas companies were increased. Based on rising revenues from hydrocarbon and mineral resources, social spending and public investment was expanded. Regarding drug/coca policies, the Morales government abandoned the U.S.-driven emphasis on coerced coca eradication. On the one hand this change included recognition of the coca leaf's traditional role in indigenous cultures, an increase in the level of legal coca production and trade, and a push for coca's international legalization. On the other hand, the government has tried to limit the volume of coca production via community-led forms of social control, while continuing counternarcotics efforts aimed at drug trafficking. Within Bolivia, these changes have been (and still are) heavily contested. Given a weak and fragmented opposition at the national level, the resistance against Morales has come primarily from regional autonomy movements based in the eastern lowland departments of the Media Luna and led by elected governors and "civic committees." Recent years, however, have seen an increase in conflicts within the broader group of civil society organizations that previously supported Morales and the MAS.

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. However, the state's actual presence does not extend to all parts of the country. Some regions are home to parallel power structures led by local landowners, narcotics traffickers or ethnic community organizations. Since 2005, regional movements demanding autonomy for the departments of Santa Cruz, Tarija, Pando and Beni (the Media Luna) have contested the central state's legitimacy and actual presence in these parts of the country. After violent outbursts in September 2008 and the adoption of a new constitution in January 2009 that integrates principles of regional autonomy, these demands are now largely pursued within the framework of the national constitution. In 2012, a six-day police strike for higher wages forced the government to call in the military to ensure public order.

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

Question
Score

Monopoly on the
use of force

7

State identity

9

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

No interference of religious dogmas
10

There are functioning administrative structures in Bolivia. Although the state's physical infrastructure extends throughout the country, its practical administrative reach is not complete. According to World Bank development data for 2011, 88% of the Bolivian population has access to improved water sources, but only 27% has access to improved sanitation facilities. Overall infrastructure (roads etc.) is relatively poor, but the current government has significantly increased public investment in infrastructure. 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. Integrated Justice Centers have somewhat improved access to justice in marginalized areas. 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 even more representative. Reforms in 2004 –confirmed by the 2009 constitution – broke up the monopoly held by political parties and enabled civic groups (agrupaciones ciudadanas) and indigenous organizations to present their own candidates. Combined with the emergence of the MAS party, which is broadly perceived as representing the interests and values of the indigenous and poor majority of the population, these measures have significantly increased the number of ballots cast in elections (and referendums), thus extending the factual universality of suffrage. In response to irregularities in the voter registration process, the National Electoral Court (CNE) produced a new, biometrically based electoral roll in 2009. There have been allegations of instances of voter fraud (in rural areas) and the abuse of state resources, and criminal charges have been made against opposition politicians. Nevertheless, the results of elections and referendums are not questioned in principle. The 2009 constitution introduced the popular election of the highest judicial tribunals' members and, for parliamentary elections, established special electoral districts for indigenous minority groups in rural areas. Aside from elections, additional mechanisms of political participation are included (recalls, referendums, citizens' legislative

Free and fair elections
9

initiatives, and direct participation by “organized civil society” in the design and oversight of public policies, for example). A 2010 report by UNDP Bolivia confirms a general perception among Bolivians that the political inclusion of and participation by groups traditionally facing discrimination (the indigenous, women and the poor) has improved.

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

Effective power to govern

8

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, the government does at times rely on intimidation and there have been individual instances of repression (e.g., against members of the 2011 indigenous march protesting the highway project through the protected TIPNIS area).

Association / assembly rights

9

Freedom of expression is generally guaranteed. The private media (newspapers, TV and radio) are pluralistic, but tend to privilege opposition views. The importance of state media – which has a pro-government bias – has grown throughout the Morales era. Tensions between the Morales government and the private media further increased during the period under review. A new anti-racism law, adopted in October 2010, was criticized by media owners, journalists and some international observers as an attempt to intimidate critics and as a violation of the freedom of the press, as the law allowed the imposition of economic sanctions and the temporary suspension of licenses for media outlets that publish racist ideas. In January 2011, new regulations tightened up the law’s vague wording and softened penalties, laying the foundations for a restrictive interpretation of the law, according to Reporters Without Frontiers. In August 2012, on the initiative of the government, the public prosecutor’s office opened a criminal case against two newspapers and a news agency for “disseminating and inciting racism or discrimination.” 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. In public statements, President Morales, his cabinet ministers and other political leaders have continued to occasionally attack “the media” (and specific media outlets). According to Freedom House, in the period under study there have been fewer threats and physical attacks against the news media than previously.

Freedom of expression

8

3 | Rule of Law

Formally, the 2009 constitution envisions a clear-cut separation of powers, in particular between the three branches of the state that are to be elected in popular elections (executive, legislature, judiciary). The Electoral Organ is established as a fourth power, and vaguely defined civil-society rights to direct participation and social control introduce an additional form of (vertical) checks and balances. In the period under review, popular elections were held (in October 2011) for the highest judicial organs, including the Supreme Court and the Constitutional Tribunal, concluding the transition to the new constitutional order. Since January 2012, Bolivia has had, for the first time in history, three powers (executive, legislature and judiciary) with independent democratic legitimation. In practice, however, 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, 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 new judges are generally perceived as close to the government and the MAS. At the same time, however, women and indigenous people are now much better represented at the highest level of the judiciary (as in parliament) than ever before. In addition to these institutions of horizontal accountability, Bolivian democracy is also 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 formal independence continues to be restricted in practice. After Morales first took office in 2006, the situation at first deteriorated significantly: After a series of resignations up until May 2009, both the Supreme Court and the Constitutional Tribunal were effectively paralyzed. In February 2010, President Morales appointed temporary judges to the Supreme Court, the Constitutional Tribunal and the Judicial Council. It was only in January 2012, when the new judges elected in October 2011 took office, that an independent judiciary was restored. The opposition strongly criticized both the (parliamentary) process of pre-selecting candidates for judicial elections and the elections themselves. As a consequence, the proportion of blank and null ballots cast in the October 2011 elections was very high (40%), and the newly elected judges are generally seen as close to the government and the MAS. There is hope that the direct democratic legitimation of judicial organs may increase their relative autonomy over time. Since 2012, there have been some tentative early

Independent
judiciary

6

indications of such a change, such as the Constitutional Court's decision regarding the TIPNIS consultation, its ruling against the criminalization of "desacato" (insulting public officials) and against the retroactivity of the current anti-corruption law, as well as its declaring unconstitutional those articles in the Autonomy Law that allow for suspending elected authorities on the basis of a formal accusation. At the same time, however, "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 coordination between the ordinary state judicial system and the indigenous justice systems that gained equal status when the 2009 constitution came into force. A corresponding law ("Ley de Deslinde Jurisdiccional") passed in December 2010 constitutes only a first (if important) step in this direction.

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. 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 has already made use of to initiate judicial action and propaganda campaigns against former officials and politicians of the opposition. However, in October 2012, the Constitutional Court ruled against this retroactivity clause. 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.

Prosecution of
office abuse

5

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

Civil rights

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are implemented, given that clearly illegal, open violations of civil rights and even lynchings are at times justified – by the perpetrators – as expressions of community justice.

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, in general, 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. Since the adoption of the new constitution by referendum in January 2009, presidential and parliamentary elections in December 2009, as well as departmental and municipal elections in April 2010, the new executive and legislative institutions have generally performed their functions. Since January 2012, this also holds for the highest judicial organs (with the caveats mentioned above). At the level of the central state, the two-thirds majority held by the MAS in the new parliament (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.

All relevant political actors accept democratic institutions, but different groups often have different concepts in mind. Approximately since the year 2000, these differences had led to a situation where significant parts of the population and influential political actors rejected existing democratic institutions. First, it was the political forces and social groups associated with Morales and the MAS that rejected the old institutions of “pacted democracy.” Subsequently, it was the opposition to Morales, particularly the regional autonomy movements from the southeastern lowlands, that refused to accept the Morales government, the Constituent Assembly and the new draft constitution as legitimate. At the same time, Morales and the pro-government forces openly opposed the steps toward autonomy initiated in the Media Luna region. Since the constitutional referendum and the elections in 2009 and 2010, this stalemate of mutual non-acceptance has largely been broken – at least as far as explicit political statements are concerned. A 2010 report by UNDP Bolivia found a generalized recognition that the government led by the MAS and Evo Morales constitutes the

Performance of
democratic
institutions

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Commitment to
democratic
institutions

6

center of political power, and that the increased levels of indigenous participation associated with this government constitute a positive development. To be sure, deep political divisions persist below this very basic consensus, as does a general lack of respect for procedural rules. Yet, at the moment, the new constitution, the new parliament and the Morales government on the one hand, and the departmental governments and their general right to departmental autonomy on the other, are not openly called into question by any relevant political actor. Threats against, and the suspension of, oppositional departmental governors in connection with alleged corruption charges have caused some trouble, though in the end these conflicts were processed through the appropriate institutional channels (subnational parliaments) and may not be interpreted as a disregard of political institutions as such. Nevertheless, the prosecution and/or suspension of a series of oppositional officeholders at the subnational level – in many cases not without reason but apparently also driven by (party) political motives – constitutes a potentially serious problem for democracy. In February 2013, the country's Constitutional Court (Tribunal Constitucional Plurinacional) ruled unconstitutional the articles of the Autonomy Law that allow for the suspension of elected authorities on the basis of a formal accusation.

5 | Political and Social Integration

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

While the MAS and especially its undisputed leader Evo Morales have proven able to articulate and aggregate a broad range of societal concerns and values, contemporary opposition parties have, for the most part, failed to do so. The traditional party system in place since 1985 finally collapsed in 2005. The 2005 elections established the Social and Democratic Power party (Poder Democrático y Social, PODEMOS), a conservative alliance led by former President Jorge Quiroga, as the leading opposition party to the MAS government. However, PODEMOS quickly disintegrated. The same happened to the conservative alliance formed with a view to the December 2009 elections (Plan Progreso para Bolivia-Convergencia Nacional led by presidential candidate Manfred Reyes Villa). A relatively stable, but minor force is Unidad Nacional (UN); this is led by businessman Samuel Doria

Party system

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Medina (who started his political career in the MIR), and occupies a rather moderate center-right position. A second, relatively institutionalized party is the Movimiento Sin Miedo (MSM). The center-left MSM emerged as a local party in La Paz, has governed this municipality since 1999 and was allied with the MAS until 2010. The MSM also has a minor but growing national relevance.

At the subnational level, the MAS is again the dominant political party. However, there is a broad spectrum of diverse local and regional forces at this level; some of these entities have fairly stable social roots and represent institutionalized organizations. This is true, for instance, of the regional autonomy movement in Santa Cruz led by governor Rubén Costas, despite the fact that the departmental civic committee has recently lost much of its power. In general, these regional and local forces lack systematic representation at the national level.

As a result, Bolivia's current party system combines a dominant majority force with highly fragmented and unstable opposition parties. The degree of polarization has lessened somewhat in comparison with 2007 and 2008, but is still high. At the same time, during the period under study, the broad alliance of social forces united behind the MAS has continued to erode. On several occasions, (former) social allies of the MAS (indigenous organizations, trade unions) openly challenged the Morales government, most notably in the context of the massive protests against the planned highway through the TIPNIS area. In general, cohesion within MAS and the pro-government camp depends very much on the president and the government's fiscal capacity to respond to a diversity of demands.

There is a broad network of interest groups that reflect diverse and partially competing interests and values: organizations representing capital and labor, agriculture, and a number of area-specific and regional interests as well as indigenous peoples and communities. 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 (e.g., in the period under study, state mine workers and cooperative miners).

During Morales's first term in office, the various groups tended to ally and split along the country's primary political fault line: The traditional Bolivian trade union federation (COB), the national small farmers' federation CSUTCB, indigenous confederations from the Andean highlands (CONAMAQ) and the lowlands (CIDOB) as well as powerful community organizations (e.g., the neighborhood committees in El Alto) joined the MAS and its member organizations (such as the federation of coca growers) in defending the Morales government. Meanwhile, the oppositional autonomy movements in the Media Luna region united deep-rooted civic committees,

Interest groups

7

strong regional associations of businessmen, youth organizations and departmental governments.

Since 2009, however, conflicts have erupted within the camp of (former) pro-government forces, in particular; both between interest groups and between social organizations and the state.

Support for democracy, as measured in Latinobarómetro's opinion polls, is fairly high. In 2008, 2009 and 2010 around 70% of respondents declared democracy to be the most preferred political system. In 2011, the share was lower (at 64%), but this level of support still constitutes a remarkable increase from less than 50% in 2004 and 2005 and is also more than the average of 58% for Latin America as a whole (2011). Correspondingly, the share of respondents saying they would never support a military government has increased significantly (71% in 2011, with the Latin American average at 66%). With regard to actual democratic performance (the supply side), satisfaction with democracy has declined from an all-time high of 50% in 2009 to 32% in 2010 and 28% in 2011 (in 2000 – 2005, satisfaction ranged between 16% and 25%). Trust in specific democratic institutions is even lower: The 2010 data ranges from 17% (political parties), 24% (judiciary) and 28% (parliament) to 38% (armed forces) and 42% (government).

Approval of
democracy

7

Throughout the country, there 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. This mirrors the stark fragmentation along socioeconomic, regional and ethnic lines.

Social capital

5

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

In Bolivia, social exclusion is still quantitatively and qualitatively widespread and structurally embedded. Significant levels of poverty combine with multiple social inequalities. However, during the last ten years, the poverty rate has declined significantly. 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, falling from 63.9% in 2004 to 54% in 2007 to 42.4% in 2009. The poverty rate in rural areas is higher (2009: 61.5%), but also remarkably lower than previous

Socioeconomic
barriers

4

levels (2004: 80.6%; 2007: 75.8%). Still, almost a quarter (2009: 22.4%) of the population lives in extreme poverty (2004: 34.7%; 2007: 31.2%). Recent years have also seen a notable reduction in income inequality as measured by the Gini index: from 0.565 (2007) to 0.508 (2009). This reduction 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 (0.663 in 2011) is in the medium human development category, giving the country a rank of 108 out of 187 countries. These improvements notwithstanding, dramatic inequalities persist. Socioeconomic discrimination affects indigenous peoples, rural areas and women, in particular. UNDP's Gender Inequality Index (2011) gives Bolivia a score of 0.476 (slightly below average). A 2010 report by UNDP Bolivia concluded that increased political and legal equality has yet to translate into a systematic reduction in socioeconomic inequalities. This observation confirms the structural character of Bolivia's multiple socioeconomic barriers.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	17340.0	19649.7	23948.7	27035.1
GDP growth	%	3.2	4.1	5.2	5.2
Inflation (CPI)	%	3.3	2.5	9.8	4.6
Unemployment	%	3.4	-	-	-
Foreign direct investment	% of GDP	2.4	3.2	3.6	-
Export growth	%	-10.6	9.8	5.7	11.9
Import growth	%	-10.7	11.3	16.4	4.6
Current account balance	\$ M	813.5	873.7	537.2	2127.5
Public debt	% of GDP	40.0	38.5	34.7	33.1
External debt	\$ M	6020.5	6049.9	6473.6	-
Total debt service	\$ M	593.1	664.3	455.6	-

Economic indicators		2009	2010	2011	2012
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	14.7	13.8	13.8	13.5
Public expnd. on edu.	% of GDP	8.1	7.6	-	-
Public expnd. on health	% of GDP	3.8	3.6	3.5	-
R&D expenditure	% of GDP	0.16	-	-	-
Military expenditure	% of GDP	2.0	1.7	1.5	1.5

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

On the whole, basic institutional conditions for market-based competition exist. Yet, there are significant imbalances between competitive export-oriented sectors (e.g., agribusiness), weak national industries and a huge informal and subsistence economy in both urban and rural areas. Under such conditions, efforts to increase market-based competition since 1985 have produced highly uneven results. The Morales government, in charge since 2006, has not sought to promote market competition further. Accordingly, the fundamentals of market-based competition were better secured in early 2005 than in 2012. Since 2005, the role of the state in the economy has expanded, and there is now substantial state participation and 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). Market-based competition was also deliberately limited by the Agrarian Reform Law of 2007 (reinforced by the 2009 constitution), which allows for the expropriation of land "not fulfilling its economic and social function," and lays the groundwork for a more comprehensive and redistributive agrarian reform (see sections on Property rights and Private enterprises below). Administered prizes exist for petroleum products and potable water. The 2009 constitution envisions a "plural" economy consisting of "communitarian, state, private and social cooperative" forms of economic organization, and prioritizes domestic investment over foreign investment.

Market-based
competition
4

In principle, Bolivia's laws call for resisting the formation of monopolies and oligopolies, but the regulations have for many years been implemented rather inconsistently. Between 1985 and 2005, many new monopolies or oligopolies were formed at the regional or sectoral level, such as in the media sector or by the processes of privatization. Since 2006, the return to stronger state intervention has manifestly favored state and parastatal monopolistic tendencies. There is still no competition law or law on mergers. However, the 2009 constitution prohibits private monopolies and oligopolies, and specifically large land holdings (the *latifundio*), establishing an absolute limit of 5,000 hectares.

Anti-monopoly
policy

6

Foreign trade was deregulated after 1985 and was liberalized and diversified throughout the 1990s. The change in economic policy since 2005 has affected foreign investment without adversely impacting on trade. The degree of "trade freedom," according to The Heritage Foundation's Index of Economic Freedom, initially increased under the Morales government, but in recent years has declined again. Bolivia's weighted average tariff rate is 5.4%. However, there are quite a large number of non-tariff barriers, including import bans and restrictions and domestic preferences in government procurement, all of which constrain market access.

Liberalization of
foreign trade

6

Bolivia is a member of the WTO and the Andean Community (CAN), and is an associate member of Mercosur. The Morales government is critical of free trade agreements, although 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 (within the CAN framework). 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: While the share of Bolivian exports to North America and Europe has declined from more than 56% in 1999 to less than 17% in 2008, the proportion of exports to Latin America (Brazil in particular) and the Asia Pacific region has increased significantly.

Bolivia's banking system and capital market are differentiated, open and internationally oriented, but still subject to fluctuations due to a lack of oversight and a high dependency on foreign markets. According to The Heritage Foundation (in its 2010 Index of Economic Freedom), there are 12 commercial banks in Bolivia, three of which are foreign-owned, and 45 non-bank financial institutions. Since 2002, the share of nonperforming loans as a percentage of banks' total gross loans has declined continuously, from 17.7% to 2.0% in 2011 (World Bank data). The bank capital-to-assets ratio, however, has also declined (from 11.9% in 2002 to 8.5% in 2011). Given Bolivia's limited integration into the international capital market, the recent global

Banking system

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financial crisis did not directly affect the country, but instead had indirect effects in the form of temporarily declining commodity prices and remittances.

8 | Currency and Price Stability

The governments of the past two decades have on the whole pursued a consistent policy on inflation and an appropriate exchange rate policy. During the Morales administration, countercyclical monetary and exchange-rate policies have generally corresponded well to the government's overall economic policy. For 2012, CEPAL estimated consumer price index inflation to have fallen to 4.3% (from 6.9% in 2011). The central bank continued its crawling-peg regime of (unannounced) incremental adjustments in the exchange rate vis-à-vis the dollar and generally responded successfully to external inflationary pressures. International reserves, which have soared since 2005, continued to expand and, in January 2013, exceeded USD 14 billion. Reflecting public confidence in the domestic currency (and deliberate policies by the central bank), de-dollarization of the financial system has continued: According to CEPAL data for September 2012, about 70% of deposits and 78% of credits were in national currency, historically unprecedented levels. 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.”

Anti-inflation /
forex policy

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Between the late 1980s and 2005, Bolivian governments were committed to fiscal and debt policies aimed at macroeconomic (especially monetary) stability; they even implemented strict austerity measures during some periods. In terms of overall priorities, this has changed since 2006. Yet despite the new emphasis on social policies and public investment, the Morales government to date has stuck to a consistent policy of stability (an exception being the prudent decision not to resort to austerity measures to fight the externally driven hike in inflation in 2008 and 2009). Based on high commodity prices and increased revenues from gas exports due to the hydrocarbons law and “nationalization” policy, continuous budget deficits between 2000 and 2005 have been transformed into fiscal surpluses since 2006. In 2011, according to CEPAL, the non-financial public sector surplus was 0.9%. However, the general government budget ran at a deficit (for the first time since 2005), in particular because of increased (capital) spending for the government's public investment program. In 2011, the surplus in the current account balance shrank (due to a rise in domestic demand), but again improved markedly in 2012. As stated above, international reserves continued to set new records. Since 2003, Bolivia's public and external debt levels have fallen. In mid-2012, external public debt amounted to 11.2% of GDP. Increased international confidence in Bolivia's macroeconomic stability was confirmed by the country's return to the international financial markets: In October 2012, Bolivia successfully issued USD 500 million in sovereign debt bonds.

Macrostability

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9 | Private Property

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

Property rights
5

Private companies are permitted and in principle can act freely, but bureaucratic and political limitations exist. Under the Morales government and the 2009 constitution, private enterprise has lost its former status as the primary engine of economic development. 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).

Private enterprise
4

10 | Welfare Regime

Social safety nets are fragmented, and coverage is not distributed equally. In recent years, the government has tried to address all three of the principal problems of the country’s mechanisms of social provision: by modernizing the theoretically well-developed, but highly inefficient traditional system of social security; by extending coverage to the great majority of people who are not yet included, particularly in rural areas; and by fighting poverty among the lower-paid strata of workers (formal and informal) and marginal self-employed. Since 2006, the Morales government has regularly increased the minimum wage and has introduced a series of anti-poverty programs. Since 2006, a conditional cash transfer (“Bono Juancito Pinto”) is awarded once a year to children in return for continuing education through the sixth grade of primary school. In 2008, a tax-financed, non-contribution-based state pension for all

Social safety nets
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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 Azurday”) supports pregnant women and young mothers if they seek medical care during and after pregnancy. In December 2010, parliament passed a new pension law (Ley de Pensiones), under which private pension funds (the result of the privatization of social security in the 1990s) will be replaced by a public entity; the age of retirement has been reduced from 65 to 58 years; and sanctions for companies that do not contribute to the pension funds has been established. In general, the 2009 constitution establishes a series of social rights and prohibits the privatization of public social services related to the supply of water/sewage, public health and social security. In general, social spending has increased significantly over the last decade, approaching 20% of GDP.

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. According to World Bank data, the ratio of female to male enrollment is 99.3% (secondary) and 83.9% (tertiary). Bolivia’s Gender Inequality Index improved significantly: from 0.67 in 2008 to 0.476 in 2011. The share of parliamentary seats held by women further increased from 0.361 in 2009 to 0.431 in 2011 (in 2008 it was only 0.172). 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.

Equal opportunity

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11 | Economic Performance

In terms of macroeconomic indicators, Bolivia’s economic performance has continuously improved since 2003, primarily due to a substantial increase in state revenues from the export of natural gas. In the context of the global financial crisis, GDP growth in 2009 fell temporarily to 3.4% (nevertheless a remarkable figure – the highest growth rate in the Western hemisphere). In 2010 – 2012, GDP grew at a stable rate of approximately 5%. GNI per capita (on a PPP basis) rose from \$3,620 in 2005 to \$4,920 in 2011. Consumer prices temporarily exhibited worrying trends in 2007 – 2008 and 2010 – 2011, but CEPAL estimates for 2012 put inflation at 4.5%. Driven by strong export growth, the current account balance has improved almost constantly

Output strength

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since 2002. Tax revenue grew from 16% of GDP in 2004 to almost 20% in 2009, and the continuous non-financial public sector surplus evident since 2006 even remained (marginally) positive in 2009. Public and external debt has decreased considerably. Foreign direct investment has fallen steadily since 1998 (to around 3% of GDP), but lately has shown some gradual increase. Gross capital formation saw some reduction from 17.6%/17.7% of GDP in 2008/2009 to 15.8% in 2011. The positive trend of decreasing unemployment between 2005 (8.1%) and 2008 (6.7%) was temporarily reversed in 2009, but resumed afterwards (reaching 5.5% in mid-2011). All these assessments, however, should be seen in the context of a huge informal sector and extensive poverty.

12 | Sustainability

Environmental concerns receive relatively little attention in Bolivian economic planning at both the macro and micro level, 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 some gradual improvements in absolute terms, but a remarkable leap in relative terms: from one of the worst performers in the Western hemisphere and an overall rank of 137 out of 163 countries in EPI 2010 to 62nd place in EPI 2012. 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 could be seen in the 2010 – 2015 development plan, in the reopening of the Corocoro copper mine (closed in 1986) without an environmental impact study, and in the frequent (at times violent) conflicts between government agencies (including various ministries, the Comibol mining company, its Dirección de Evaporíticos, and YPBF) and indigenous small farmer organizations, over issues such as the impact of the important San Cristobal mine, or problems associated with the pilot plant for lithium extraction in Rio Grande at the Salar de Uyuni. In 2011, a major conflict arose over the project to build a road through the Isiboro-Sécure Indigenous Territory and National Park (TIPNIS). Following a contested process of consultation in 2012, the government recently announced that it would give the road an “ecological” shape in order not to infringe on the protected

Environmental
policy
5

area. The agrarian reform policy is aimed at redistributing land to indigenous communities and small farmers, a process that reduces the pressure on protected areas and forests. Yet at times the redistribution of public land in the eastern lowlands (in favor of settling landless farmworkers from the highlands) has threatened protected territories, reservations and national parks (such as in the case of TIPNIS). Despite these issues, environmental awareness is on the rise, particularly within indigenous communities. Some (mostly Aymara) communities have gone to the courts, and one complaint on the basis of “contamination and impunity” was accepted by the Inter-American Commission on Human Rights in 2010. Conflicts over environmental issues are a major reason for the increasing distance between the MAS government and a number of indigenous organizations.

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

Education policy /
R&D
5

Transformation Management

I. Level of Difficulty

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

Structural
constraints

7

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

Civil society
traditions

6

Conflict levels, while always high in Bolivia, rose almost continuously after the year 2000. Under the Morales government, society and political elites have become increasingly split into two camps generally associated with different regional, ethnic and class identities. This polarization culminated in an open political crisis in September 2008, when protests by autonomy movements in the 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 the period under review the number and intensity of conflicts have once

Conflict intensity

6

again risen. Since 2010, a series of major conflicts between the MAS government and former allies among the social and indigenous organizations (and between such organizations) has escalated. In particular, the TIPNIS conflict has seen the mobilization of relevant groups of the population for and against the road through the TIPNIS area, displaying a worrisome polarization and split of social/indigenous organizations along various lines. In general, political protests, demonstrations, strikes and occupations occur frequently and regularly involve some degree of violence. While the most significant regional conflicts have abated somewhat, the prevalence of diverse single-issue and/or local ethnic and social conflicts has been on the rise – especially among (former) members or allies of the MAS coalition.

II. Management Performance

14 | Steering Capability

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

With these qualifications, the Morales government, from the very outset, has set strategic priorities and maintained them for seven years now. In view of the

Question
Score

Prioritization
7

extraordinary depth of the political changes prioritized, and the fierce resistance offered by powerful (if numerically small) 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, which by and large accepted the new framework established by the Bolivian state. A series of new social programs was initiated and implemented. The Morales government significantly transformed the U.S.-driven war on drugs towards a more cooperative strategy, which has led to improvements in terms of human rights while not being significantly worse than previous strategies in terms of counter-narcotics results.

The government has been remarkably effective at implementing its major policy priorities, in a general sense. 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). However, the government’s strategic priorities only partially correspond to the normative framework of the BTI. More importantly, effective implementation of individual policy measures is hindered by a series of political and administrative problems, 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 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. 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.

Implementation

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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 continued to pursue their maximalist strategy, have tended to ignore critical objections to their proposals, and have regularly insisted on polarization and mobilization instead of moderation and dialogue.

Policy learning
6

15 | Resource Efficiency

Bolivia's public administration is on the whole (some departmental and local exceptions notwithstanding) overstuffed, underprofessionalized, inefficient and persistently plagued by patronage and clientelism. Personnel turnover is high, from cabinet posts down to the lowest ranks. Recruiting procedures regularly lack transparency and are not shielded from political influence. Financial and organizational resources are scarce. The budget has been balanced since 2006, in contrast to earlier years, but remains vulnerable and highly dependent on hydrocarbon exports. Public and external debt levels have been significantly reduced since 2003 due to international debt relief and increased revenues. 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. However, the efficiency of public spending in general saw little improvement during the period under review. The profound restructuring of state institutions due to the new constitution added to the inefficiencies in the public administration of resources. In general, the recent increase in inclusiveness and responsiveness by the public administration has led to at least temporary losses in terms of efficiency and professionalism. Also, stricter anti-corruption legislation has reportedly reinforced the problem of underspending, which is particularly acute at the subnational level. At the level of the central state, by contrast, CEPAL data shows significant improvements in the government's capacity to implement its public investment

Efficient use of
assets
4

budget: In 2011, 89% of the budget was executed, and new investment regulations were expected to further improve execution in 2012.

The government has to coordinate a broad spectrum of conflicting objectives, as the various groups and factions within the governing MAS (and within the larger alliance of indigenous and social movements close to the MAS) pursue different, often particularistic and contradictory interests and values. On the whole, the Morales government has been relatively successful in balancing conflicting claims. But in the period under review, 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. A case in point is the TIPNIS conflict where the government first rejected any criticism of the road project, but then, after major protests, gave in to demands: In October 2011, a law was passed cancelling the road project and declaring the TIPNIS area “intangible”. In early 2012, following another march (by those supporting the road), a new law was promulgated that called for a consultation about the TIPNIS project (with the clear intention of facilitating the road project). After the highly contentious consultation process, the government announced in late 2012 that some 80% of the communities supported the road, but serious resistance continued and, in effect, none of the issues at stake in the conflict has so far been resolved. This suggests that the government has yet to develop a strategy to effectively deal with tensions between its neo-developmentalism/neo-extractivism and the indigenous and environmental concerns voiced by social and indigenous organizations. In general, the government's usual response to larger protests has been to give in to particularistic demands, accepting the ensuing elements of incoherence. The government's capacity to coordinate conflicting objectives is to an important extent based on informal modes of dialogue and negotiation, and depends very much on the availability of financial resources as well as on the personal capacity of President Morales, who in a rather unsystematic way usually makes the final decision. In a number of policy fields, the lack of coordination between the various government agencies and personalistic factions has become a serious issue. All these problems notwithstanding, the government has pursued an overall policy that has secured largely continuous public support.

Policy
coordination
6

Corruption is still widespread and has not changed significantly during the review period, despite improvements in the institutional framework and the implementation of various anti-corruption campaigns. According to the United Nations Office on Drugs and Crime (UNODC), the current government has shown an “exceptional political will in the fight against corruption.” In 2006, Bolivia established a vice ministry dedicated to anti-corruption. In 2009, this was given higher status, becoming the Ministry of Institutional Transparency and the Fight against Corruption. The 2009 constitution and various executive orders dealing with transparency and anti-corruption contain a series of important norms and mechanisms. However,

Anti-corruption
policy
4

institutional capacity is still lacking, and the new anti-corruption policy has yet to show results that go beyond highly publicized individual cases. In addition, the credibility of the government's fight against corruption is weakened by selective anti-corruption campaigns against current and former officeholders from opposition parties. Although the charges usually prove to have some basis, the political neutrality of the prosecution and trial (and the biased use of the law's retroactive clause) is questionable. In late 2012, a major corruption scandal erupted involving a network of (former) government officials allegedly engaged in systematic corruption and extortion. At the same time the Supreme Court declared the retroactive application of anti-corruption legislation unconstitutional.

16 | Consensus-Building

In Bolivia, there continues to be profound disagreement over the proper conception of both democracy and the economic order. The 2008 agreement in Congress on the revised draft constitution (which was supported by important elements of the opposition) demonstrates that it is possible to find a middle ground acceptable to most major political actors. Yet such an agreement does not express a normative consensus, but rather a pragmatic acceptance of the 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 relation between participatory and plebiscitary elements, representative institutions and the rule of law; the scope and role of indigenous empowerment, self-governance and law; the model for decentralization and autonomy; the role of the private market economy and of the state in the economy; and the meaning of a "plural" economy and the developmental model in general are all heavily contested questions.

There are no significant anti-democratic veto players. In recent years, the military have 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 generally do not have any veto capacities. Morales and

Consensus on goals
5

Anti-democratic
actors
7

the MAS have been largely successful in co-opting or marginalizing openly anti-democratic forces among the leftist, social and indigenous movements. However, in a very general sense, undemocratic practices and a lack of respect for democratic procedures are common among most political and social actors.

The general problem characterizing the current political situation in Bolivia is that ethnic, class and regional cleavages tend to overlap. The Morales government represents, first and foremost, the indigenous and poor people from the highlands. The strongest political opposition to Morales has come from regional 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 electoral results show that on the whole, the Morales government has been partially successful in bridging some gaps. In the highlands, Morales has also drawn mestizo and middle-class support, and in the Media Luna, opposition to the government is far from unanimous. Even in Santa Cruz and Tarija, large minorities backed the government, and the indigenous peoples' organizations in the lowlands (e.g., CIDOB) were at least closely aligned with the MAS the majority of the time since 2006 (and these actors are definitely opposed to the regional autonomy movements). Since the general election in December 2009, however, the Morales government has not used (and in some cases not been able to use) its broad power base (including a two-thirds majority in parliament) to establish a broad consensus. Regular instances of negotiations across the dividing lines notwithstanding, confrontational rhetoric and decisions have persisted, perpetuating the climate of polarization. In particular, corruption charges against opposition-affiliated mayors and governors threaten their political survival. Following the suspension of Tarija governor Mario Cossío in 2010, another opposition governor was suspended in 2011 (Ernesto Suárez from Beni). These decisions were, however, taken by the respective subnational parliaments in accordance with the new Autonomy Law (and in the case of Santa Cruz governor Rubén Costas the departmental assembly rejected the proposal to suspend him). For its part, the regional opposition seems to acknowledge its present relative weakness and has moved away from an excessively confrontational strategy, at least for the time being. In contrast, dissenting social and indigenous groups have recently stepped up levels of protest and conflict. Serious cleavages within the broader MAS alliance include the split (and open conflict) between state mineworkers and cooperative miners as well as between indigenous peoples from the lowlands and (migrant) indigenous small farmers (colonos, cocaleros) from the highlands. In the period under review, the government has somehow managed to prevent conflicts based on these cleavages from escalating too far, but it has yet to find ways to depolarize the situation.

Cleavage /
conflict
management

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The political leadership takes into account and accommodates the interests of civil society actors. It even assigns an important role in deliberating and determining policies to “organized civil society” (as the 2009 constitution has it), but only selectively so. Whereas previous governments 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 movements, and trade and small farmer unions. In the period under study, the government invited social organizations and movements to a “social summit” in Cochabamba (in December 2011 and January 2012) in order to discuss the political agenda (“to deepen the process of change”). Some important indigenous (CONAMAQ, CIDOB) and trade-union federations (COB), however, did not participate, due to pending conflicts with the government. These tensions notwithstanding, the involvement of civil society groups is without doubt much broader and deeper across the spectrum than under previous governments (and certainly high by international standards). Yet this involvement is not only politically biased, but also highly informal, depending more on the goodwill of the government and the power to force the government’s attention by mobilizing resistance than on established rights to participation and transparent procedures. The new constitution – which includes vaguely defined but potentially far-reaching rights to civil society participation – has 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 but not systematically practiced (in the case of TIPNIS, however, the decision about the road project was taken before the new constitution was adopted).

Civil society
participation
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With few exceptions, the problem of reconciliation in Bolivian society does not focus on the perpetrators and victims of past military dictatorships. Rather, the major historical injustices the Morales government is addressing concern the centuries of discrimination against the indigenous majority of the population. However, the major thrust of government policies is not primarily aimed at reconciliation, but rather at overcoming the multiple modes of discrimination faced by the country’s indigenous peoples. In this latter sense, the Morales government has already achieved remarkable progress, even if much remains to be done. Some specific cases of perceived historical injustices concern more recent experiences, most notably “black October” (2003) which ended the presidency of Sánchez de Lozada. Bolivia continues to demand Sánchez de Lozada’s extradition from the US.

Reconciliation
7

17 | International Cooperation

During the period under review, the political leadership drew on the support of a large variety of international partners. However, the Morales government is in general highly focused on its own development agenda, and is less inclined than previous governments to accept international know-how and external advice. According to OECD data for 2009 – 2010, the most important donors included Spain, the Inter-American Development Bank, the United States, the European Union and Germany. Since Morales came into office, additional financial assistance has come from Venezuela, in particular. The National Development Plan outlines the government's long-term development strategy. At least officially, donors have aligned their priorities with this plan.

Effective use of support

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A different case could be made for private investors. In addition to the increased role of state companies (Comibol, YPFB) in the mining and gas sectors, the Morales government has launched an ambitious plan to break with the traditional manner of raw material exploitation and instead combine the extraction (and processing) of Bolivia's vast lithium resources at the Salar de Uyuni under the control of a public enterprise for the industrialization and commercialization of Bolivia's "evaporitic resources" (EPSICREB). This is further combined with a comprehensive project for the industrialization of the whole region. Until now, however, the project has remained in "pre-pilot" stage, with potential international investors being reluctant to accept Bolivia's far-reaching demands. In general, persisting weaknesses in making effective use of international support (which are real and significant) are due less to inconsistencies in the development agenda than to a lack of efficient infrastructure and the low institutional capacity of the public administration.

During the last two years, the level of confidence inspired by the government among international partners for its democratic and market-economic reform policies has not changed significantly. With regard to market reforms, international partners recognize (and largely accept) that Bolivia is not aiming at "more market". Most bilateral and multilateral donors (with Venezuela being an obvious exception) regard the economic model promoted by the Morales government as lacking promise and sustainability, but they – including the IMF – acknowledge that actual macroeconomic policies have generally been pragmatic and successful. Confidence among foreign investors is certainly low (given the series of "nationalizations"), yet there has been no general withdrawal of international private capital. In fact, 2012 saw a gradual increase in foreign direct investment. In terms of democracy, the 2008 congressional agreement on the draft constitution, the constitutional referendum in 2009, and the successful elections in 2009 and 2010 have on the whole bolstered the government's democratic credentials. But the 2011 judicial elections and the series of suspensions and trials of opposition politicians have had the opposite effect. At

Credibility

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least in private, most (northern-hemisphere, Western) governments express serious doubts regarding the democratic credentials of the Morales government.

Bolivia's political leadership cooperates with its counterparts in many neighboring states, has intensified cooperation and is engaged in regional integration processes. However, it rejects certain rules set by international organizations (e.g., regarding foreign investors' rights and the World Bank's International Center for Settlement of Investment Disputes), and has abandoned the free trade agenda previous governments pursued in negotiations with the United States and the European Union. Within Latin America, Bolivia cooperates in all relevant organizations and with all its neighboring countries. Even relations with Chile, strained since the Pacific War in the 19th century, have improved during the presidencies of Morales in Bolivia and Michelle Bachelet in Chile (although the election of a conservative president in Chile in January 2010 led again to some deterioration). Relations with Peru experienced a short-lived diplomatic crisis in June 2009, but have significantly improved since then. In October 2010, the two governments signed a deal that allows Bolivia to build and operate a small port on the Pacific Ocean. Even relations with the United States experienced a significant improvement in the period under review: After almost three years of difficult negotiations, the Bolivian and the US governments signed a bilateral framework agreement in November 2011 with a view to reestablishing full diplomatic relations (suspended since the mutual expulsion of ambassadors in 2008).

Regional
cooperation

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Strategic Outlook

Increasing splits within the broader MAS alliance notwithstanding, there is still no plausible political alternative to the Morales government. While Evo Morales and the MAS are certainly not aiming at political and economic reforms that are perfectly aligned with the BTI's normative frame, it is hard to imagine that an alternative government could reverse recent political and economic transformations in order to reset the country on a path toward "minimalist" liberal democracy and a free market economy. Whether this would be desirable is yet another question. In any case, the 2009 constitution provides a framework that is democratically legitimized, establishes a fundamentally democratic order and is consistent with the existence of a market economy (albeit within clear limits). Actors – whether domestic or international, governmental or non-governmental, close, critical or in opposition to the MAS – should therefore not try to undermine or reverse the changes envisioned by the constitution, but should rather work for its implementation in the most democratic and inclusive way possible. Given the ongoing intra-Bolivian debate about the appropriate political order and a viable development model, the principal aim should be to guarantee a peaceful handling of unavoidable political struggle and social conflict.

More specifically, four main problems or risks have to be confronted:

- (1) Politically, it is crucial that both the governing MAS party and the (fragmented) political opposition – in national parliament, the regional departments and the municipalities – agree on institutionalized ways of 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 the need for an increasingly independent judiciary able (at least to a certain extent) to stand above party-political struggle.
- (2) The same holds true for relations between the government and social (movement) organizations: Increasing social conflicts within the broader camp of (former) MAS allies show the limits and risks of the government's predominant, largely informal and ad hoc methods of dealing with contentious claims voiced by social groups. As suggested by the 2009 constitution, the state and the MAS party itself need to develop institutionalized mechanisms that enable reliable modes of participation and accountability.
- (3) With respect to social policy, the existing system of social security and the important social programs initiated by the Morales government should be further deepened and strengthened. However, while the government should signal a clear political will to approach the state of universal social rights as established in the constitution in a progressive manner, the government also has to contain exaggerated expectations.
- (4) Economically, the dependence on (exporting) primary resources constitutes the country's main weakness. There is a real danger that the (fiscal) income generated by resource exploitation will

be spent on public investments that may generate some economic growth (and reduce poverty) without laying the basis for an alternative development model. Incipient initiatives to promote the industrialization of nonrenewable resources are important (e.g., in the case of lithium). The ongoing conflict between competing development models – neo-developmentalism and neo-extractivism against an emphasis on 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.