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## Reforms and counter-reforms in Bolivia

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# Institute for Advanced Development Studies



## Development Research Working Paper Series

**No. 04/2009**

### **Reforms and Counter-Reforms in Bolivia**

by:

Luis Carlos Jemio  
Fernando Candia  
José Luis Evia

June 2009

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# **IDB Research Network Project on: “The Political Economy of Productivity”**

## **REFORMS AND COUNTER-REFORMS IN BOLIVIA FINAL VERSION**

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**Table of Contents**

**REFORMS AND COUNTER-REFORMS IN BOLIVIA**

- 1. Background and Introduction**
- 2. Reforms, Counter reforms and Productivity Performance in Bolivia**
  - 2.1. Key macroeconomic events**
  - 2.2. Productivity performance over time**
  - 2.3. Sectoral and regional performance of productivity**
- 3. Policy-making Process**
  - 3.1. PMP during the Reform Process**
  - 3.2. Reform fatigue**
  - 3.3. Reversal of the Reforms**
- 4. Underlying factors affecting the PMP shifts**
  - 4.1. Determinants of the PMP shifts**
  - 4.2. Econometric tests**
- 5. The magic of politics**
  - 5.1. The unsustainability of the current PMP**
  - 5.2. The Future of the PMP in Bolivia**
- 6. Conclusions**

**Bibliography**

**Annex A - Actors, Interests, Arenas, and Currencies**

**Annex B - Policy-making Process in Bolivia over time**

**Annex C - Classification of Political Parties used in the Paper**

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## REFORMS AND COUNTER- REFORMS IN BOLIVIA

### 1. Background and Introduction

Towards the end of the 1970s and beginning of the 1980s, Bolivia experienced a period of deep economic and political crisis, resulting from the international economic shocks that hit the country at the time and from the large levels of foreign indebtedness the country had acquired during the 1970s. The crisis was characterized by hyperinflation, continuous drops in GDP, economic uncertainty and political volatility.

Starting in 1985, after a change in government, Bolivia embarked in a comprehensive program of structural reforms aimed at stabilizing the economy and at removing the structural constraints which precluded faster economic growth and increases in productivity. The reform package was implemented over a period of time which began in 1985 and lasted for approximately 20 years. The reform policies comprised measures such as the opening of the economy to foreign trade; price, exchange rate and interest rate liberalizations; fiscal adjustments; central bank independence; instauration of a financial regulation and supervision system; capitalization and privatization of public enterprises; pension reforms; decentralization of the public administration; strengthening of key public institutions, (e.g. the internal revenue and customs offices, and the national road administration), among the most noticeable.

This reform process was aimed at improving the overall functioning of the economy. The main objective sought by policymakers with this wide ranging policy package was the improved efficiency in the functioning of different sectors of the economy. The political framework at the time was favorable for the implementation of this efficiency- geared set of policies. Bolivia had recovered its democracy in 1982, and political parties and Congress played a fundamental role in the Policy-Making Process (PMP). Political pacts became paramount in order to guarantee governance, which was a necessary condition for the successive administrations to be able to implement the reform program.

The reform process produced some positive effects, such as the consolidation of macroeconomic stability, strengthening of key economic and political institutions, large

investment flows from abroad to key sectors of the economy, and the discovery of sizable natural gas reserves, which greatly improved the country's prospects of attaining faster growth and development.

At the end of the 1990s, however, due to various coinciding factors, including the international financial crisis which hit the country at the time and the widespread perception of the Bolivian population that the reform program was not benefiting the poorest segments of society, brought about an increased opposition to the reforms, in the form of road blockades, violent protests, etc. The street pressure gained power in the PMP, as several policies were imposed on the government and Congress by such means. In general, these policies reverted part of the reforms implemented during the 1990s. Eventually, the rise to power of the Movimiento al Socialismo (MAS) reinforced the tendency to consolidate this process of reform reversal.

This paper analyzes the process of reforms and counter-reforms witnessed in Bolivia over the last two and a half decades, and the effects these processes have had on productivity. In addition, the paper discusses the changing nature of the policy-making processes underlying the reform and counter-reform processes, in terms of the actors who participated in the PMP, policy domains, and arenas where the PMP was shaped, and the currencies used by different actors in order to press for their demands. Moreover, the paper analyzes the factor underlying the changes which took place in the support given by the population to the reform process.

Chapter 2 focuses on discussing the trends followed by overall and sectoral productivity in the country. Emphasis is placed on the productivity changes brought about by the reform process. The results are analyzed both at the sectoral and regional levels.

Chapter 3 describes and analyzes the PMP over time, highlighting the changing nature of this process across the period covered in this research. The dynamic changes occurred in terms of actors, arenas, mechanisms/currencies and policy domains are discussed.

Chapter 4 identifies the factors which determined the political support received by the reform process over time, and the shifts in which affected that support. The significance of some of these factors is tested econometrically.

Chapter 5 sets forth some of the lessons learned from this research, which could help devise a more inclusive and sustainable PMP in the future.

Finally, Chapter 6 offers some concluding remarks.

## **2. Reforms, Counter-reforms and Productivity Performance in Bolivia**

### **2.1. Key macroeconomic events**

At the beginning of the 1980s, due to the international economic crisis, Bolivia witnessed the collapse of the state-led development model, which had been in place since the 1952 national revolution. The crisis was characterized by a significant and continuous drop in per capita GDP, hyperinflation, large fiscal and external imbalances, high rates of unemployment, low rates of investment and continuous contractions in labor productivity (Table 2.1).

**Table 2.1**  
**Selected Macroeconomic Indicators**  
**(Annual average)**

	1980-1985	1986-1990	1991-1995	1996-2000	2001-2005	2006-2007
GDP growth (% change)	-2.35	1.81	4.20	3.89	2.53	4.82
Per capita GDP growth (% change)	-3.92	0.15	1.52	0.58	0.16	1.43
Inflation rate (% change)	2199.58	26.54	11.08	5.12	3.37	8.34
Devaluation rate (% change)	1844.39	46.65	8.74	5.19	5.51	-1.28
Current account balance (% of GDP)	-8.3	-3.4	-4.8	-6.2	0.7	12.4
Overall fiscal balance (% of GDP)	-16.0	-5.3	-3.9	-3.5	-6.3	3.1
Investment rate (% of GDP)	10.2	12.0	14.7	19.1	13.8	14.3
FDI (million US\$)	29.5	36.1	167.1	740.1	272.8	239.0
Open unemployment rate (% of labor force)	13.51	15.06	4.84	5.49	7.54	7.83
Labor productivity growth (% change)	-4.15	-1.02	1.00	2.51	-0.87	0.03

Source: Central Bank of Bolivia, National Institute of Statistics (INE), Unidad de Programación Fiscal (UPF)

### First-generation reforms

This critical situation led the newly-elected government of President Paz Estenssoro, to undertake a wide-ranging set of policies aimed not only at stabilizing the economy, but also at laying down the foundations for a new development model based on private initiative and on market forces as the main mechanism to allocate resources within the economy. The policy package, known as the New Economic Policy (NEP) comprised fiscal adjustment, tax reform, a devaluation of the official exchange rate aimed at unifying the foreign exchange market, price liberalization of public goods and services, international trade liberalization, widespread interest rate and financial liberalizations.

The NEP was successful in stabilizing the economy. Inflation was reduced significantly in the second half of the 1980s, and stayed low throughout the 1990s. Fiscal and external disequilibria were significantly reduced, and growth was restored, albeit at a moderate rate.



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The open unemployment rate was also reduced, due to the large creation of informal low-paid employment in the informal sector.

### **Second-generation reforms**

Despite the positive effects of the NEP, higher growth rates continued to be elusive, due in part to the extremely low investment rates. Investment rates had partially recovered from the extremely low levels attained during the economic crisis, but stood below 15% of GDP, on average, during the first half of the 1990s. To overcome the low investment-low growth trap, starting in 1993 the government of Gonzalo Sanchez de Lozada carried out a profound process of structural reforms aimed at improving the efficiency of the overall functioning of the Bolivian State and, thus, removing the bottlenecks which were constraining Bolivia's growth and development prospects. The reform process comprised a wide-ranging set of policies including the partial privatization of the main state enterprises (capitalization reform), pension reform, decentralization of the public administration through popular participation and decentralization reforms, education and land reforms, central bank independence, strengthening of key public institutions, such as the internal revenue and customs offices, civil service programs, regulatory and supervisory frameworks for the financial and non-financial sectors.

These economic reforms were accompanied by social policies, aimed at alleviating and reducing poverty and improving income distribution. Among the most important social reforms were: i. The Bonosol; a universal for-life, non-contributive pension scheme, paid to all Bolivians over 65 years of age, amounting to US\$ 248 per year. The Bonosol was financed with the resources obtained from the capitalization process, and constituted the social dimension of that process. ii) A national health insurance for mother and child, providing free medical attention to pregnant women until childbirth, and for the children until they reached the age of five, covering diarrheic and respiratory illnesses; iii. Health insurance for the elderly, which provides free medical attention to senior citizens over 65 years of age; iv. The decentralization law (Participación Popular) mentioned above, assigned 20% of all national

revenues to municipalities to be spent mainly on education and health infrastructure. The distribution of these resources among municipalities is made on a per-capita basis. The Participación Popular allocated resources to municipalities which had previously been neglected, avoiding the discretionary allocation of public resources geographically, and thus ending the social patronage that had prevailed until then.

In the political sphere, there were major efforts to improve the political representation of the population. The reforms implemented were: i. Introduction of sixty two “uninominal” circumscriptions, in which deputies were elected by direct vote. The remaining 68 deputies remained elected from a list which accompanied the Presidential candidate (“pluri-nominal”); ii. The electoral law was also modified, creating a public financing scheme for political parties, and establishing a mandatory quota for women in the list of candidates for deputies and senators.

In the Judicial System, efforts were made in order to increase the rule of law, by the establishment of a Constitutional Control Court, to keep watch at the constitutionality of laws, decrees and any non-judicial resolutions, among others; and by the creation of a judiciary council as an administrative and disciplinary body for the judicial system; and the establishment of the institution of the Ombudsman (“Defensor del Pueblo”).

### **The Capitalization reform**

Amongst the many reforms implemented during the reform period aimed at increasing productivity, perhaps, the most emblematic was the capitalization of the largest public enterprises. The overall diagnostic of the Bolivian public enterprises before the reform process was that they were greatly undercapitalized, over-indebted, and technologically backward. Thus, the reform process placed great emphasis on creating the legal and institutional conditions which would maximize investment flows and technology transfer to these sectors. The capitalization reform was a two-pronged reform, comprising: i) the creation of a new institutional and regulatory framework for the functioning of each of the sectors where

capitalized public enterprises operated; and ii) the partial privatization of the largest public enterprises through the issue of new shares to be bought by strategic investors.

The capitalization reform was successful in bringing about large increases in investment flows, not only to the capitalized sectors, previously in the hands of the State, but also to other sectors of the economy, especially in the form of FDI. The largest FDI flows went to the hydrocarbons, telecommunications, electricity and financial services, and to a lesser extent to the agroindustrial sectors. Moreover, the strategic partners who invested in the capitalized sectors, not only through the capitalized public enterprises but also as separate investments encouraged by the new institutional environment, were large transnational corporations, with great financial capabilities and sectoral experience worldwide. This was an intended policy, because large transnational companies, unlike domestic ones, had the capacity to bring large capital investment flows into the economy and produce transfers of the latest technology into these sectors.

However, the capitalization process, although successful in bringing about large increases in investment inflows, which was the intended objective, overlooked some elements which eventually put in jeopardy the long term sustainability of the reform.

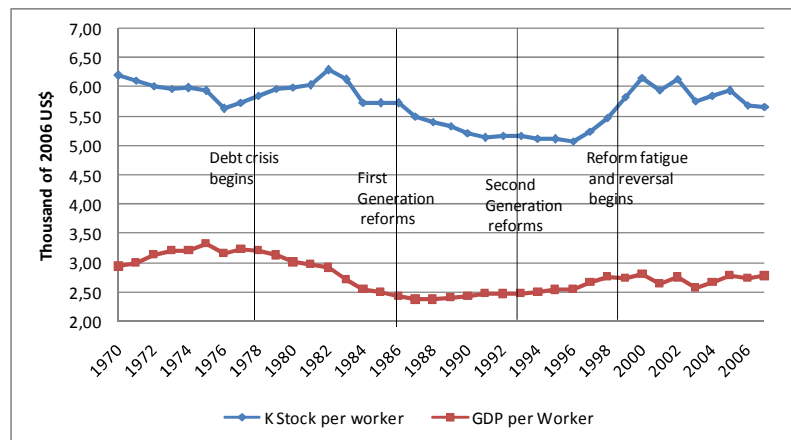
Eventually, these factors perceived as negative by large segments of the population, coupled with the international crisis at the end of the 1990s and at the beginning second millennium, gained widespread support for leaders who advocated for the reversal of the market oriented reform program.

From 2001 onwards, the country witnessed a succession of policy measures which reversed the reforms, including the withdrawal of public service concessions, nationalization of capitalized enterprises, and restrictions imposed on the functioning of the labor market. These measures tended to have significant political returns in the short- run, but have also brought about a significant drop in investment inflows, which eventually are expected to bring about productivity losses in the long-run.

## 2.2. Productivity performance over time

In the long run, productivity in Bolivia has remained low and stagnated. Graph 2.1 shows time-series for the physical capital stock per worker (capital deepening) and labor productivity (GDP per worker) for the period 1970-2006. As can be observed, the very low levels of fixed capital formation the country exhibited over time have resulted in low and stagnant levels of physical capital per worker, which over this long period averaged US\$ 5,700 in constant 2007 values, and fluctuated within a relatively narrow range. Investment levels were barely sufficient to replace the depreciation of existing capital and to supply with capital to new entrants into the labor market, but did not permit any increase in the physical capital per worker ratio. As a result, labor productivity has remained largely stagnant over time, averaging US\$ 2,800 in constant 2007 values. Therefore, economic growth has been exclusively the result of factor accumulation, and the contribution of TFP growth to GDP growth has been almost negligible.

**Graph 2.1**  
**Capital deepening and labor productivity**  
**(Constant 2007 U.S. Dollars)**

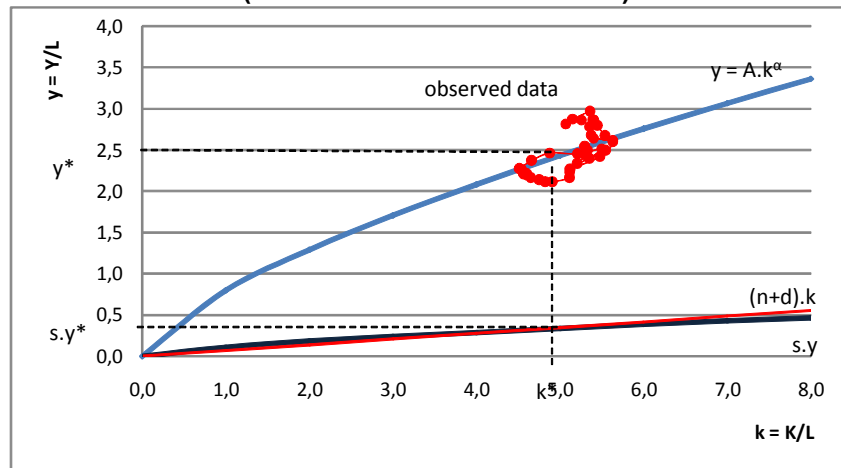


Source: National Institute of Statistics (INE)

Graph 2.2 shows a long-term production function for the Bolivian economy, which plots the physical capital stock per worker ( $k$ ) and total output per worker ( $y$ ). The Graph shows that Bolivia's long term steady-state growth has remained almost invariable over the last 36 years. To produce a significant increase in the long-term steady-state growth path, the Bolivian

economy needs to increase its investment rate significantly and permanently, and to generate permanent productivity gains by increasing its TFP.

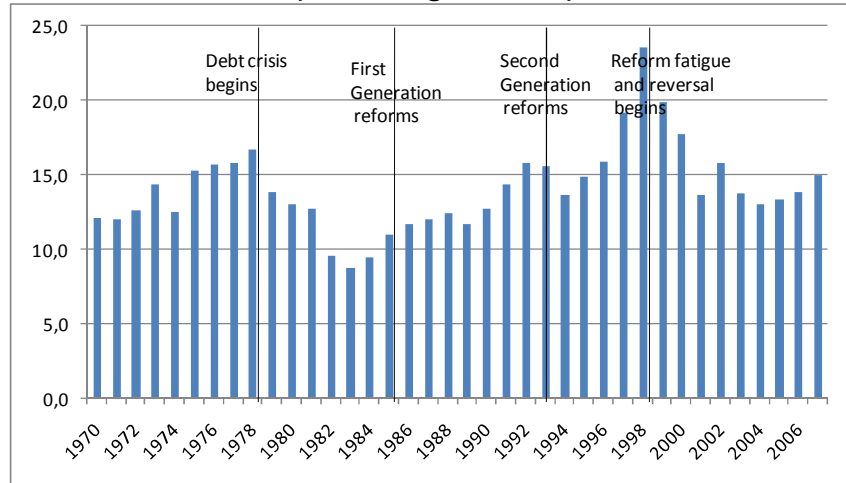
**Graph 2.2**  
**Long term production function**  
**(Constant 2007 U.S. Dollars)**



Source: Own Estimates based on National Accounts data published by the National Institute of Statistics (INE)

Productivity behavior is closely linked to the performance of investment over time. Historically, the Bolivian economy has exhibited very low investment rates, due to various factors, such as low savings rates, foreign exchange constraints, unstable and unfavorable investment environment, all due to political uncertainty and an inadequate institutional environment. Low investment rates have been a crucial factor to explain low productivity growth. Investment rates on average amounted to 13.9% of GDP for the period 1970-2007 (see Graph 2.3). Only sporadically, has investment been situated above 15% of GDP and only in one single year (1998) it surpassed 20% of GDP. At these low rates, the economy could barely replace the depreciated capital and supply new entrants to the labor force with physical capital, but could not increase the capital endowment per worker.

**Graph 2.3**  
**Investment rate for the Bolivian economy**  
**(Percentage of GDP)**



Source: Central Bank of Bolivia, National Institute of Statistics (INE), Unidad de Programación Fiscal (UPF)

During the economic crisis at the beginning of the 1980s, investment rates went down from 16.7% of GDP in 1978 to 9.4% in 1984. The economic crisis imposed several constraints on investment, ranging from foreign exchange shortages to the deterioration of the investment climate.

After the stabilization program was implemented in 1985, investment rates partially recovered, increasing up to 15.8% of GDP in 1993, due to the improved macroeconomic and investment climate. However, investment rates stood at levels that were completely insufficient to attain a rapid growth in the long-run.

The implementation of the second-generation structural reforms placed much greater emphasis on bringing about a large boost to private investment, especially to foreign investment. The latter was expected to bring about not only a large increase in investment inflows, but also to produce a significant jump in the technological endowment of key sectors of the economy, such as hydrocarbons, telecommunications, electric energy, and

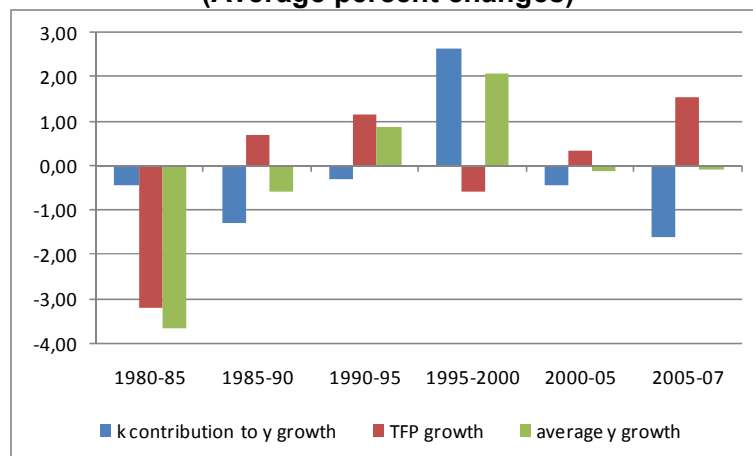
transportation. As a result of the reforms, the overall investment rate increased up to 23.6% of GDP in 1998.

Finally, during the reform reversal period, the investment rate plummeted again to 13.3% of GDP in 2005, due to the economic crisis and the sharp deterioration of the investment climate. In 2007, the investment rate rose up again to 15% of GDP, but mainly due to an increased public investment, whose impact on productivity is unclear. Private investment on the other hand, domestic and foreign, remained largely stagnant due to the existing political volatility and the nationalization policies undertaken by the government of Evo Morales.

### Growth accounting of productivity

The investment patterns discussed in the previous section have had an important impact on productivity behavior. Based on standard growth accounting analysis, Graph 2.4 shows that during the economic crisis at the beginning of the 1980s, labor productivity decreased at an average annual rate of 3.6%, mainly due to a sharp drop in TFP, which went down at an average yearly rate of 3.2%. The contribution of capital stock per worker to productivity growth was small despite the decrease in the investment rate, due to the increased unemployment which shrank the number of people participating in the labor force.

**Graph 2.4**  
Contribution to growth of TFP and capital accumulation  
(Average percent changes)



Source: Own estimates based on National Accounts data published by the National Institute of Statistics (INE)

After the stabilization program was implemented in 1985, productivity growth went down, but at a much slower pace (-0.57% on average between 1985 and 1990). There was a small upturn in TFP (0.7% annual growth on average), after the significant drop experienced at the beginning of the decade. However, the negative growth rate in capital per worker contributed negatively to labor productivity, by an average yearly rate of 1.28%. Despite the increased investment rates, capital endowment per worker declined due to an enlarged participation of the population in the labor force, resulting from the diminished unemployment rates.

During the first half of the 1990s, labor productivity grew at an average rate of 0.88%, basically due to the raise in TFP, which went up at an average annual rate of 1.16%. During that period, the capital per worker ratio went down, contributing negatively to productivity growth by a 0.28% annual growth rate, caused by relatively low investment rates and lower unemployment.

In the second half of the 1990s, productivity increased at its fastest growth rate, 2.07% per year. The bulk of this increase is explained by the higher rates of capital endowment per worker. The capital per worker ratio went up by an average yearly rate of 2.65% during this period, due to the positive effects of the structural reforms on FDI inflows. TFP on the other hand, presented negative growth rates, of 0.58% per year on average.

In the first half of the 2000s, productivity growth became negative again, because the economic crisis slowed down GDP growth and generated a large excess-capacity, decreasing productivity at a yearly average rate of 0.1%, between 2000 and 2005. The drop in the investment rate, resulting from the economic and political crisis Bolivia experienced during this period, caused a negative contribution of capital per worker to productivity growth, by an average annual rate of 0.44%. TFP presented a small growth rate of 0.35% a year on average.

This trend continued through 2007. Labor productivity dropped at an average growth rate of 0.08% per year, despite the recovery in GDP growth observed during these two years. The larger employment absorption occurred, of previously unemployed workers, explains the low productivity growth rate. On the other hand, low rates resulted in a negative contribution of

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capital per worker to productivity growth of 1.61% per year on average. TFP increased at an annual growth rate of 1.54%, mirroring the positive lagged effects which investment flows of the late 1990s and early 2000s had on productivity.

### **2.3. Sectoral and regional performance of productivity**

This section discusses the sectoral and regional impacts of the reforms. Data on direct foreign investment by sector, sectoral labor productivity, real wages, labor distribution across sectors, and GDP share by sector are used to perform the analysis. The aim is to analyze the impact of the reform process on the functioning of reformed and non-reformed sectors, on sectoral productivity and on inequality gaps.

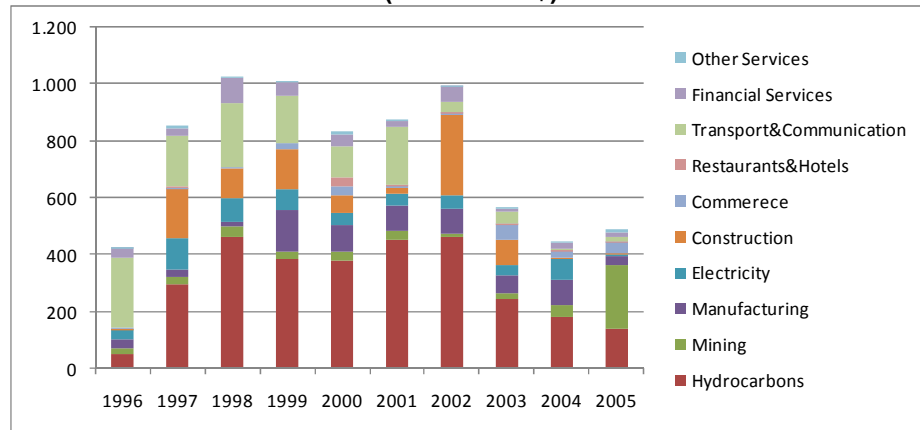
A similar discussion is carried out at the regional level. The effects of the reforms on regional GDP growth and per capita incomes are analyzed. To this end, data on regional per capita GDP, poverty incidence, GDP growth, and resource transfers to regions are presented.

#### **Sectoral Impacts of the Reforms**

Some of the reforms implemented in the 1990s, and especially the capitalization of public enterprises, sought to bring about an investment shock into key sectors of the economy, by obtaining the companies' commitment to increase investment flows in the capitalized firms. However, the capitalization and other reforms favored and promoted increases in foreign investment flows to non-labor intensive sectors (namely, hydrocarbons, energy, telecommunications and financial services). Between 1996 and 2003, FDI flows to capital intensive sectors amounted to US\$ 621 million per year, on average. FDI flows to extractive activities, especially hydrocarbons, amounted to US\$ 368.3 million per year, on average. Between 1996 and 2004, GDP in the hydrocarbon sector almost doubled, increasing at an annual rate of 8.5% during that period, on average. Other sectors which benefited from important FDI flows were transportation and communications which received annual average flows of US\$ 150.6 million. FDI flows to the electricity, gas and water sectors were of about US\$ 57.7 million per year, on average. Finally, the banking sector received FDI flows of about

US\$ 39.7 million per year. Large FDI flows brought about sharp labor productivity increases in these sectors (Graph 2.5 and Table 2.2).

**Graph 2.5**  
**FDI Flows by Sector**  
**(Million US\$)**



Source: National Institute of Statistics (INE)

Conversely, the reform program did not place equal attention on labor-intensive sectors. These sectors, which employ 90% of the total labor force, lagged behind non-labor intensive sectors in terms of GDP growth, productivity and real incomes. As a result, large disparities in labor productivity developed among labor and non-labor intensive sectors in terms of productivity and incomes received by workers.

**Table 2.2**  
**Reforms and Productivity Differences across Sectors**

Sectors	Labour Intensity (workers per unit of output)	Share in total employment 2003 (%)	Share in total GDP 2003 (%)	Labour Productivity (output per worker)	Average monthly income (Bs. 1991)	Average FDI flows 1996-2003 (million US\$)
<b>Labour intensive sectors</b>	<b>306,3</b>	<b>90,2</b>	<b>53,1</b>	<b>3,3</b>	<b>281</b>	<b>202,4</b>
Construction	452,2	7,3	2,9	2,2	513	110,0
Agriculture, forestry and fishery	448,6	39,3	15,8	2,2	144	0,5
Community, social and personal services	420,3	11,3	4,8	2,4	480	0,0
Commerce	330,6	16,2	8,8	3,0	420	18,5
Restaurant and hotel	298,3	5,4	3,3	3,4	391	4,2
Manufacturing industry	111,6	10,8	17,5	9,0	394	69,2
<b>Non-labour intensive sectors</b>	<b>45,0</b>	<b>9,8</b>	<b>46,9</b>	<b>26,5</b>	<b>867</b>	<b>621,7</b>
Transport, storage and communication	69,7	4,6	11,8	14,3	706	150,6
Business services	39,4	2,1	9,5	25,4	982	5,4
Public Administration	35,2	1,9	9,8	28,4	950	0,0
Electricity, gas and water	32,7	0,4	2,2	30,6	1107	57,7
Financial services	16,5	0,3	3,7	60,5	1677	39,7
Mining and hydrocarbons	10,1	0,6	10,0	98,8	828	368,3
<b>Total</b>	<b>180,4</b>	<b>100</b>	<b>100</b>	<b>5,5</b>	<b>381</b>	<b>824,2</b>

Source: Own estimates based on National Accounts data and Household Surveys published by the National Institute of Statistics (INE)

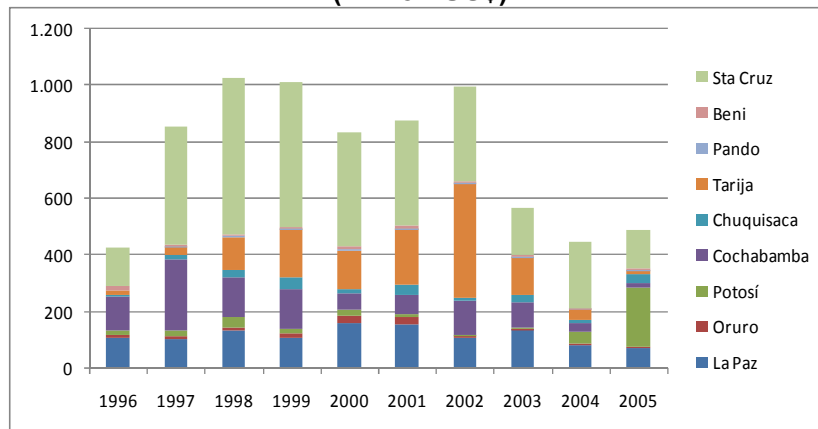
In 2003, productivity in labor-intensive sectors was only 12% of that exhibited in capital-intensive ones. Labor productivity was extremely low in construction and agriculture. On the other hand, manufacturing presented the highest productivity levels among labor intensive activities. In terms of real incomes, between 1996 and 2003, workers engaged in labor-intensive sectors earned, on average, an equivalent of 32% of the amount earned by workers in non-labor intensive sectors. Agricultural workers received the lowest income levels, while workers engaged in construction activities benefited from the highest among labor intensive sectors.

### Regional Impacts of the Reforms

The reform policies implemented during the 1990s were not regionally biased, in principle. However, the reforms were supported/opposed more in some regions than in others. Perhaps, the reform outcomes eventually benefitted some regions more than others, reinforcing the negative or positive perception different regions had about the reform process benefits. For instance, FDI arising from the capitalization reform poured more intensely into regions located in the eastern lowlands which had historically favored a free-market model. The opposite

seems to occur in the western highlands, where there is a much larger incidence of public sector activities and employment.

**Graph 2.6**  
**FDI Flows by Region**  
**(Million US\$)**



Source: National Institute of Statistics (INE)

As can be seen in Table 2.3 and Graph 2.6, FDI flows resulting from the capitalization process and the sectoral reforms, arrived in larger quantities to regions in the eastern lowlands (US\$ 459 million a year, on average, between 1996 and 2005), such as Santa Cruz and Tarija. The regions in the western highlands also received FDI flows but in relatively smaller quantities (US\$ 293 million per year on average).

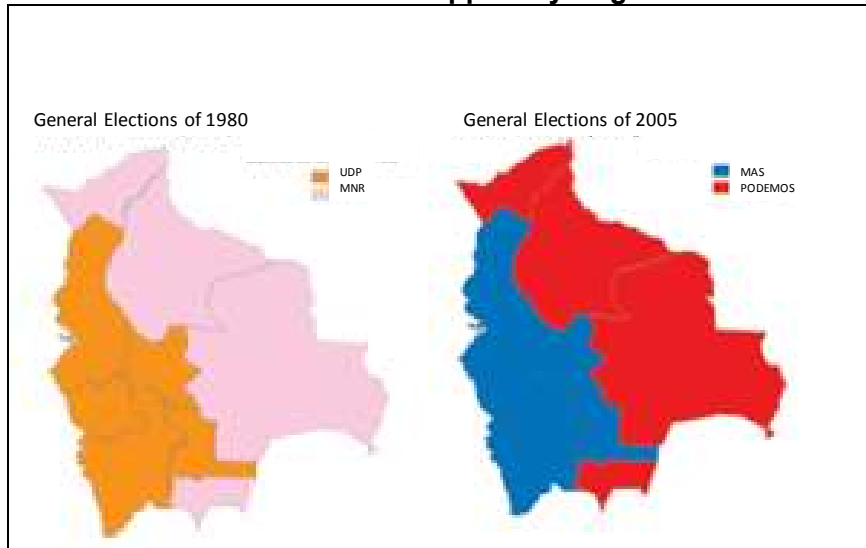
**Table 2.3**  
**Reforms and Productivity Differences across Regions**

	Share in Total Population (%)	Share in Total GDP (%)	Per capita GDP (US\$)	GDP growth 1990-2006	Poverty Incidence %	Average FDI (million US\$)	Copart.+HIPC (million US\$)
Chuquisaca	6,4%	4,5%	809,2	1,43	70,1%	21,9	14,8
La Paz	28,4%	24,0%	996,9	2,63	66,2%	118,7	61,3
Cochabamba	17,6%	16,1%	1.043,4	3,26	55,0%	103,8	36,6
Oruro	4,7%	4,8%	1.213,9	2,89	67,8%	11,7	11,1
Potosí	8,6%	5,0%	711,1	2,28	79,7%	37,2	20,7
Average Highlands	65,7%	54,3%	954,89	2,50	67,8%	293,2	144,5
Tarija	4,7%	12,9%	3.033,2	8,29	50,8%	127,2	10,0
Santa Cruz	24,5%	28,9%	1.300,5	4,30	38,0%	325,7	47,0
Beni	4,4%	3,0%	814,3	2,73	76,0%	6,5	9,8
Pando	0,6%	0,9%	1.365,9	4,90	72,4%	0,4	1,8
Average Lowlands	34,3%	45,7%	1.628,48	5,06	59,3%	459,9	68,7
BOLIVIA	100,0%	100,0%	1.152,5	3,59	58,5%	753,0	213,2

Source: Own estimates based on National Accounts data, Household Surveys published by the National Institute of Statistics (INE), and Fiscal Balance data published by the Unidad de Programación Fiscal (UPF)

The fact that regions in the eastern lowlands had favored market-oriented policies is also linked to other socio-economic indicators which can contribute to explain why certain regions tended to oppose/favor market-oriented reforms. For instance, regions in the eastern lowlands have a per capita GDP that is 70% higher, on average, than those in the western highlands. The GDP average growth rate during the 1990-2006 period for regions located in the eastern lowlands doubled the rates observed in western highlands. Poverty incidence is also higher in the western regions (67.8%) than in the eastern regions (59.3%).

**Graph 2.7**  
**Political Support by Regions**



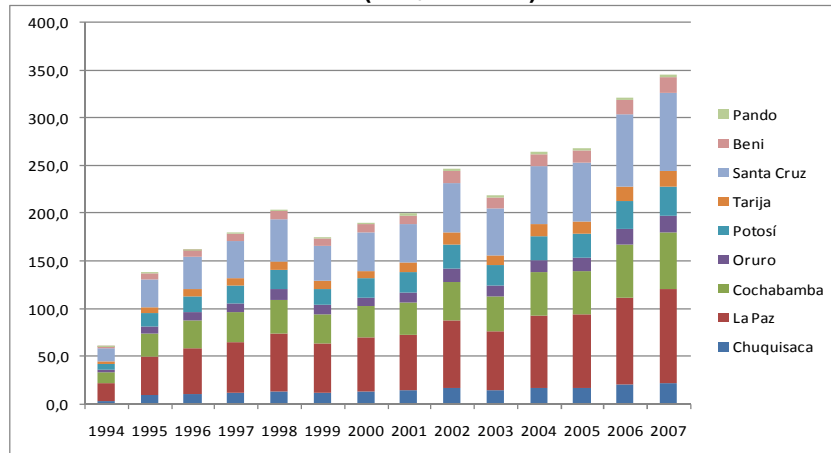
Source: Corte Nacional Electoral (CNE)

These indicators show that regional socio-economic imbalances in Bolivia could help to explain the differences in the political support which market-oriented reforms have had across regions. The much wealthier eastern lowlands have tended to support political parties that were more identified with market-oriented reforms. The opposite tends to occur in the much poorer western highlands. Graph 2.7 shows that these political preferences have remained unchanged over time. In the 1980 elections, the left-wing party UDP, which favored a state-led economy, obtained a majority of votes in the western regions, while the center-right-wing party MNR, which pioneered the reform process, won in the eastern regions. This pattern can also be observed in the 2005 general elections, when the left-wing party MAS won in the western highlands, while the right-wing party PODEMOS won in the eastern lowlands regions.

Although the reform process placed a great emphasis on policies aimed at enhancing productivity, policies also focused on distributive objectives. The Popular Participation Reform for instance, transferred 20% of the total national tax revenues to municipalities across the country, amounting to about US\$ 190 million, on average, during the period from 1994 to 2007

period (Graph 2.8). Starting in 2001, transfers to municipalities were increased within the HIPC debt-relief initiative by US\$ 45.7 million per year on average for the period 2001-2007.

**Graph 2.8**  
**Resource Transfers to Municipalities**  
**Popular Participation Reform and HIPC II Initiative**  
**(US\$ Million)**



Source: Unidad de Programación Fiscal (UPF)

As can be observed in Table 2.3, regions in the western part of the country received larger amount of resources than regions in the eastern part. This shows that although the reform process also included policies aimed at attaining a more equal distribution of resources among regions, they were insufficient to change regional support for the reforms.

### 3. Policy-making Process

This chapter analyses the dynamic nature of the PMP in Bolivia over the period covered in this research study. Annex A describes the main actors which participated in the PMP, the arenas where the PMP was shaped, and the currencies used by actors to press for their socio-economic demands. In this chapter, all these elements and concepts are combined in order to portray the dynamics of the Bolivian PMP.

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Politics have played an extremely important role in shaping the PMP in Bolivia and consequently its economic behavior. The PMP, however, has experienced significant changes over time, in terms of the socio-economic and political players involved, the arenas where the PMP process took place and the various currencies used by the different players, as well as their policy objectives. During the 1980s and 1990s, traditional political parties played the most important role in the PMP. During the 2000s, however, economic policy has been, to a great extent, the result of social and political pressures that have had a significant impact on productivity. The following sections explain the dynamic of the PMP in Bolivia over the past 25 years. The PMP matrix which outlines the PMP flux over time is presented in Annex B.

As discussed previously, in order to capture the changes occurred in the PMP over time, and the factors underlying these changes, the discussion on the PMP process will be divided into three periods which were characterized by essentially different traits: the reform process, reform fatigue and reform-reversal periods.

### **3.1. PMP during the Reform Process**

After the return of democracy in 1982, the Legislative branch played a paramount role in Bolivia's PMP. In the first half of the 1980s, Bolivia suffered a profound economic crisis characterized by continuous reductions in GDP and hyperinflation. The government of President Siles Suazo (1982-1985) lacked the political support in Congress required to implement a coherent economic program. His ruling left-wing party, Unidad Democrática Popular (UDP) only controlled 36.3% of total Congress members, while opposition parties controlled the remaining 63.7% (Table 3.1). In 1985, President Siles Suazo realized that he was unable to cope with the economic, social and political crisis, and decided to shorten his mandate, calling for early general elections one year ahead of the constitutional end of his mandate.



**Table 3.1**  
**Congressional Composition during the Reform Process**  
**(Number and percentage of Congress members)**

	1980-85			1985-89			1989-93			1993-97			1997-02			2002-05			2005-			
	Parties	MPs	%	Parties	MPs	%	Parties	MPs	%	Parties	MPs	%	Parties	MPs	%	Parties	MPs	%	Parties	MPs	%	
Government	UDP	57	36.3%	MNR	59	37.6%	ADN	46	29.3%	MNR	69	43.9%	ADN	44	28.0%	MNR	46	29.3%	MAS	84	53.5%	
				ADN	51	32.5%	MIR	41	26.1%	UCS	21	13.4%	MIR	31	19.7%	MIR	31	19.7%				
							Condepa	11	7.0%	MBL	7	4.5%	UCS	23	14.6%	NFR	27	17.2%				
										Condepa	20	12.7%	UCS	5	3.2%							
Total Congress Control		57	36.3%		110	70.1%		98	62.4%		97	61.8%		118	75.2%		109	69.4%		84	53.5%	
Opposition	MNR	44	28.0%	MIR	16	10.2%	MNR	49	31.2%	AP	43	27.4%	MNR	31	19.7%	MAS	35	22.3%	Podemos	56	35.7%	
	ADN	30	19.1%	MNRI	8	5.1%	IU	10	6.4%	Condepa	14	8.9%	IU	4	2.5%	MIP	7	4.5%	MNR	8	5.1%	
	PS-1	11	7.0%	VR-9A	6	3.8%				ARBOL	1	0.6%	MBL	4	2.5%	ADN	5	3.2%	UN	9	5.7%	
	PDC	5	3.2%	PS-1	5	3.2%				EJE	1	0.6%			PS	1	0.6%					
	FSB	3	1.9%	IU	4	2.5%				VSB	1	0.6%										
	PRA	3	1.9%	PDC	3	1.9%																
	MNR-U	2	1.3%	FSB	3	1.9%																
	MITKA	1	0.6%	MRTKL	2	1.3%																
	MITKA-1	1	0.6%																			
Total Congress Control		100	63.7%		47	29.9%		59	37.6%		60	38.2%		39	24.8%		48	30.6%		73	46.5%	
Total Congress		157	100.0%		157	100.0%		157	100.0%		157	100.0%		157	100.0%		157	100.0%		157	100.0%	
First Two Parties			64.3%			70.1%			60.5%			71.3%			30.6%			33.8%			89.2%	
<b>Government Coalition</b>																						
Congressional Control		57	36.3%		110	70.1%		98	62.4%		97	61.8%		118	75.2%		109	69.4%		84	53.5%	
Upper Chamber		10	37.0%		26	96.3%		18	66.7%		18	66.7%		22	81.5%		17	63.0%		12	44.4%	
Lower Chamber		47	36.2%		84	64.6%		80	61.5%		79	60.8%		96	73.8%		92	70.8%		72	55.4%	
Number of Parties		1			2			3			3			4			4			4	1	

Source: Own estimates based on data published by the Corte Nacional Electoral (CNE)

After the Presidential and Congressional elections of 1985, the newly elected government of President Paz Estenssoro had the urgent task to put an end to the economic crisis and stabilize the economy. For this purpose, the new administration unveiled an economic package comprised of a wide range of reforms aimed not only at stabilizing the economy, but also at laying down the basis for a new development model based on the private initiative and on the market as the main mechanism to allocate resources within the economy.

One fundamental lesson the new administration had learned from its predecessors was that in order to conduct a coherent economic program, the government needed political governance, based on a strong political-party coalition. This would permit the government to control an essential majority of Congress members, both in the Upper and Lower Chambers, in order to pass the laws required to implement its policies. Thus, the government of the Movimiento Nacionalista Revolucionario (MNR) formed a coalition with the right-wing Acción Democrática Nacionalista (ADN), named as “Pacto por la Democracia” (Pact for Democracy). The alliance provided the government with a 70.1% control of Congress members, the essential majority

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required to implement a successful stabilization program which would bring inflation down, restore macroeconomic equilibriums and reestablish economic growth.

Given the urgent need the administration had to cope with the economic crisis, the stabilization policies were put into effect by means of a Supreme Decree (SD 21060), which did not require a Congressional approval. The stabilization program was based on widespread budget cuts, freeze of public servants salaries, price liberalization of public goods and services, including fuels, and a rationalization of public employment. Despite the hardness of the program, the NEP was eventually accepted by the population, due to the strong demand for economic stability the Bolivian society had at the time.

The strategy of forming coalitions in order to guarantee governance was also followed during the next administration of President Paz Zamora, who despite having obtained a third position in the national elections, was elected President and remained in power between 1989 and 1993 thanks to an agreement with the party which had achieved a second place in that election (ADN). The governance pact was agreed upon between ADN (right-wing) and the Movimiento de Izquierda Revolucionario (MIR) (left-wing). The so called “Acuerdo Patriótico” (Patriotic Accord) granted the new coalition a 62.4% control of Congress members, a majority sufficient to approve key laws to implement its policies. Basically, the Acuerdo Patriótico administration continued the policies initiated in 1985, aimed at maintaining macroeconomic stability, but did not deepen the structural reforms process.

The coalition strategy was also resorted to during the first administration of President Gonzalo Sánchez de Lozada (1993-2007), who had obtained a landslide victory in the 1993 elections as a candidate for the MNR party. Notwithstanding, the winning party formed a government coalition with Unión Cívica Solidaridad (UCS) and the Movimiento Bolivia Libre (MBL), which allowed it to count on a significant Congressional majority, controlling 61.8% of the Congress seats. Based on this Congressional majority, the administration guaranteed the necessary support in order to implement the wide-ranging set of structural reforms that had been part of the MNR’s electoral platform, known as the Plan de Todos (Plan for Everyone) during the presidential campaign.

During the 1990s, Bolivia enjoyed a period with a relatively stable political and institutional environment. The continuity of the stabilization policies applied had successfully brought inflation down and restored economic growth. The structural reforms were the main concern of the policy agenda at the time, and policies were implemented through sectoral laws which were passed by Congress majorities. The reform process enjoyed the support of part of the entrepreneurial sector, international financial organizations and the international community of donors. The democratic alternation in power, had apparently given the reform process the required political support which would guarantee the long-term sustainability of market-oriented reforms.

The sectors which opposed the reforms, such as trade unions, social movements and left-wing political parties had been politically weakened by the economic and social crisis lived during the UDP government. Moreover, the world collapse of the socialist block in 1989 had made the socialist paradigm questionable as a viable political and economic alternative, further weakening the position of left-wing parties in the country. Furthermore, the 1990s witnessed the implementation of market-oriented reforms across the globe, and across the Latin American region, within the overall umbrella of the Washington Consensus. Bolivia had somehow pioneered the reform process and, thus, the political party system perceived the reform process was moving in the right direction.

### **3.2. Reform Paralysis**

Politically, the coalition system proved to be a very effective mechanism to assure governance, which was a necessary condition to maintain democratic and economic stability, and to move ahead with the reform process. The reform process experienced significant advances during the 1985-1989 and 1993-1997 administrations, and slowed down during the 1989-1993 government. However, the reform process came to an almost complete halt during the different administrations that ruled the country after 1997. This was a period characterized by significant changes in the PMP, the emergence of new actors that began to play an important role in determining the PMP, e.g. social movements and regional organizations; the occurrence of significant shifts in the arenas where the PMP was formed e.g. from Congress

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on to the streets; and the beginning of processes of aggregation of policy domains, where fragmented demands of various heterogeneous groups and actors were articulated around wider and more aggregative policy objectives, e.g. the reversal of market-oriented reforms.

The coalition system had become exhausted over time. The high degree of dispersion in the electoral voting made increasingly difficult to form a coherent coalition, since it became necessary to include a larger number of political parties into the alliance in order to attain congressional control. Table 3.1 above shows how the process of dispersion in the electoral vote occurred over time. The 1985-1989 coalition was formed with only two political parties which guaranteed 70.1% control of total Congress seats. In the 2002 elections, however, the government coalition was formed with 4 political parties which guaranteed only a 69.4% control of Congress seats. Perhaps, the 1993-1997 government coalition was the last formed around a coherent government program.

Over time, the population vote became more and more disperse, making it increasingly difficult to assemble diverse political parties within a coherent government alliance with a unified and consistent government program. Thus, in 1997, the elected government of General Hugo Banzer had difficulties in forming its government coalition, needing to include four different parties within the alliance, with not necessarily the same vision or programmatic agenda. Additionally, Banzer's administration was confronted with numerous political and social conflicts, resulting from a variety of sectoral demands. Furthermore, the government embarked in a tough program to eradicate coca crops in the Chapare region, located in the central part of Bolivia. The program brought about violent protests against the government policies, in the form of road blockades, hurting local producers badly and damaging productivity. Amid the political crisis, Bolivia began experiencing the effects of the international economic crisis, which resulted in slower economic growth and higher unemployment.

The political, economic and social crises deepened during Sánchez de Lozada's second term, which began in 2002, reaching only approximately 22% of the electoral votes. This time, his government coalition was comprised of four political parties, including the President's MNR. By then, social and political volatility had increased to unmanageable levels, and after a series of

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political and social conflicts he was forced to resign from the presidency. The government was unable to implement its policies to cope with the economic and political crisis, not because of a lack of the needed congressional majority, but rather, due to the violent street opposition staged by social movements and trade unions through road blockades and other types of violent demonstrations. Congress became less predominant in determining the PMP, surrendering this function to the street forces.

There were various factors which explain the loss of legitimacy of Congress as a main arena in the PMP.

First, the coalition system had lost credibility because Congressional coalitions were increasingly formed based on clientelistic objectives, and not on policy programs. In addition, the traditional political parties were accused of covering up corruption cases, and lost credibility in the eyes of the population.

Second, the social movements and trade unions, the latter grouped within the Central Obrera Boliviana (COB), which had been weakened after the crisis of the 1980s, regained power and succeeded in unifying diverse sectoral demands under various ideological banners, such as the recovery of the national natural resources (i.e. hydrocarbons), the defeat of the neo-conservative model, and opposition to the sale of natural gas to Chile, with whom Bolivia has had a territorial dispute dating back to the 19th century. These causes gained support from a wide variety of sectors of the Bolivian society due to a number of different factors:

- i) The effects of the international economic crisis began to be felt by the Bolivian economy starting in 1999, in the form of reduced growth and higher unemployment. The poorest segments of the population, which were affected more deeply by the crisis, blamed the structural reforms and, more generally, the market-oriented model for the negative effects which had triggered the crises. This was reinforced by the reform fatigue felt by the society as a whole.
- ii) The economic crisis had also created large macroeconomic imbalances, such as an increased fiscal deficit, and the dependence on grants and borrowing

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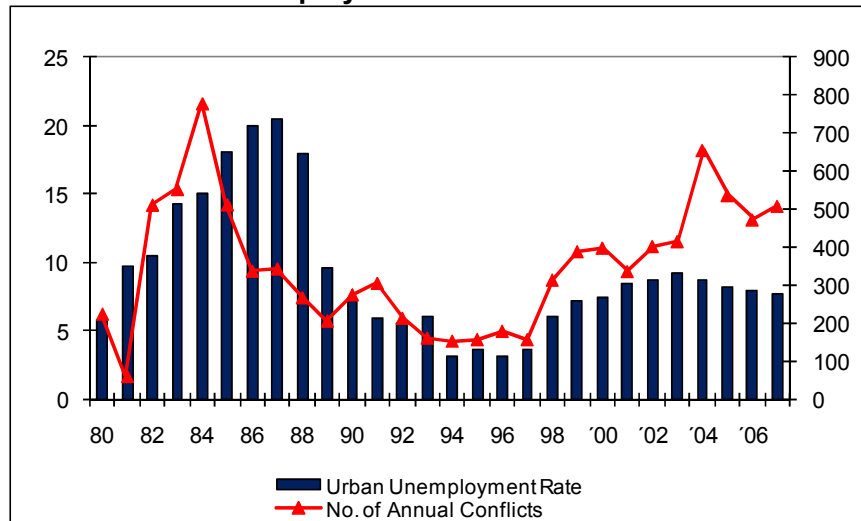
from the international community to finance them. Some administrations tried to implement unpopular fiscal adjustment measures, such as the creation of a personal income tax and fuel price adjustments which brought about riots and violent demonstrations, undermining the government's political and popular support.

- iii) The zero-coca program proposed by the Banzer administration between 1997 and 2002, comprising the total eradication of coca crops which exceeded the traditional domestic consumption, generated strong opposition from the coca-growing sector, which had the possibility to block a key export road in the middle of the country, deeply hurting the economy. Thus, coca producers, and its leader Evo Morales, became paramount in opposing government policies.
- iv) The Popular Participation and Decentralization reforms implemented during the 1990s, transferred a large share of the public investment management to local governments, i.e. municipalities and Prefecturas (departmental authorities). These policies promoted greater social, political and economic participation of previously excluded segments of the society, especially of rural citizens. This reform transferred greater competences and resources to municipalities, and the capacity to elect their own authorities through direct vote. Thus, historically neglected segments of the society acquired a much greater capacity to organize themselves and press for their demands through different channels and mechanisms, including road blockades. This higher social participation, which was promoted by these reforms, brought about a much more conflictive political environment, contributing to weaken the political party system. This was neither an intended nor foreseen outcome of the reform.

All the factors described above contributed to create a socio-political environment characterized by a permanent state of social and political conflict, which was not favorable for the continuity and deepening of the reform process. The reform process was almost completely halted during this period, as the annual number of conflicts, of diverse nature and origin, rose from 156 in 1997 to 654 in 2004 (Graph 3.1). The economic crisis of the first half of the 2000s had reduced employment and income opportunities, hurting the poorest segments

of the society the most. The increased discontent paved the road for sectors and actors which opposed the reform process and called for their reversal, gaining support for them from different segments of the population.

**Graph 3.1**  
**Rate of Unemployment and Number of Social Conflicts**



Source: Laserna & Villarroel (2008) and National Institute of Statistics (INE)

### 3.3. Reversal of the Reforms

The loss of legitimacy by Congress brought about significant changes in the PMP, in terms of actors, arenas and currencies. The most noticeable change was that the PMP was now determined mostly by the street forces rather than by Congress. The referendums also became another key vehicle in the policymaking process, like the 2004 Referendum to approve a change in the hydrocarbon sector policy. Social sectors acquired great power and influence over the policymaking process, by exerting pressure on the government through road blockades, strikes, demonstrations, protest marches, etc. Thus, a phenomenon, which this research project terms as a “political substitution across policy domains and across policy arenas”, actually took place in Bolivia during that period. The so-called social movements and their leaders were able to articulate fragmented sectoral demands from various heterogeneous groups, such as salaried and self-employed workers, coca growers, neighborhood

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organizations, peasants, landless movements, etc. under common national banners, such as the defeat of the pro-market policies, the recovery of the country's natural resources from transnational corporations, and the reversal of the reform program.

Thus, during the 2000s, the pressure of the social movements deeply influenced the policymaking process. Various policy measures were the results of that political pressure, being the increase in hydrocarbons royalties from 18% to 50% of total output, the reversal of two license contracts to administer the water supply in the cities of La Paz and Cochabamba, the postponement of the project to export natural gas to the U.S. and Mexico using LNG technology among the most noticeable.

Eventually, the social movements and other left-wing political groups organized around a political party, the Movimiento al Socialismo (MAS) led by Evo Morales, and were able to successfully compete in the 2005 general election, winning an absolute majority of the vote, which in turn granted the government a majority in Congress. Once in power, the government implemented a number of policies aimed at reversing the structural reforms of the 1990s, such as the re-nationalization of various previously privatized companies, including Chaco, Andina and Transredes in the hydrocarbon sector; Entel in telecommunications, and the tin-smelting company (Vinto). It is interesting to highlight that some of the measures taken by the new administration relied more on its ability to gain support from the streets rather than from Congress.

The counter-reform process has produced some positive returns to the government, both economically and politically. However, these policies have had a significant cost for the Bolivian economy in terms of reduced investment flows which will eventually have a negative impact on the overall and sectoral productivity.

The government wants to deepen the counter-reform process and to continue with other policies, such as land redistribution and promote a larger role of the state in the economy. To this end, the administration has succeeded in approving a new constitution which will grant it with a constitutional framework to carry forward the counter-reform process. Nevertheless, the



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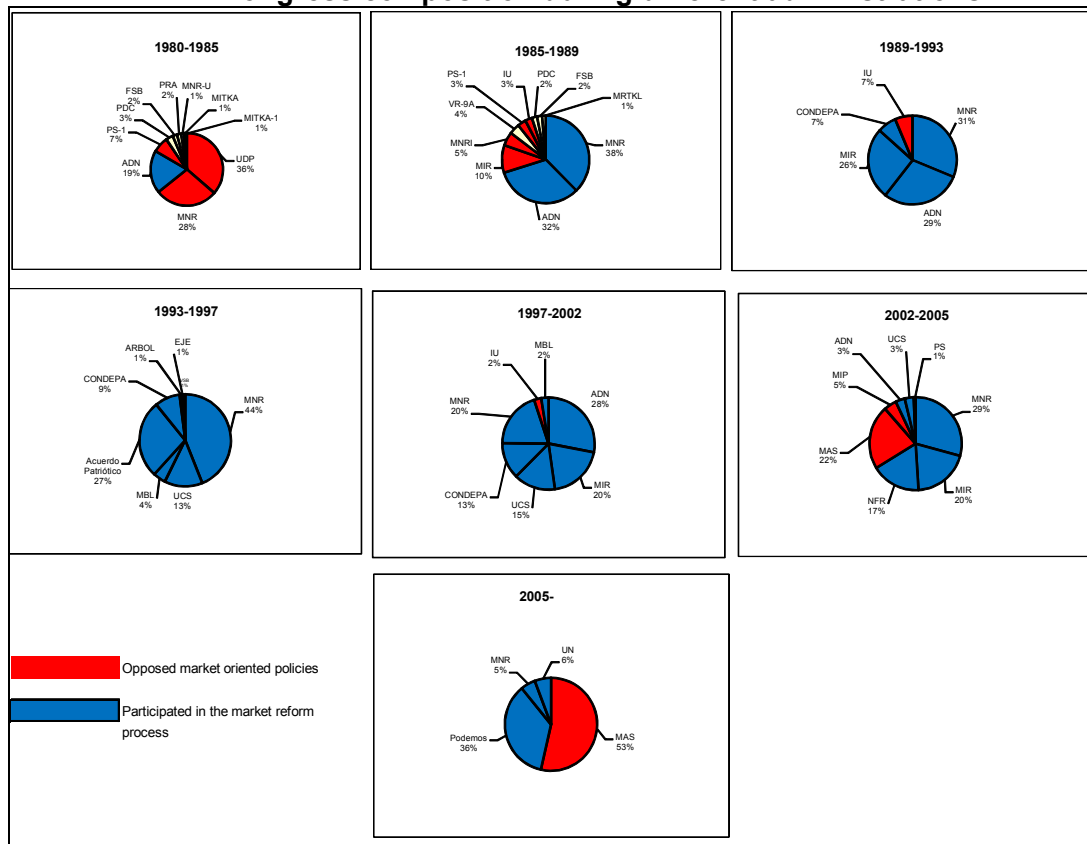
government has faced a strong opposition coming from two fronts. First, the opposition parties which control the Upper Chamber in Congress, and thus have the power to stop part of the government initiatives. The government has resorted to social movements which, through Congress sieges, have exerted pressure on the Senate and managed to impose the approval of some key laws on Congress. This strategy has been quite successful thus far. Second, the regions in the lowlands, which have traditionally favored market-oriented policies and the private initiative in economic activity, have fiercely opposed the government project to impose a socialist state-dominated economy. These regions, namely Pando, Beni, Santa Cruz and Tarija, are struggling with the Central Government for greater autonomy and, therefore, for the capacity to adopt a free market-oriented economic model for their regions.

In summary, from the analysis above, we can identify two patterns in the PMP over the last 25 years:

First, the Congress coalition system was the main support of the PMP between 1985 and 1997, guaranteeing governance, economic stability and the implementation of the reform process. It became exhausted due to the increased dispersion of the electoral vote, which in turn made it more difficult to form coherent government coalitions. Paradoxically, in the 2005 presidential election, the voting tended to concentrate again, as only four political parties obtained congressional representation. The government party (MAS) did not have to resort to any coalition as it controlled 53.5% of Congress on its own. Only one of the traditional political parties (MNR) still retains congressional representation.

During the reform process (i.e. between 1985 and 1997) almost all political parties which obtained representation in Congress, in any of the national elections, participated in at least one of the coalitions which governed the country during that period. Thus, as can be observed in Graph 3.2, between 1993 and 2002, almost all political parties with congressional representation had participated in government coalitions which maintained or deepened the market-oriented reform process. Since 1985, the reform process gained the support of political parties which had previously opposed it.

**Graph 3.2**  
**Congress composition during different administrations**



Source: Own estimates based on data published by the Corte Nacional Electoral (CNE)

Secondly, starting in 2000, Congress lost its ability to represent the population and the PMP became increasingly shaped by the pressure exerted by social movements on the streets. Parties opposed to the market-oriented model which had not participated in any of the previous coalitions, namely the MAS party of Evo Morales, began to receive the support of the population and obtained congressional representation. In the 2005 election, this tendency was accentuated.

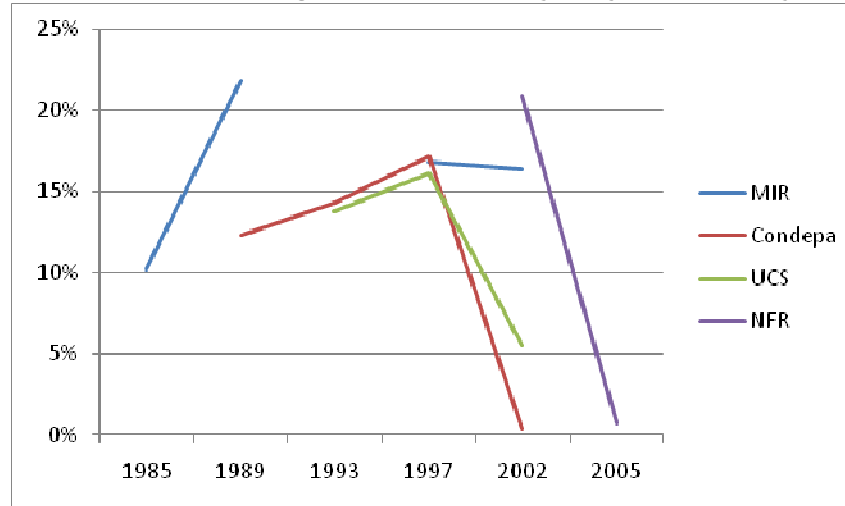
It is interesting to analyze why the market-oriented reform, which seemed to be backed up by very strong congressional coalitions until the 1997 election, suddenly lost legitimacy and support beginning with the 2002 election. A plausible explanation to this phenomenon is that the increasing dispersion of the vote was indeed reflecting that the loss of representation and

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legitimacy of traditional parties had indeed begun much earlier. Parties such as MIR, Condepa and UCS obtained a relatively important vote in the electoral races, vowing that they were going to implement policies which completely differed from the market-oriented model. Eventually, however, they ended up forming a coalition which allowed the reform process to continue. The MIR electoral campaign in 1989 for instance, was based on the slogan that there were going to “relocate SD 21060”. Later on, the MIR party formed a coalition with ADN, and continued the implementation of the free-market model.

The following graph shows the vote for non-systemic parties, i.e. MIR, Condepa, UCS and NFR, before and after they participated in a government coalition. These parties campaigned with an anti-systemic platform, but eventually ended up forming government coalitions led by systemic parties. Graph 3.3 unambiguously shows that these parties have lost support from their voters over time, which could be evidence that these parties were punished by their constituencies, because they had not fulfilled their expectations when they formed alliances with ideologically-opposed parties. The exception is UCS which in 1997, after having participated in a government coalition between 1993 and 1997, increased their vote because of external factors, such as the death of its leader just before the 1997 election which had a deep emotional impact on the population. Otherwise, all other non-systemic political parties have consistently lost electoral votes after they participated in government coalitions led by systemic parties.

**Graph 3.3**  
**Electoral Voting for Non-systemic Parties before**  
**and after forming a coalition led by a Systemic Party**



Source: Own estimates based on data published by the Corte Nacional Electoral (CNE)

#### 4. Underlying factors affecting the PMP shifts

##### 4.1. Determinants of the PMP shifts

The PMP in Bolivia has experienced dramatic changes over time, and essentially moved “from Congress to the streets”. We hypothesize that there were various factors which explain these changes: i) loss of legitimacy of the alliance system, ii) insufficient maturity time for the reforms to deliver results, iii) emphasis of the reform on capital-intensive sectors, and iv) regional differences in the acceptance of the reform process, due to existing socio-economic gaps across regions. The following sub-sections briefly define these factors and section 4.2 presents some empirical evidence.

##### 4.1.1. Loss of legitimacy of the alliance system

The alliance system, which had been a very effective mechanism in assuring governance during the 1990s and a necessary condition to maintain democratic and economic stability, and thus deepen the reform process, became exhausted over time and lost representation in the eyes of the population. The high degree of dispersion in the electoral vote made it

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increasingly difficult to form a coherent coalition, since it became necessary to include a larger number of political parties into the coalition in order to attain Congressional control.

#### **4.1.2. Insufficient maturity time for the reforms**

The reforms implemented during the 1990s, did not have a sufficiently long maturity period to deliver positive results in the eyes of the population. For instance, the capitalization and sectoral reforms have had significant success in promoting investment and increasing the access of the population to public services such as electricity, telecommunications, drinking water and sanitation. The reforms also brought about a sizable increase in hydrocarbon reserves and exports, increasing the exchange and fiscal revenues received by the country. The popular perception has been, however, unable to associate these positive results to the reform process. Quite the contrary, the reforms were blamed for the negative effects the economic crisis of the 1990s and beginning of the 2000s had on employment and income.

#### **4.1.3. Emphasis of the reform process on capital-intensive sectors**

The reforms have focused on capital-intensive sectors, such as hydrocarbons, electricity, telecommunications and financial services. As a result, these sectors exhibited large inflows of FDI, productivity gains and increased salaries for their workers. Labor-intensive sectors, on the other hand, such as agriculture and urban services, where the bulk of the labor force is employed, lagged behind. These gaps seem to have diminished the support for the reform process.

#### **4.1.4. Different support to the reform process across regions**

There were deep regional socio-economic gaps which have conditioned the support given by different regions to the reform process. For instance, regional indicators such as per capita GDP, poverty incidence, GDP growth, and regional Human Development Indicators (HDI) are closely correlated with the support, or lack thereof, for the reforms across regions. The rationale is that regions with higher human development and lower poverty incidence were better prepared to take advantage of the productivity-enhancing policies, and benefitted the most from income and productivity gains. Thus, these regions have tended to maintain their support for political parties which advocated for market-oriented reforms.

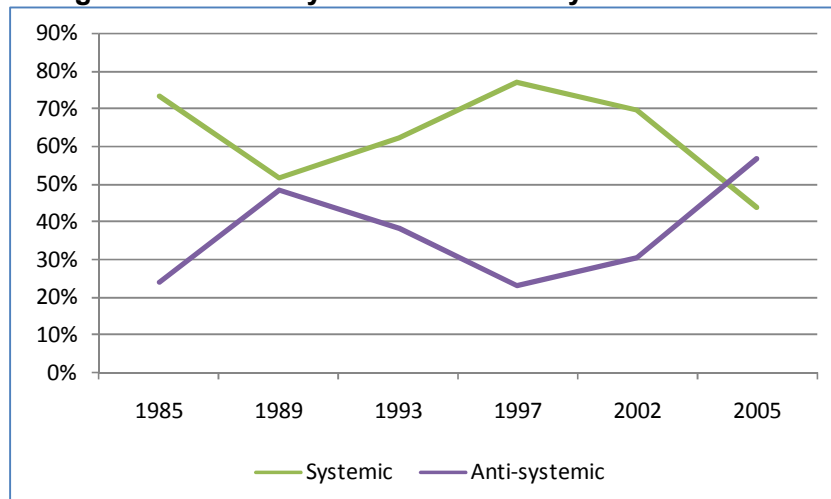
## 4.2. Econometric tests

### 4.2.1. Geographic concentration of the vote

The objective of this section is to study the behavior of the vote, in order to judge the support the reform process was able to attract from the population.

Graph 4.1 shows the support for political parties which promoted the reform process, or at least did not backtrack it, which we will call systemic. The share of votes obtained by these parties in elections is interpreted as a measure of the support to the reform process. A list of parties that were classified as systemic/anti-systemic is shown in Annex C.

**Graph 4.1**  
**Percentage of Votes for Systemic and Anti-Systemic Political Parties**



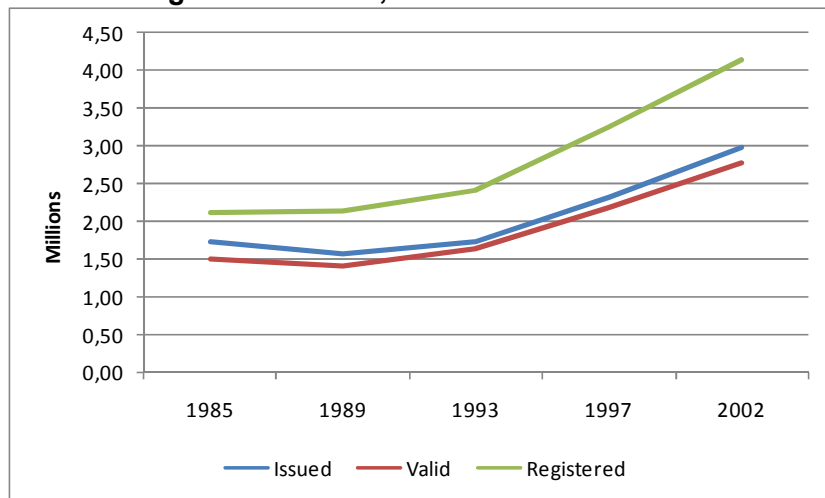
Source: Own estimates based on data published by the Corte Nacional Electoral (CNE)

The former figure shows the important support achieved by the systemic parties in 1985, which can be explained as the reaction of the electors to the economic crisis that the coalition of the 1983 government was not able to solve. The stabilization program fostered by the government in 1985, and the costs (social and political) associated with it, explain the fall in support for the systemic parties in the 1989 election. This is also explained by the classification of the MIR party as an anti-systemic party for that year. This is justified

because the MIR was a main component of the UDP coalition (1982-1985), and also because it campaigned promising to revert the NEP. The following elections (1993 and 1997) witnessed an increase in the support for the systemic parties. 2002 shows a reversal in this trend, albeit moderate. The pattern of support changed dramatically in the 2005 election, where the voting for anti-systemic parties overcame the support for traditional parties.

It is important to note that anti-systemic parties had an important support throughout the period studied. Even in 1985, and after the hyperinflation period, the anti-systemic parties managed to obtain 24% of the vote. This figure probably underestimates the real support for anti-systemic parties, since many other anti-systemic parties (the most radical parties) frequently opted to reject the electoral institution, and called for abstention. Graph 4.2 shows the number of registered voters, issued and valid votes for the 1985-2002 elections.

**Graph 4.2**  
**Registered Voters, Issued and Valid Votes**



Source: Own estimates based on data published by the Corte Nacional Electoral (CNE)

A hierarchical agglomerative average-linkage cluster analysis is carried out in order to identify clusters of regions (departments) according to their support for systemic parties in each of the elections. This technique considers each observation as a separate group and

then combines the two closest groups. The process is repeated until the data is grouped into a relevant number of clusters. The method to compare the groups is called the linkage method. The average-linkage method uses the average distance between the observations of the groups to select the two closest groups.

In the Bolivian case, the data confirms the existence of two clusters: Cluster A groups the regions where the support for systemic parties is greater and cluster B where the support for these parties is weaker. Table 4.1 shows the years in which each region was part of one of the two clusters.

**Table 4.1**

Clustering of Departamentos by Vote		
	Cluster A	Cluster B
BENI	1985,1989,1993, 1997,2002,2005	
CHUQUISACA	2002	1985,1989,1993, 1997,2005
COCHABAMBA	1989	1985,1993,1997, 2002,2005
LA PAZ		1985,1989,1993, 1997,2002,2005
ORURO		1985,1989,1993, 1997,2002,2005
PANDO	1985,1989,1993, 1997,2002,2005	
POTOSI		1985,1989,1993, 1997,2002,2005
SANTA CRUZ	1985,1989,1993, 1997,2002,2005	
TARIJA	1985,1989,1993, 1997,2002,2005	

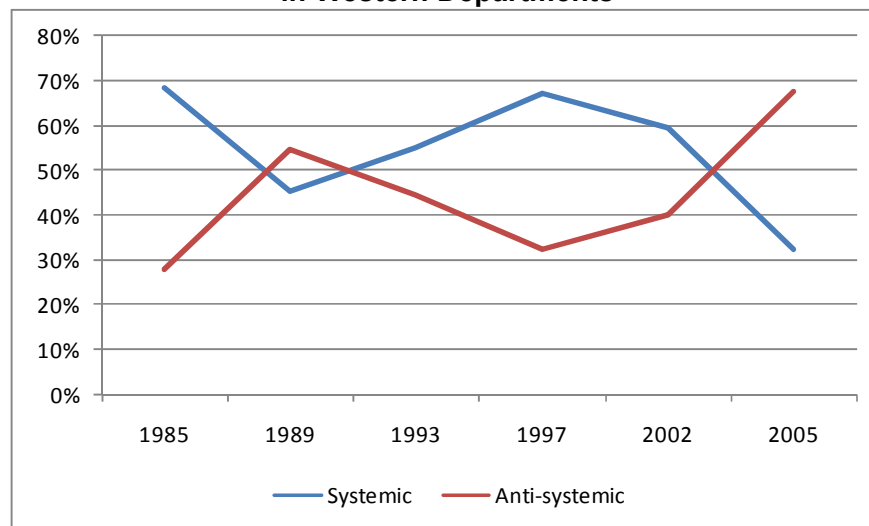
With the exception of 1997, the Duda-Hart pseudo T-squared test confirms that the data can be divided into two groups. The Duda-Hart test finds the number of clusters based on the difference of the sums of the squared errors of the possible groups and the squared errors of the total data. In 1997 there could be 3 groups, with La Paz forming another group, because of the sharp difference with all other departments (much more anti-systemic). It is clear that the cluster in the voting data reproduces the division that has



shaped the political dynamics in recent years. Cluster A represents the eastern provinces and Cluster B the western provinces. It is interesting to notice how this clustering has prevailed over time. There are only two exceptions to this rule: Cochabamba in 1989 and Chuquisaca in 2002. In both cases these departments voted closer to the eastern provinces. Based on this analysis, regions are separated into two groups: “western” and “eastern” departments.

Graph 4.3 shows the voting pattern in the five western departments: La Paz, Oruro, Potosi, Cochabamba and Chuquisaca.

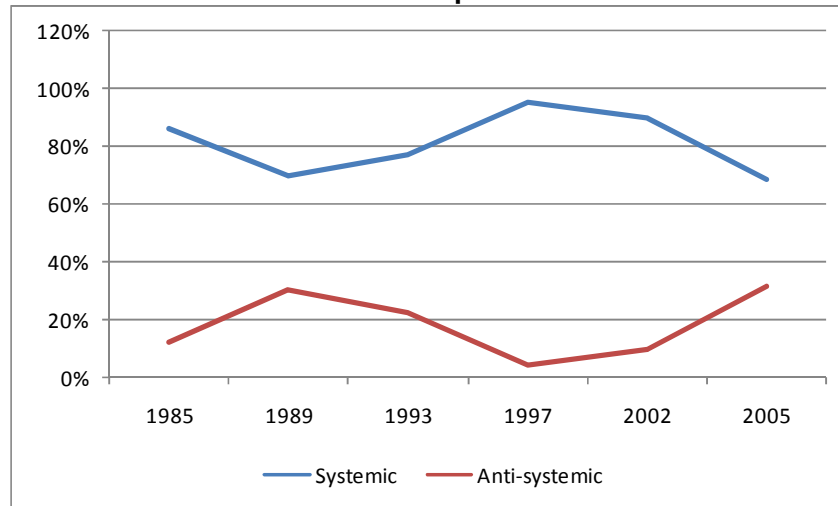
**Graph 4.3**  
**Percentage of Votes for Systemic and Anti-systemic Political Parties**  
**in Western Departments**



Source: Own estimates based on data published by the Corte Nacional Electoral (CNE)

For comparison purposes, Graph 4.4 shows the voting pattern in the four eastern departments: Pando, Beni, Santa Cruz, and Tarija.

**Graph 4.4**  
**Percentage of Votes for Systemic and Anti-systemic Political Parties**  
**in Eastern Departments**



Source: Own estimates based on data published by the Corte Nacional Electoral (CNE)

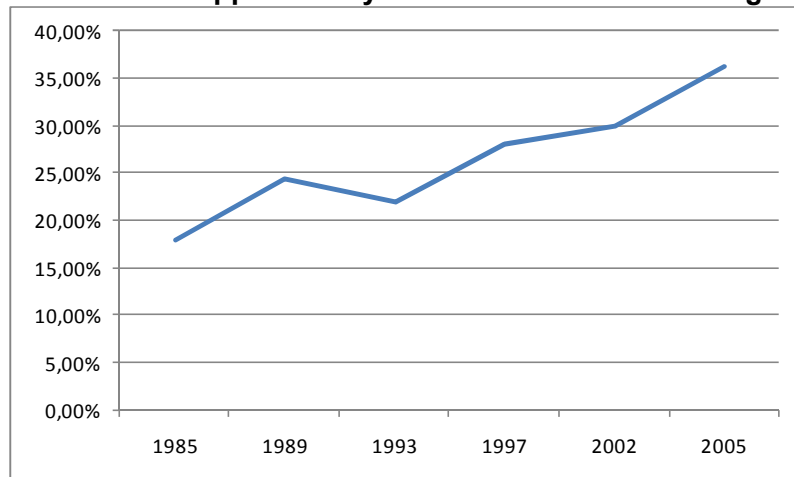
In all of the elections, the support of the eastern departments for the systemic parties (81.2% on average) has been clearer than the support to these parties in the western departments (54.7% on average). The standard deviation of the vote for systemic parties in eastern regions (11.0) was systematically lower than that observed in western regions (13.9). There is, unambiguously, a difference in the voting pattern of the west and the east, as is determined by testing the difference of means for the support for systemic parties between eastern and western departments (see Table 4.2).

**Table 4.2**

Test for difference of Means			
	Obs.	Mean	Std. Err.
Western	30	0,58	0,0287
Eastern	24	0,837	0,0209
Difference		-0,257	0,0355
t-stat.			-7,224

Moreover, the differences in the support for systemic parties between eastern and western departments have increased over time, as shown in Graph 4.5.

**Graph 4.5**  
**Difference of Support for Systemic Parties between Regions**



Source: Own estimates based on data published by the Corte Nacional Electoral (CNE)

### Location patterns and vote preferences

In order to identify which location pattern determines the concentration of the support for systemic parties, a spatial test is performed in this section. Alternative measures of geographical location are constructed, forming a data panel with fixed effects for election years. The spatial autoregressive models methodology is applied to data from six national elections and for the nine departments (54 observations). The estimated model is as follows:

$$y = \rho W y + X \beta + \varepsilon$$

Where  $y$  is the dependent variable (i.e. the support for systemic parties),  $X$  is a set of dummy variables for the elections years, and  $W$  is the spatial matrix, which reflects the spatial relationship between the different regions, and  $\varepsilon$  is an error term, which is normally distributed, with

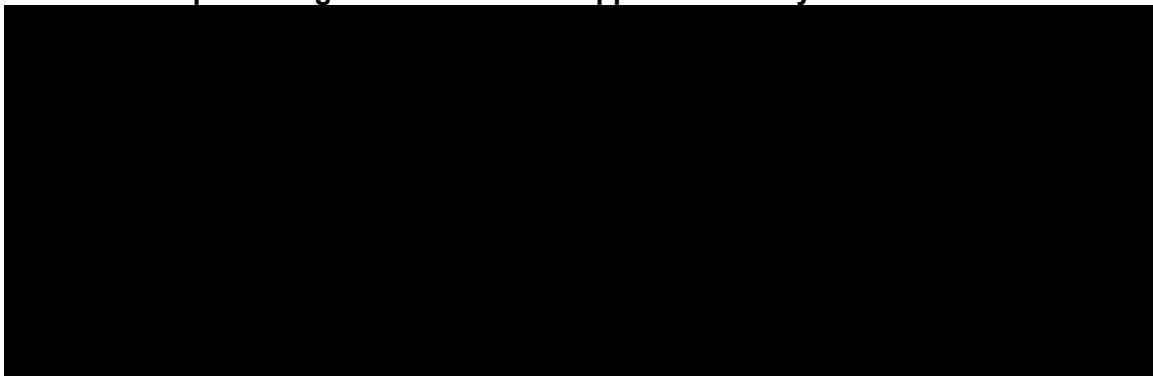
$$\varepsilon \sim N(0, \sigma^2 I_n)$$

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The econometric test is performed for three alternative spatial matrixes. The first uses the rook contiguity concept, which defines the presence of contiguity of two entities if they share a common side, in this case the vicinity of the regions. The second matrix forms two groups: one for the eastern and another for the western departments. The third matrix takes the distances between the main cities as the variable which measures the geographic location, based on latitude-longitude coordinates.

The results of all regressions for the three spatial matrixes are presented in Table 4.3.

**Table 4.3**  
**Spatial Regressions for the Support for the Systemic Parties**



In the case of the contiguity matrix, the coefficient of this variable is not significantly different from zero. This shows that although two regions can be neighbors, this does not mean that both would support, or not, a systemic party.

The regression which groups the departments from the west and the east, separately, has a coefficient for the spatial matrix which is significantly different from zero, and has the expected positive sign. This regression reflects the fact that the departments in each region tend to behave in a similar way.

Finally, the regression in which the spatial matrix reflects the distance between the main cities of each department, also has a significant coefficient. In this case, the sign of the

coefficient is negative, reflecting the fact that the larger the distance between the main cities of the departments, the more opposed their political views are.

### Economic Growth and Regional Differences in Voting

A plausible explanation of the difference in voter preferences, for or against the reform process, is the difference in economic growth among regions during the period covered in this research. The eastern departments enjoyed a more rapid growth than the western ones during the period in which the government coalitions ruled. Economic growth in western departments was much slower, thus making their voters less willing to support the reform process.

Table 4.5 shows average growth rates by presidential term for each of the nine departments between 1989 (the year since data has become available) to 2003 (when the last president representing a coalition was forced to resign).

**Table 4.5**

	Real GDP Rate of Growth (averages)				
	1989-1992	1993-1996	1997-2001	2002-2003	1989-2003
Pando	3.25%	6.54%	8.18%	-0.15%	5.32%
Beni	1.08%	3.23%	4.38%	-0.07%	2.60%
Santa Cruz	5.11%	6.00%	4.88%	1.45%	4.78%
Tarija	4.95%	2.19%	7.44%	15.14%	6.40%
Potosí	4.46%	1.06%	1.81%	5.02%	2.74%
Oruro	5.35%	6.28%	3.95%	-3.49%	3.96%
Cochabamba	2.34%	5.84%	2.72%	-0.17%	3.06%
La Paz	4.14%	4.07%	-0.28%	5.13%	2.78%
Chuquisaca	0.91%	-0.26%	3.05%	-0.30%	1.15%

It is interesting to note that the three best performers in GDP growth for the whole period are Pando, Santa Cruz, and Tarija, which are part of the eastern part of the country. Beni was the only department in the east which exhibited a lower growth rate. The western departments comprise the less dynamic growth group. In what follows, we test statistically the hypothesis which attributes the difference in voting to differences in growth rates.

Using cluster analysis, regions are classified into more dynamic and less dynamic departments based on their economic growth rates, between 1989 and 2003 (Table 4.6).

**Table 4.6**

Clusters of Growth	
More Dynamic	Less Dynamic
Santa Cruz, Tarija, Pando Oruro	La Paz, Potosí, Cochabamba, Chuquisaca, Beni

For the 1989-2003 period, the Eastern regions (with the exception of Beni) were the most dynamic with an average growth rate of 5.1%. The western regions (with the exception of Oruro), were, in contrast, the less dynamic regions with an average growth rate of 2.4%. Therefore, with the exception of Beni and Oruro, the eastern regions have grown significantly faster than the western regions during the reform period.

In order to test whether the classification above still holds when shorter periods are considered, average growth rates are taken for the periods of government immediately before the elections (1989-1992, 1993-1996, -1997-2001), the years of the last government of Sanchez de Lozada (2002-2003), and the most recent period (2004-2007) (Table 4.7).

**Table 4.7**  
**Average rate of Growth by Department**

	Pando	Beni	Santa Cruz	Tarija	Potosí	Oruro	Cochabamba	La Paz	Chuquisaca
1989-1992	3,25%	1,08%	5,11%	4,95%	4,46%	5,35%	2,34%	4,14%	0,91%
1993-1996	6,54%	3,23%	6,00%	2,19%	1,06%	6,28%	5,84%	4,07%	-0,26%
1997-2001	8,18%	4,38%	4,88%	7,44%	1,81%	3,95%	2,72%	-0,28%	3,05%
2002-2003	-0,15%	-0,07%	1,45%	15,14%	5,02%	-3,49%	-0,17%	5,13%	-0,30%
2004-2007	6,38%	3,53%	3,68%	14,85%	5,62%	1,96%	3,79%	3,15%	3,18%

With this data the cluster analysis for each period yields the results presented in Table 4.8. In addition, the average rate of growth for each cluster is shown in Table 4.9.

**Table 4.8**

Clusters of Growth				
	More Dinamic	Less Dynamic	Outlyers	
			Negative	Positive
1989-1992	La Paz, Santa Cruz, Oruro, Potosi, Tarija	Beni, Pando, Chuquisaca, Cochabamba		
1993-1996	Beni, Oruro, Cochabamba, La Paz, Santa Cruz, Pando	Chuquisaca, Potosi, Tarija		
1997-2001	Beni, Oruro, Santa Cruz	Chuquisaca, Cochabamba, Potosí	La Paz	Tarija, Pando
2002-2003	La Paz, Potosí	Beni, Pando, Santa Cruz, Chuquisaca, Cochabamba	Oruro	Tarija
2004-2007	Beni, Oruro, Santa Cruz	Chuquisaca, La Paz, Cochabamba		Tarija, Pando, Potosí

**Table 4.9**

Clusters of Growth				
	More Dinamic	Less Dynamic	Outlyers	
			Negative	Positive
1989-1992	4,80%	1,90%		
1993-1996	5,33%	1,00%		
1997-2001	4,41%	2,53%	-0,28%	7,81%
2002-2003	4,29%	1,35%	-3,95%	16,42%
2004-2007	4,08%	3,11%		9,06%

The results obtained when the cluster analysis is carried out for shorter periods, is not as conclusive as the results obtained at the aggregated level. It is interesting to note that between 1989 and 2001, Santa Cruz was part, in every period, of the more dynamic group. The same also applies to Oruro, with the exception of the 2002-2003 period. La Paz has been in the dynamic group in the first two periods but has moved to the less dynamic group in the third and fifth periods. Chuquisaca has been in the less dynamic group during

the whole period. Finally, Beni, Pando, Tarija, Cochabamba and Potosí have moved alternatively from one group to the other.

The period from 1997 to 2001, however, shows a clearer division. The eastern departments show a better performance than the western departments (excluding Oruro). It is also important to note that the differences in the rate of growth between the groups increased importantly. The standard deviation of the mean growth rates is shown in Table 4.10.

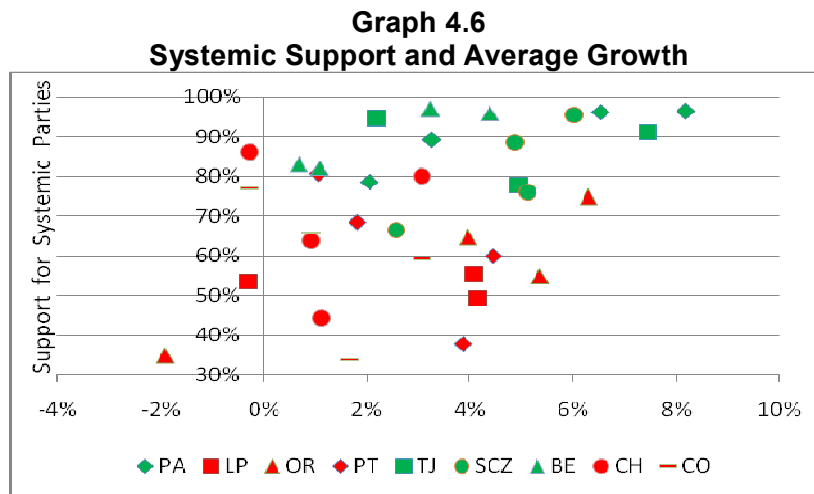
**Table 4.10**

Standard Deviation of Average Growth Rates	
1989-1992	0,02
1993-1996	0,02
1997-2001	0,03
2002-2003	0,06
2004-2007	0,03

The crisis of the late nineties seems to have had a much more profound impact in the western departments. The eastern departments, in contrast maintained their rate of growth relatively stable. Moreover, Tarija and Pando increased their growth achieving very high rates of growth. In the period 1997-2001, economic growth followed divergent trends in the eastern and western departments, with the exception of Oruro.

Regions which showed more support for the systemic parties were also regions which had higher growth rates. Graph 4.6 shows the support for systemic parties and the average rate of growth for periods prior to the 1993, 2002 and 2005 elections, for each of the nine departments.





Source: Own estimates based on data published by the Corte Nacional Electoral (CNE) and National Accounts published by INE

Although the relationship between vote and growth seems to be conclusive for the whole 1989-2003 period, there are two major shortcomings in this evidence: i) many explanatory variables which could explain the support tend to co-vary, making it difficult to distinguish the effects of each of them on the variability of voter preferences, and ii) there could be a problem of aggregation of individual data, which can bias the results of the regression leading to spurious correlations. In order to overcome these problems we use data at the micro-level obtained from the Lapop surveys.

The Lapop surveys are a series of surveys conducted in Latin American countries systematically, every odd year. The survey asks about the vote of the interviewed, so the determinants of the support for different parties can be explored in further detail. Data for the 1998, 2002, and 2006 surveys are used, since those are the ones closest to an election year. As before, political parties are classified in two groups: systemic and anti-systemic. It should be noted that some respondents prefer not to reveal their vote, and if the non-response is not evenly distributed among the political parties, this could introduce some bias into the results. It is assumed that this is not the case.

As mentioned above, the possible explanations for the regional differences co-vary at the aggregate level. But at the individual level this is not necessarily the case, thus, individual level data can help to discriminate the influence of the different variables, especially

income, on the voting pattern. Table 4.11 shows the result of regressing a logit function for the vote pattern (1 systemic, 0 anti-systemic) as the dependent variable, and the following as explanatory variables: region (dichotomous with 1 identifying the lowlands, and 0 the highlands), urban (1 urban, 0 rural), Language (1 Spanish, 0 native language or combination of Spanish and native), Race (1 Hispanic, 2 mestizo, 3 native), age, years of education, and income (an ordinal variable with 5 tranches).

Table 4.11

		Logistic Regression							
		Dependent Variable: vote							
		Marginal Effects							
	Region	Urban	Language	Race	Age	Education	Income	F	Pr(vote) Pred.
1998	0,1256 (0,0143)	-0,0431 (0,0174)	- -	-0,0585 (0,0150)	0,0015 (0,0005)	0,0037 (0,0018)	- -	11,4200 -	0,9166 -
2002	0,1289 (0,0229)	-0,0431 (0,0201)	0,1439 (0,0287)	-0,0646 (0,0201)	0,0026 (0,0006)	- -	0,0274 (0,0076)	21,8500 -	0,8461 -
2006	0,3653 (0,0341)	- -	0,2496 (0,0391)	-0,1021 (0,0344)	- -	- -	0,0345 (0,0139)	47,7400 -	0,3822 -

Region is a significant variable in explaining the probability of voting for a systemic party, which increases if those interviewed live in the lowlands. The effect of this variable is strong in the three periods and it presents a three-fold increase in the 2006 election. The urban/rural variable is significant for 1998 and 2002, but loses significance for the 2006 election. The effect of this variable is one third of that corresponding to the region variable. Language was not significant in the 1998 election, but turned out to be significant in the following elections, and became very significant in the 2006 election. Race was significant for the three elections, and became increasingly important over time. Age was significant for the 1998 and 2002 elections, but lost significance in 2006. Its influence in the vote is recognizable, but relatively small. Education was significant only for 1998. Income lacked significance for the 1998 elections, but became significant for 2002 and 2006. Its size is relatively small, but increasing.

The logit regressions seem to show that the region effect is very important, and its importance does not depend on the effect of income, race, language, urbanization or education. Income has become increasingly important over time in determining the vote preferences, and this could explain, in part, the differences in vote between departments,

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but this effect is relatively small, and region still remains as the most influential factor in determining vote preferences. It is also important to note that race and language have become more and more significant as determinants of voter preferences, showing a growing division among these variables.

## 5. The magic of politics

### 5.1. The unsustainability of the current PMP

From the discussion above, it is evident that the PMP in Bolivia has experienced dramatic shifts over time. Traditional political parties have lost legitimacy and representation, and social movements have become paramount players in the PMP. Regional organizations and regional governments have also acquired a significant leverage in the PMP. Congress has also experienced a significant loss of legitimacy as a key arena in the PMP. The streets, on the other hand, seem to have an upper-hand in influencing the PMP. Policy objectives have become essentially political and productivity goals have been largely neglected. Finally, the representative democracy system has lost ground to a more participative and direct type of democracy, where currencies such as the “cabildo”, the referendum and the assembly are dominant in the PMP.

However, there are strong reasons to believe that the currently existing PMP in Bolivia is not sustainable in the long run. There are political and economic factors that will make the current PMP unsustainable over time.

First, the disregard for economic and productivity objectives in the current PMP will result in a reduced growth and employment capacity of the economy in the long run, which will eventually reduce the support of the population for the counter-reform process. The political volatility and the nationalization policies carried out by the government have resulted in a considerable drop in the investment rates. Bolivia has already lost the privileged position it had as a major player in the hydrocarbons business in South America. The hydrocarbons sector is already experiencing the effects of reduced investment flows and decreased reserves, and the country is not complying with its export commitments. The institutional volatility has also caused the cancellation of important energy projects, like the LNG export project to Mexico and the U.S.

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Other sectors which have experienced fast growth and technological upgrades in the past, as a result of the FDI flows attracted by the reforms, are already experiencing bottlenecks because of the reduced investment rates. Furthermore, free trade agreements with the United States and the European Union have been relegated by the government on the grounds of ideological arguments. This is expected to contribute to a slower pace in economic growth and to a sluggish employment creation in the long run.

Second, the economic bonanza enjoyed by the current administration, will eventually end, and is likely to produce a profound economic crisis. Thus far, a key factor that has favored the populist policies implemented by the Evo Morales administration, in order to secure the support of the population for its counter-reform strategy, has been the extremely favorable conditions existing in the world economy between 2005 and 2008. The world boom in metal prices has given new breath to the mining sector in Bolivia, generating employment and income opportunities to workers in the western highlands, where poverty is deeply entrenched. High oil prices on the other hand, have raised export prices of natural gas, considerably increasing fiscal revenues. Thus, the government has had sufficient fiscal revenues to increase spending and create various bonuses which favor different groups of the population. Paradoxically, the main supply of resources for the Evo Morales government, used to finance its populist policies, are the export revenues of the large natural gas reserves discovered in the 1990s, as a result of the market-oriented structural reforms implemented during that period. Therefore, the international economic recession that is expected to affect the world economy in the coming years, can put Evo Morales' plans in great jeopardy.

Third, the government has evidenced serious shortages of qualified high-ranking officials which have contributed to the poor quality of policies. The ambitious economic plan set forth by the government in 2006, known as the National Development Plan, has experienced delays and deficiencies, not only because of the inherent weaknesses of the plan itself, but also due to the lack of management capacity to implement it. The lack of an efficient economic policy management can represent a serious problem in the current situation, where the reduced availability of fiscal resources, due to the international economic crisis, can cause serious macroeconomic disequilibria.

## **5.2. The Future of the PMP in Bolivia**

Bolivians are in search of means to build a more equitable society by eradicating poverty and exclusion. To achieve that, it is crucial to rebuild a common sense of purpose above all cleavages. This is a process of consensus-building that will take a long time. Some of the reforms introduced after 1985 should prevail, and the same should happen with some of the reforms introduced after 2005. In this process, additional swings in the policy-mix orientation cannot be ruled out until a stable and livable equilibrium is attained within the society.

Policies to improve productivity can be seen as a particular outcome of a new policy-making process in Bolivia, but also a contributing factor to reach the goals which the country is agreeing upon. It is with this latter perspective that some recommendations emerge from the discussion that this paper has set forth.

### **5.2.1. Rescuing the political party system.**

The Bolivian society has a tendency to act more in a corporatist way rather than a democratic one. However, there is a general discomfort with this form of social representation. During the debates of the Constitutional Assembly which took place in 2006 and 2007, no proposal with a corporatist orientation was ever accepted. Hence, the political-party system has been given a chance to regain the confidence of the general public.

The loss of confidence in the political party system is at the root of the de-institutionalization of the country's PMP. The reconstruction of that confidence is a matter which should be in the hands of both the State and the political parties themselves. The responsibility of the State should be to enact and enforce a modern regulation for political parties. Free and democratic election of party leaders at the national, regional and local levels, should be supervised by the National Electoral Court. Good party registries, and transparency and accountability of their administrators should contribute to attract supporters to these organizations. Political party charters describing the ideals and principles they support, and which spell out their rules of governance clearly, should be of public domain. Additionally, the allocation of public funds

could be considered to contribute to capacity building at all levels of the political establishment, and of course, for society at large.

### **5.2.2. Autonomies and decentralization**

Four out of nine departments have voted in referenda to demand autonomous governments for their departments (regions). Even in those departments which voted against the autonomy, the idea of becoming autonomous is gaining a strong support. All municipalities covering the full extension of the Bolivian territory are already autonomous governments at the local level. Therefore, more competences from the central government, with the appropriate amount of funding, could be transferred to those instances, while, at the same time, strengthening the mechanisms envisaged in the Popular Participation Law. This is a way to bridge the gap which has traditionally separated the State from its citizens.

Some progress has been achieved in the discussions that led to a draft proposal for a new constitution. Some progress is still needed in order to assign competences to the regions which could be better managed at the regional level and some power and independence should be granted for the funding of the implementation of local and regional programs and projects.

### **5.2.3. Direct Democracy Participation**

As described in earlier parts of this document, Bolivia has already adopted the referenda as a means to consult the population on a very broad range of public policy issues. Amazingly enough, in four years after its inception in the Bolivian law, this mechanism has been utilized in six occasions at the national level and in four occasions at the regional level. But this does not imply that Bolivians today are better interpreted by their authorities. All these referenda have had, to different degrees, some sort of formal and factual objections that in most cases were, to some extent, very well argued. Since Bolivia's Constitutional Tribunal was beheaded some time ago, there is no legal instance which could resolve all these cases.

Once these institutions of a direct democracy have been adopted, it is crucial to protect them and to promote them as a way to grant an alternative and powerful way to let the population's

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preferences be made clear and explicit. It is also important to regulate these institutions in order to avoid their manipulation with the intention to block executive initiatives, endanger governability, or pursue special interests. It is well-known that because of the “rational ignorance” of voters, the electorate can become the victim of predation. The indiscriminate use of referenda could exacerbate this problem. The regulation should establish the issues which could be the subject of a referendum, and establish the frequency of use of this institution in order to avoid its indiscriminate use. The information that the voters should receive prior to the ballot should also be regulated and promoted. Additionally, it is crucial to develop a trustworthy electoral system, preserving its independence from the ruling parties, and protecting the electoral registries from any sort of manipulation.

#### **5.2.4. Balanced Regional Development Policies**

An equitable development and the eradication of poverty are goals which require specific policies to develop the western part of Bolivia. It is there where poverty is concentrated, and at the same time, it is the most populated single area of the country and it is the place where the seat of government is located; therefore it constitutes the epicenter of social conflicts.

It is only through market access, and labor-intensive investments (both private and public) that this region will develop. These conditions are easy to be spelled out but very difficult to achieve. Apart from the strong ideological postures, which favor an unattainable welfare State, there is the need to gain consensus to assign resources to the poorest regions of the country in a proportion over the most affluent ones. The distribution of these resources has been the subject matter of the most recent regional and social unrest in the country. A precondition to implement effective development policies in this part of the country is to open a dispassionate debate on these matters.

#### **5.2.5. Social Cohesion.**

Social cohesion lies above all the challenges Bolivia faces in the coming future. In the recent past, the struggle for power has deepened most of the cleavages which separate the Bolivian society. Even after the constitutional provision allowing the formation of autonomous governments in all nine departments, regional tensions remain strong between the eastern

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and the western parts of the country. The disputes are still centered on the vision each region has for the future of the country. At the same time, Bolivia's cultural diversity, which called for the formation of a multicultural nation, is now putting the country in the need to harmonize 36 different nationalities into one State. All these nationalities are indigenous populations with strong ties to the countryside. However, there is no formal recognition of the large mestizo population which resides in the urban areas. As a result, urban and rural interests are now in conflict. Currently, there is a struggle about their representation in the new Pluri-national Legislative Assembly which will replace Parliament after the national election of 2009.

The future of the PMP in Bolivia rests in the country's ability to design a new institutional order capable of coping with all the regional, social and political confrontations that have been exacerbated over the last few years. It is not a matter of inclusion any more, but rather, a quest to unify the country's diversity along a common vision of a shared future within the boundaries of a vast territory.

## 6. Conclusions

The PMP in Bolivia has experienced substantial shifts over the years. Traditional political parties have lost legitimacy and representation, and social movements have become paramount players in the PMP. Regional organizations and regional governments have also acquired a significant leverage in the PMP. Congress has also experienced a significant loss of legitimacy as a key arena in the PMP. The streets, on the other hand, seem to have an upper-hand in influencing the PMP. Policy objectives have become essentially short-sighted and productivity goals have been largely neglected. Finally, the representative democracy system has lost ground to a "participative and direct type of democracy", where results of a "cabildo", a referendum or an assembly are dominant within the PMP.

There are various factors which contribute to explain these changes: i) loss of legitimacy of the political coalition system, ii) insufficient maturity time for the reforms to deliver results, iii) emphasis of the reform on capital-intensive sectors, and iv) regional differences in the acceptance of the reform process, due to existing socio-economic gaps across regions.



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The coalition system which had been a very effective mechanism to ensure governance during the 1990s, and a necessary condition to maintain democratic and economic stability and, thus, deepen the reform process, became exhausted over time and lost representation in the eyes of the population. The high degree of dispersion in the electoral voting made it increasingly difficult to form a coherent coalition, since it became necessary to include a larger number of political parties into the coalition, in order to attain Congressional control.

The structural reforms carried out during the 1980s and 1990s have produced remarkable results in terms of productivity increases in sectors where reforms were implemented, such as hydrocarbons, electricity, and telecommunications. The reforms brought about significant inflows of FDI to these sectors, which in turn increased the production of services, boosting the access of the population to these services. In addition, the reform process also focused on distributive policies through reforms such as the Popular Participation, which transferred fiscal resources and competences to municipalities and departments. Support for the reform process, however, has tended to decline, especially in the regions located in the western highlands, comprising the departments of La Paz, Chuquisaca, Cochabamba, Oruro and Potosí.

Historically, these regions have favored a much deeper involvement of the State in the economic activity, and have, therefore, traditionally supported political options which advocated for a state-led economic model. The opposite occurs in the eastern lowlands, where the support for a market-oriented model is more deeply entrenched. Thus, these regions have tended to support parties which favor market-oriented policies. Regional differences in other socio-economic factors seem to have also determined the varied support for the reforms across regions, such as per capita GDP, education, race, language and GDP growth.

There are other factors which have had profound effects on the population support for the reform process and on the changing nature of the PMP. The reforms focused on capital-intensive sectors, bringing about large inflows of FDI, productivity gains and increased salaries for workers in these sectors. Labor-intensive sectors, on the other hand, where the bulk of the

labor force is employed, exhibited much lower productivity increases and, consequently, real income lagged behind. The productivity and income gaps have taken away support for the reform process.

Finally, the reforms implemented during the 1990s, did not have a sufficiently-long maturity period to deliver positive results in the eyes of the population, amid the economic crisis of the late 1990s which deeply affected economic activity and employment, reducing the support of the population for the political parties who participated in implementing the reforms.

The current PMP in Bolivia, however, is not sustainable in the long run. There are political and economic factors which will make the current PMP unviable over time. For instance, the disregard for economic and productivity objectives, which characterize the current PMP will eventually result in a reduced growth and employment capacity of the economy in the long run, which will eventually reduce the support of the population for the counter-reform process.

Bolivia has the urgent need to attain a new PMP that is more inclusive, places greater emphasis on productivity and employment creation and will, therefore, be more sustainable in the long run. Policies to foster productivity should focus on sectors that were neglected in the reform process. Bolivia has the challenge to construct a more sustainable PMP, based on a more equitable society by eradicating poverty. A sustainable PMP must promote policies aimed at enhancing productivity, but also at attaining goals which society, as a whole, has agreed upon.

This will not be an easy task. At the root of all challenges for the PMP lies the most pressing need to restore cohesion in society. In the recent past, the struggle for power has deepened most of the divisions which separate the Bolivian society. Therefore, Bolivia has to build a new institutional order capable of unifying the country's diversity along a common vision of a shared future and, hence, one capable of restoring some order to the selection of public policies which best serve the interests of the Bolivian population at large.

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## Annex A

### Actors, Interests, Arenas, and Currencies

The 2006 IDB report on the economic and social progress in Latin America, *The Politics of Policies*, provided an in-depth analysis of the process by which public policy decisions are made and implemented in the region. A number of country studies accompanied that report, but Bolivia was not a case under scrutiny. Hence, this Annex is intended to fill that gap describing actors, arenas, interests and currencies that are part of the policymaking process in the country. Obviously, an emphasis is placed on those actors which constitute the main building blocks of the research presented in this paper. Here, the reader will find some additional background information on the driving interests of relevant actors for the PMP, the arenas where they interacted, and the mechanisms and currencies used during the reform process and its ulterior reversal.

#### **A.1. Institutional development and the PMP process: an overview**

To better understand the roles played by different actors in the policy arenas and domains which brought the decision-making process “from Congress to the streets”, as is being portrayed in this paper, it is useful to bear in mind that Bolivia, aside from being poor, is a highly-fragmented society with a low institutional development. These characteristics have interacted, and still do so, to prevent any deep rooting of State policies which could foster development if applied consistently over time.

The most prominent lines of social cleavages in Bolivia are regional, territorial, class, ethnic, and ideological. Hence, efficient and equitable policy design is cumbersome. In addition, the introduction of ways to open up social participation in the decision-making process has been very slow, especially for the recognition of a rising social demand for tending to the pressing conditions emerging from severe economic crises and external shocks.

The National Revolution of 1952 which introduced an agrarian reform, the abolition of peasant labor exploitation, and granted voting rights to women and the rural population, proposed the construction of a nation-state based on a broad alliance of classes. This ideal was not

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achieved. Instead, both under democratic and military regimes, exclusion was the norm to form ruling coalitions which, not on seldom occasions, were corrupt. Public policy design and implementation was increasingly centralized, exposing the decision-making process to pressure and lobbying.

In the period covered by this paper, Bolivians had to adapt to new conditions after a profound economic and institutional reform process, with an obvious new balance of winners and losers. That process was subject to misperceptions about who was getting the largest benefits or enduring the pains coming from the reforms, which exacerbated social tensions and, ironically, ended up unifying a large part of the population against the reforms.

The reform process initiated in 1985 was first devised to cope with hyperinflation and then, to remove structural obstacles for economic and social development. Institutional reforms geared to deal with social and political imbalances were introduced in a second generation reform which began only in 1993.

Military regimes governed the country for almost two decades before the return of democracy in 1982. During the time under military rule, relations between the State and the civil society were corporatist in nature. Only one major political party exists since the 1940's; all others were born as part of the struggle for the return to democracy and thereafter. Therefore, the issue of formal and democratic participation and representation is still an evolving matter and is subject to constant debate in Bolivia.

In general terms, it is difficult to link the influence of social actors to their economic weight in society. The sectoral composition of GDP and employment does not provide clues for explaining gravitating forces in the PMP. For most of the time covered in this paper, agriculture has been the leading sector in the economy, accounting for almost 20% of GDP, and 40% of employment. However, neither the rural population nor the business community involved in this sector was an influential player in the PMP. That is not the case if we concentrate our attention in the composition of exports. Mining exports were at the top of Bolivian exports until the collapse of tin prices in 1985. Until then, both miner labor and business organizations gained some predominance in the political and social life of Bolivia. However, after the collapse of mineral prices worldwide and the close of state- and privately-run mining operations, this sector had almost disappeared from the scene. Natural gas, soybeans, and



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agroindustry have overtaken the former preeminence of mining in the economy, but people in these sectors have not attained decisive influence in the PMP.

Results from the 2004 referendum and the 2005 elections, have clearly shown that, a majority of Bolivians have put an end to 20 years of liberal and market-oriented policies with a productivity-enhancing orientation. No clear alternative has emerged to replace public policies from the ancient regime. The Bolivian government is currently attempting to implement policies with a mix of indigenism, socialism and nationalism. This process has polarized the country in terms of ethnic sentiments, political preferences and regional interests, conferring the Bolivian case a unique situation of conflict and opportunity with deep implications for the PMP.

## **A.2. Institutionalized Actors**

### **a) The political party system**

The Bolivian political party system is in the midst of a profound crisis, making governance in Bolivia increasingly difficult. It is widely admitted that politicians lost contact with their constituencies a long time ago. In order to attain power, political parties have relegated programmatic guidelines in favor of short-lived pragmatic ruling coalitions. This has contributed to discredit the political party system, and has eroded its representation capabilities.

In view of this circumstance, some of the second-generation reforms were intended to open up the space for greater social participation. In 1994, the Popular Participation Law (PPL) divided the nation's territory into 311 autonomous municipalities, and provided for direct election of councilmen and mayors. It also devised grass-root consultative and supervisory bodies (Consejos de Vigilancia) to interact with the elected officials in setting priorities for the allocation of resources. Some competences in education, health and infrastructure were transferred from the central government to the municipalities. Funding for these autonomous entities came, and still does so, from a revenue-sharing mechanism and from local taxes directly collected by the municipal treasuries. The idea with the PPL was to make the municipal territory an area of direct democratic participation. Links with the national government were defined through regional administrations (prefecturas) in the Decentralization Law which, in turn, had transferred resources and competences, until then, under the central government domain.

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Also in 1994, the Constitution was amended to introduce a German style mixed-member proportional electoral system. Local constituencies now directly elect half of the Lower Chamber. Political party affiliation was removed from the requirements to be elected as a Deputy or as a member of a municipal council. Political participation was opened up to other organizations different from political parties. These were called citizen organizations (Agrupaciones Ciudadanas) in an additional attempt to cope with the erosion in the role of political parties as intermediary bodies for the Bolivian society. To grasp the significance of this decision, it could be mentioned that the very same year in which political participation was opened up, 400 Agrupaciones Ciudadanas were legally organized, to take part in municipal elections held that year.

All these reforms were not enough to institutionalize social participation in the decision-making process, nor to restore confidence in the political party system. The political landscape was even more fragmented after these reforms. Not only was the number of political parties participating in national or municipal elections increased from 8 to 14 between 1979 and 1993 (see Table C.1), but also, the number of Agrupaciones Ciudadanas almost doubled its number between 1994 and 2002. The reform intended to give the population an alternative to the political system representation was underestimated by the traditional political parties. With the exception of the momentum gained after 2002 by the Movimiento al Socialismo, a political agglomeration which does not conform to most of the characteristics of a political party in a strict sense, there is no evidence of any major change in the way the political party system was structured or run which would have brought them closer to their constituencies.

Table A.1.

**Political Parties and National Election**

Election Year	Number of parties:	
	Participating	Gaining a seat in Congress
1979	8	7
1980	13	11
1985	18	10
1989	10	5
1993	14	8
1997	10	7
2002	11	8
2005	8	4

Source: Based on Mayorga, René Antonio, and National Electoral Court

Demands for greater participation and inclusion mounted after the implementation of the PPL, decentralization law, and the constitutional amendment. In 2004, after dramatic circumstances of social unrest, in relation to hydrocarbon policies, and the resignation of the incumbent President, Congress passed a law allowing for referenda on public policies at the national, regional and local levels. This institution of a tool for direct democracy was first and immediately adopted to decide on the nationalization of the hydrocarbons sector. Later, in 2006, this form of direct participation in the decision-making process was introduced to the Constitution with an amendment which enjoyed an ample political consent but not full legal conformity.

The lack of effective intermediary bodies in the political system has de-institutionalized the PMP and has contributed to the multiplication of representing entities with a disperse agenda of local and sectoral interests. The ideas at play were concentrated in the extremes of the political spectrum, as was reflected in the 2005 election results. That year, the number of political parties decreased to 1979 levels but the Movimiento al Socialismo, which proposed to terminate capitalism in the country, and to reverse the reforms implemented since 1985, concentrated 53.7% of the electorate vote, making Evo Morales President without the need to conform a ruling coalition with another party.

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The crisis in the political party system responds to causes which could be traced back in history, which are deeply rooted in structural traits of the Bolivian society, but also to the lack of response to events that were signaling a divorce of the political parties from the interests of the general public. If we look back to the election held in 1951<sup>4</sup>, we can find a similar regional split of the vote as the one shown election after election in the period covered by this paper. Back in 1951, the electorate was comprised only of urban and educated men. Women and illiterate people (almost the entirety of the rural population, at that time, the vast majority of the population) were not allowed to vote. Notwithstanding, this characteristic of the electorate, the vote in the east favored the MNR, a party which was championing the end of the quasi-feudal regime, while the east was mostly inclined in favor of the status quo. This geographical vote pattern has remained over the period covered in this paper. There are immediate reasons which could explain this behavior, some of them related with the reform process. There are also other cultural and structural explanations which have contributed to this result. It could then be questioned why it is that the political parties have not responded adequately to this trend. One possible explanation has to do with a natural tendency of all political parties to lean to the center and away from the left<sup>5</sup>, at least in the eyes of the electorate. This is so because there is always room for a new political party which will proclaim more radical ideas in defense of the interest of the largest segments of a society. At the same time, political parties, already in the arena, are occupied attempting to gain support from other segments of society with some real circumstantial power. In the case of Bolivia, the MNR which back in 1952 carried out the agrarian reform, nationalized the mining sector; instituted voting rights for women and the rural population; opened up the economy in 1985, and introduced all the market-oriented reforms which are analyzed in this paper. The MNR is the only political party which has outlived the last six decades. Annex C presents a list of more than 40 political parties that have participated alone, or in some form of alliance, in the elections held in the period covered

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<sup>4</sup> This section is broadly based on the third edition of the book written by Salvador Romero Ballivián, *Geografía Electoral de Bolivia*. This is probably the single and most dominant book on the sociology of the electoral process in Bolivia from 1979 until 2002, but at the same time an interesting history of the major political parties which participated in those elections.

<sup>5</sup> Here we adhere to the notion that right and left are relative categories in the political spectrum, beyond ideological confinements.

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by this paper. Most of these parties do not exist today. The bulk of them, if not all, have emerged to political life as left-leaning entities, or at least as true defenders of the interest of the poor, the indigenous population and the impoverished middle classes. Only the MAS has been able to participate in the last three elections gaining an increasing number of votes and increasingly radical proposals against the traditional political system and market-oriented reforms.

### **b) State institutions**

The reform and counter-reform process (1985-2008) examined in this paper has taken place under a Constitution which has been replaced by a new one. The new Constitution was drafted in a Constitutional Assembly (2006-2008) dominated by the MAS, later on modified by Congress (2008) with a MAS majority, and approved by the population in a referendum held in January 2009. The results of this referendum have a similar regional split as in any other election. The western part of Bolivia approved the new Constitution; the eastern and southern parts rejected it.

However, it is still relevant to portray, although briefly, the nature of the rules and regulations which governed the life of the State in the period covered in this paper. The transit of the PMP “from Congress to the Streets”, deserves at least a sketchy background information on the former Constitution. At the end of this section we single out the main implications of the new Constitution for the PMP.

Bolivian State institutions were organized in three independent branches: Legislative, Executive, and the Judiciary. The Constitution called for the coordination of these powers, but at the same time proclaimed their autonomous status. None of these branches was supposed to prevail over any of the other two. The Constitution provided for checks and balances intended to attain this objective. Of course, this ideal has been elusive for both the Legislative and the Judiciary. In practice, the executive branch gained a stronger stance in front of the other two due to informal mechanisms, especially in cases in which the President enjoyed a strong hold of the politics of the ruling party or coalition.

The general belief among Bolivians is that the Presidency holds full powers. This was not the case according to the text of the Constitution, neither if compared to other presidencies which

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enjoy powers, which in the case of Bolivia, were assigned to Congress. However, Bolivian presidents enjoyed a great deal of informal power, especially because they were also the ones who decided who would get into the list for Parliament of his/her own party. Once elected, allocations of budget items and public sector positions have been powerful tools to gain influence over Congress. In addition, Congressmen were not experienced people in public policy matters, and at the same time, they were not able to build strong parliamentary advisory bodies.

In Bolivia's recent history, each newly-elected President has come from an opposing force to the ruling party. This fact has had a big impact on the PMP because, most of the time, the incoming administrations have embarked in reversing some policies or restructuring others which were carried out by their predecessors. In doing so, politicians were acting guided by their own short-term interests to remain in power and to discredit their opponents, rather than taking into consideration the long-term progress of the country.

The new Constitution has introduced changes in the organization of the State which call for the design of a new PMP. The former Constitution devised a country ruled by a central Government. It gave autonomous status only to the municipalities under very well-defined roles and a revenue sharing mechanism. At present, the new Constitution allows for the formation of autonomous governments in those departments in which the inhabitants decide to adopt this form of government. It also grants the right to peasant and indigenous populations to create autonomous governments in their own territories. A fourth type of autonomous government could also be formed by grouping municipalities which decide to unify their territories in an autonomous region. Each autonomic entity has its own governing and deliberative instances. The new Constitution stipulates the policy areas reserved to the national level, and specifies policy domains under the aegis of each autonomous level. Notwithstanding, the risks of overlapping competences has not been mitigated properly; there are still areas subject to different interpretations which leave the autonomous regime without any clear limits. Furthermore, not all autonomies will have the same structure; therefore, some missed links will require additional regulation in order to promote a smooth and orderly functioning of the State.

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The new Constitution puts the State at the center of the development process. The State should conduct the economic development planning with the participation of, and in consultation with, the population. The general development plan provisions are mandatory to both the public and the private sector (Article 316). It also puts in the hands of the State the responsibility to command and control the exploration, exploitation, industrialization, transportation and marketing of all natural resources (Article 351), which are broadly defined comprising minerals, hydrocarbons, water, air, land, forest, biodiversity, the electromagnetic spectrum, and any other physical elements and forces with the potential to be exploited (Article 348). Furthermore, private participation in the exploitation of natural resources is seriously restricted by regulations which inhibit the free disposition of profits by private investors (Articles 351 and 355). Hence, the new PMP has to cope with responsibilities beyond the administration of the state-run companies, the ones which have been nationalized in the recent past, but with a host of new companies, some of them of recent creation, as is the case of a new airline, some factories to produce paper and cardboard and dairy plants across the country. Moreover, the new PMP has to define the allocation of resources to all the sectors comprised under the definition of natural resources.

The new Constitution also establishes universal rights to access free primary, secondary and tertiary education (Article 17); free health care attention for the whole population (Articles 18 and 35); the right to access to water supply, sewage, energy and telecommunications services provided by the State (Article 20), and the right to a minimum retirement pension financed by the State (Article 67). Although these rights could be interpreted as progressive in their nature, they have profound implications for the PMP at the national, regional and local levels.

The new Constitution also establishes that civil society organizations will exert control over all State institutions and administrations, and over the quality of basic services (Article 241). The adoption of this form of supervision and, to a certain extent, of regulation, requires a careful design of ways to form these civil society organizations and the means by which they will make their decisions enforceable. Such control mechanisms, unless properly embedded in the new formal PMP, could be detrimental to the allocation of resources in the economy.

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**c) Civil Society Organizations**

Civil society organizations had different degrees of influence and/or participation in the policy-making process in Bolivia. This participation has evolved over time from an isolated and issue-specific involvement, to a more coalesced intervention in policies regarding national interests. It is useful to distinguish between, at least two different kinds of civil society organizations in Bolivia. On the one hand, we can recognize traditional and well organized entities (labor unions, regional representations, business associations, and the like), and, on the other hand, there are recently-born and less formalized organizations with a great degree of popular appeal and a greater capacity to aggregate social demands (better known today as “movimientos sociales” or social movements). In essence, the means by which these organizations have sought their objectives has not changed over time, but it has taken forms that have become more radical in the recent past.

- **Business Organizations**

- Confederación de Empresarios Privados de Bolivia, (The Private Entrepreneurial Confederation)**

Founded in the early sixties, this organization has been influential in the political life and the PMP of Bolivia. Before democracy was re-established in Bolivia, corporatist forms of participation were the norm. Both business and labor organizations participated in the political life of Bolivia through their associations. In the case of the business community, their concerns were mostly related with sectoral rather than national interests. Relations with the government were handled without any political intermediation, and have proved to be very effective. Government had been the largest contractor in the economy, until the reform process; therefore, an intricate network of relations was formed with politicians and government officials. Under these circumstances, there was very little interest in participating in the life of political parties, with obvious and commendable exceptions.

Contrary to the general belief, the Bolivian business community subtly opposed market reforms. The reform process opened the economy to international trade and, therefore, to competition by lowering tariffs to the lowest range in Latin America, and eliminating all non-tariff barriers. Public enterprises were either closed or handed over to the private sector, and economic policies tended to be neutral. These measures created a new landscape for the



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business community by fostering competition and diminishing government procurement significantly.

The reform process and conditions in the world economy have determined a regional shift in the center of power of the business community. During the State dominance of the economy and high international prices for minerals, Bolivia's western entrepreneurs had a great deal of influence in the PMP. Nowadays, this center has moved to the east, to Santa Cruz, where the largest private national and foreign companies are located. Business organizations' whose main interests have been, most of the time, limited to specific sectoral issues.

In recent years, this confederation has lost its influence. It has not been able to assemble one single voice. At present, business organizations from the prosperous eastern region of Bolivia do not participate of the national confederation. The present Government is proposing the reversal of market-oriented reforms which ironically may bring government-business relations to the way they were before the reform process, something that is welcome by some members of the business community.

- **Labor organizations**

Labor unions have a long tradition in Bolivia. Although most of them were created under democratic regimes, their biggest influence in the PMP was developed during military regimes. Labor associations have a national leading entity; however, some sectoral or regional organizations are of greater importance than their confederation. These organizations are non-partisan, but their political slant is evident, labor organizations favor left-leaning ideas, in the same way business organizations favor right-leaning beliefs. Labor organizations are concerned with both labor interests and national economic and political concerns.

Central Obrera Boliviana (COB) (Bolivian confederation of labor unions)

Founded in the early 50's, it is one of the oldest organizations of civil society in Bolivia. It used to be one of the most influential organizations during its political life. It has been concerned with issues beyond labor-related interests. Although formal sector employment in Bolivia has been a small part of total employment, the COB has been a leading institution in the defense of democracy during the military regimes, and it was a firm opponent to the stabilization policies back in 1985. The lead of this confederation has changed hands over time. Miners were the most influential group until the collapse of tin prices in 1985 (until then, the most important

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export item of Bolivia, run by a state-owned enterprise); peasant organizations took the lead afterwards, until recently. After 2002, the COB, and in particular some regional branches of it, have re-emerged as influential actors in the PMP.

**Confederación de Maestros de Bolivia (teacher's labor union)**

Teachers account for almost one half of the public sector workforce in Bolivia. Urban and rural teachers belong to separate labor unions under one single confederation. This is a highly-politicized organization. Most of the time teachers' leaders came from political parties in the far left. They were at the center of the opposition to the educational reform passed by Congress back in 1994, which established, for the first time, a bilingual and intercultural educational system.

- **Regional organizations**

The further the region is located from the government's seat, the greater the importance of regional organizations. To some extent, their strength is a reflection of the lack of attention the central government has given to these regions. Their main interests have been to get attention to local demands or to the execution of specific public investment projects, and to get a larger share of yearly budgets. However, in the measure that the political party system has lost its representation capabilities, regional organizations have started to assume strong and influential stands on the overall political agenda of the country.

These entities are, nowadays, the leading force for the re-organization of the State in 9 autonomous regions. Some of them proposed a national referendum for this purpose, which was won in 4 out of 9 departments. After some years of intense debate on autonomies, today, there is almost national consensus in reforming the State into autonomies. Of course, there are great differences in the way these autonomies are envisioned, which has divided the country into two clearly demarcated regions: the east and the west.

**Comité Cívico Pro Santa Cruz, (a regional civic committee)**

This is an emblematic organization which groups almost all urban and rural civic representations in the Santa Cruz region. It has been in existence for 58 years and has played a decisive role to get a royalty-participation for Santa Cruz from the exploitation of

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hydrocarbons. It has served as a model for the creation of similar, although not equally successful, civic committees in all 9 departments (regions) of Bolivia. Today, the royalty system has become a State policy, applicable all over the country to hydrocarbons and mining activities. This entity is the leading force pushing for the re-organization of the State into 9 autonomous departments.

### **A.3. Non-institutionalized Actors**

Civil society organizations had different degrees of influence and/or participation in the policy-making process in Bolivia. This participation has evolved over time from an isolated and issue-specific involvement, to a more coalesced intervention in policies regarding national interests.

These organizations have influenced policies in the recent past, and have contributed to turn around the PMP in Bolivia. As the policy agenda moved from pure stabilization towards structural reform, to a large degree dependent on congressional support, civil society organizations played a greater role (as supporting or opposing forces) but without any open recognition in the PMP. More recently, some of these organizations are at the center of the PMP, or at least hold an enormous power to approve or disapprove policies adopted by the executive.

#### **Confederación de Pueblos Indígenas de Bolivia (CIDOB) (Indigenous people confederation)**

Founded in 1982, by representatives of four ethnic groups living in the eastern part of Bolivia, this organization represents 34 indigenous groups, today, in seven out of the nine departments in Bolivia. This organization was one of the first to ask for a Constitutional Assembly in order to get the recognition of the different indigenous groups in Bolivia as nationalities other than the Bolivian nationality. It fought for land, especially for the original areas belonging to them as collective property before the colonial period, but also, before the territory was devoted to extended agricultural cultivation. In the late 90's, they marched hundreds of kilometers to La Paz, asking for their property rights. This march is regarded as a turning point in the influence of social movements to attain changes in public policies.

### **Coordinadora del Agua**

This is an informal entity which grouped social movements in the city of Cochabamba in order to force the ejection of a foreign company which was granted the concession for the water supply in that city. In the year 2000, after months of negotiations, conflicts and a violent confrontation with the police in what was afterwards called “The War for Water”, this foreign company was expelled from Bolivia after 2 years of operations. Three years later, a similar movement in La Paz forced the termination of a concession contract with another foreign company in charge of the water supply for the city of La Paz, after almost seven years of operations. The “War for Water” is a landmark in the ability of social movements to pursue sweeping changes in policies adopted by Government. The most extreme case of this type of mobilizations has been “The War for Gas” in October 2003, opposing an alleged intention of the Government to export gas through Chilean territory, a country with which Bolivia has had a centennial claim for regaining access to the Pacific coast, lost after a war. This time, the outcome was the fall of the democratically-elected government after one year and three months of its inauguration.

### **Coca growers associations**

Almost 20 coca growers’ unions represent the interests of this sector in the countryside of Cochabamba and La Paz. Their immediate purpose has always been to curb coca eradication efforts and to expand the areas of legal coca plantations. Interestingly enough, these organizations have retained power and influence even at times when illegal coca plantations were almost eliminated. This sector is at the root of the Movimiento al Socialismo, the party currently in power.

#### **A.4. External actors**

International financial institutions and official aid agencies have also influenced the PMP. These institutions have used their financial leverage in support of policies which matched their

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international aid agenda. Most of the time, however, it was possible to find a common ground with domestic agendas, contributing both to the reform process, but also to its reversal.

## **A.5. Arenas**

### **a) Task Forces**

During the reform period, task forces outside the government formal structure were ad hoc teams of external and local advisors and policymakers, which worked on devising the reform strategy, to be presented to the President and the Cabinet. These task forces were extremely active in the stabilization period, and the first steps of the reform. Their role decayed later as the stabilization process consolidated itself, and the governments did not foster major reforms until the 1993 administration.

### **b) President's inner circle**

The President's Inner Circle comprised the President and its closest advisors, some of them members of cabinet. The importance of this arena varied sharply with different governments, being a decisive stage sometimes where decisions were made, but in other administrations it lacked power completely.

### **c) The Cabinet**

The cabinet comprises the ministers which represent the main political allies of the governing coalition and independents. In the stabilization phase, the reforms were approved by the executive branch only, because of the nature of the reforms applied, and the need for swift action. When the reforms needed congressional approval, the cabinet sent the proposal to Congress, but if the coalition had secured a majority in the congress, then the approval in the cabinet assured the congressional approval as well.

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**d) The Parliament**

The parliament had the power to block any reform initiative, not only those which needed congressional approval. Therefore, it was important to have some control of Congress. This support was assured by the formation of a coalition. In the reform process, governability was soon interpreted as having a coalition large enough to control the parliament. As explained in the main text, the parliament did not foster any major reform initiatives, and only few of its members had a deep understanding of the initiatives presented to it. The parliament (perhaps only with exception of regional laws), followed the decisions taken by the leaders of the ruling coalition.

The role of Parliament has decreased over time, because the social movements found the way to force the decisions of this body. The parliament, as it stands, is not functional to the counter-reform process, and its role has been diminished. The virtual elimination of the constitutional court was devised to reduce the role of the Parliament.

**e) Institutionalized Bureaucracy**

After the first generation of reforms, the task forces were institutionalized in a series of independent institutions like the Central Bank, Superintendences, etc. The public administration was professionalized and did increase its voice in decision making. A civil service program reinforced this process. This bureaucracy had a very important, and sometimes, a leading role in the second-generation set of reforms. The institutionalization of councils, where ministers and the bureaucracy met to examine and endorse economic policy measures (for example the council for economic policy, the council for social policy, the macroeconomic group, etc.), was an important step to reinforce the technical and professional influence in the decisions. One of the objectives of the MAS administration is to dismantle the institutions which correspond to a neoliberal administration. It began by replacing government officials which were part of former administrations with public servants which have an ideological affinity with the new administration. It has also closed the offices of independent regulators and transferred those competences to sectoral ministries. Only two regulators (financial intermediation and hydrocarbons) remain as independent entities, and Central Bank independence was almost eliminated by the new constitution.

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**f) Assemblies and Streets**

“Social movements” make their decisions, in “cabildos” (in which the people gather, without any formal affiliation) and labor unions in “general assemblies” (in which affiliated members of the labor union participate). In these arenas, the leaders set forth a proposal to the grass roots, which approve or reject it, most of the time by the vote of the majority. This decision is then summoned to the Executive. If the demand is rejected, social movements or labor unions begin a process of negotiation accompanied with protests in the streets, which becomes the central arena for a final policy definition.

**g) Executive Branch**

The executive branch is a key player in the counter-reform process. Since this process tries to impose the decisions of the streets, it tries to circumvent the institutions of representative democracy, especially the checks and balances system. Therefore, the process tries to concentrate power in the executive branch. The executive branch is engaged in a very complex relationship with the social movements, in which sometimes it uses these movements, and sometimes the social movements try to impose its decisions through the executive branch.

**h) Constitutional Assembly**

Because the decision-making mechanisms and institutions were designed to follow the rules of representative democracy, these are not functional to the “direct democracy” which proclaims the counter-reform process. Therefore, a constitutional assembly was elected to try to formalize and institutionalize a “direct democracy” system. After two years of work and no minor conflicts, the majority of the assembly approved a new constitution draft. That text was afterwards modified to gain political support from certain political parties with congressional representation. A new version of the proposed constitution was submitted to the consideration of the electorate in a referendum which took place in January 2009. This new Constitution proclaims most of the postulates of the ruling party and in many respects does not reflect a

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social pact for the times to come. Some of the problems that led to the de-institutionalization of the PMP in Bolivia remain unaddressed and others have been amplified. For instance, the State will be organized into four different forms of autonomies, with potential overlapping of territorial spaces and competences and no mechanism devised to deal with such problems. The Constitution has established a one year term for the approval of the norms which will implement the Constitution (Fifth Transitory Disposition) after the election of the new Pluri-national Legislative Assembly. Therefore it is very likely, that in the early stages of the implementation of the new constitution no formal PMP will be institutionalized for the design of public policies over the long run.

### **Mechanisms and Currencies**

#### **a) Congressional support**

The political coalition system in Congress proved to be a very effective mechanism to ensure governance, which was a necessary condition to maintain democratic and economic stability, and to implement the reform process. The reform process experienced significant advances in the 1985-1989 and 1993-1997 administrations, and slowed down between 1989 and 1993. The coalition system, however, experienced a deep process of exhaustion over time.

The coalition system lost credibility because Congressional coalitions were increasingly formed based on clientelistic objectives, and not on policy-based agreements. In addition, the traditional political parties were accused of covering up corruption cases. At the same time, social movements and trade unions gained power and succeeded in unifying diverse sectoral demands under one single cause, which was the reversion of the structural market reforms.

#### **b) Budget allocations**

Budget allocations were an effective tool to gain support for the ruling government policies. As explained earlier, members of Congress had an increased interest in gaining local and sectoral support. An effective way to do that was to fight for a greater share of public funds and to get financing for highly-visible regional public investment projects. However, over-budgeting was

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not a common practice; hence, the budget allocation process distorted to some degree the main policy objectives of the Government. The extent to which this was a damaging phenomenon depended on the strength of the main political party of the coalition and its leader, i.e. the President.

### **c) Demonstrations**

As Congress and political parties lost their representativeness of the population, citizen organizations were active and vocal in channeling their demands. These organizations were not part of the PMP (some instances of people participation operated only at the municipal and departmental levels, most of them co-opted by the political parties). Therefore, their voice was only heard when they exerted some sort of pressure, most of the time on the central government and sometimes on their municipal administration. Road blockades, strikes, marches and hunger strikes, were the means by which these organizations fought and attained their objectives. These mechanisms have proven to be increasingly effective to the point of almost replacing the formal PMP. Since the social movements are now part of the MAS administration, the Government has used this mechanism to its own advantage. The passage of critical pieces of legislation has been attained by mobilizing political followers to lay siege on Congress until their objective is attained.

### **d) Conditionality**

Conditionality was a means by which international financial institutions and official aid agencies gained support for their policy agenda. During most of the period under analysis, Bolivia was heavily dependent on foreign aid. During those regimes with a clear policy agenda, conditionality, and more importantly, cross-conditionality was not a major obstacle, to the contrary, it supported the implementation of the government's policy agenda. However, as the coalition system lost coherence in the policy orientation, conditionality was a tool to implement donor preferences.

## Annex B

**Policy-making Process in Bolivia over time**

<b>Years</b>	<b>Political Events</b>	<b>Actors</b>	<b>Arenas and Currencies</b>	<b>Economic Events (Outcomes)</b>
1971-1978	<ul style="list-style-type: none"> <li>▪ Banzer Government</li> </ul>	<ul style="list-style-type: none"> <li>▪ Armed Force</li> <li>▪ Entrepreneurial sector</li> <li>▪ Corporate Groups</li> </ul>	<ul style="list-style-type: none"> <li>▪ Military dictatorship, decision imposed by the use of force</li> <li>▪ Political repression</li> <li>▪ Individual liberties and press control</li> </ul>	<ul style="list-style-type: none"> <li>▪ State-controlled economic model</li> <li>▪ External indebtedness</li> <li>▪ High commodity prices</li> <li>▪ Export and commodity boom</li> <li>▪ Natural gas exports to Argentina began</li> </ul>
1978-1982	<ul style="list-style-type: none"> <li>▪ End of the Banzer dictatorship</li> <li>▪ Political uncertainty and volatility</li> <li>▪ Attempts to return to democracy</li> <li>▪ Succession of short-lived democratic and military governments</li> <li>▪ Exhaustion of the military regimes</li> </ul>	<ul style="list-style-type: none"> <li>▪ Armed Force</li> <li>▪ Political Parties (MNR, ADN, UDP)</li> <li>▪ Trade Unions (COB)</li> <li>▪ Informal Groups (Left-wing sectors)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Military dictatorship</li> <li>▪ Street demonstrations and protests</li> <li>▪ Hunger strikes</li> <li>▪ Congress and political parties</li> </ul>	<ul style="list-style-type: none"> <li>▪ Economic crisis towards the end of the 70's and beginning of the 80's</li> <li>▪ Debt crisis</li> </ul>
1982-1985	Return to Democracy (Siles Suazo Government)	<ul style="list-style-type: none"> <li>▪ Government (UDP)</li> <li>▪ Congress (dominated by opposition parties, MNR and ADN)</li> <li>▪ Entrepreneurial sector</li> <li>▪ Trade Unions (COB)</li> <li>▪ Social movements</li> <li>▪ International financial organizations (IMF)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Congress (Congress blockade to government initiatives)</li> <li>▪ Street demonstrations by trade unions (COB) against the government</li> </ul>	<ul style="list-style-type: none"> <li>▪ Hyperinflation and shortages of basic goods</li> <li>▪ Debt Crisis</li> <li>▪ Large fiscal deficit</li> <li>▪ Continuous GDP fall</li> <li>▪ Failed stabilization policies</li> </ul>

<b>Years</b>	<b>Political Events</b>	<b>Actors</b>	<b>Arenas and Currencies</b>	<b>Economic Events</b>
1985-1989	<ul style="list-style-type: none"> <li>▪ Paz Estenssoro government</li> <li>▪ First congressional pact to ensure Parliamentary majority and governance (MNR-AND)</li> <li>▪ Alternative Development strategy and Law 1008</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government (President and some Cabinet members)</li> <li>▪ Congress (political parties)</li> <li>▪ Corporative Groups</li> <li>▪ Trade Unions (COB)</li> <li>▪ International Financial Organizations (IMF, WB, IDB)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Congress (Congressional majority)</li> <li>▪ Weak labor and social movements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Stabilization Policy package (D.S. 21060)</li> <li>▪ De-regulation of key markets (financial, exchange and goods markets)</li> <li>▪ Labor market flexibilization</li> <li>▪ Opening of the economy to foreign trade</li> <li>▪ Tin crisis</li> </ul>
1989-1993	<ul style="list-style-type: none"> <li>▪ Paz Zamora Government</li> <li>▪ Second congressional pact (ADN-MIR)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Congress (political parties)</li> <li>▪ Trade unions (COB)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Congress (congressional majority)</li> <li>▪ Weak labor and social movements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Slow-down of the reform process</li> </ul>
1993-1997	<ul style="list-style-type: none"> <li>▪ Sánchez de Lozada first government</li> <li>▪ Third congressional pact to guarantee governance (MNR-UCS-MBL)</li> <li>▪ Last pact around a coherent government program</li> <li>▪ Political Institutional reforms:</li> <li>▪ Constitutional reforms</li> <li>▪ Land reform (INRA Law)</li> <li>▪ New Electoral Law</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government (strong leadership of the President)</li> <li>▪ Congress (political parties)</li> <li>▪ Entrepreneurial sector</li> <li>▪ Transnational companies</li> <li>▪ Regional corporative groups</li> <li>▪ Bureaucracy</li> <li>▪ International Financial Organizations (IMF, WB, IDB)</li> <li>▪ Trade Unions (COB) and other social movements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Congress (congressional majority)</li> <li>▪ Social movements began to articulate</li> </ul>	<ul style="list-style-type: none"> <li>▪ Plan de Todos (Plan for Everyone)</li> <li>▪ Second Generation Reforms</li> <li>▪ Institutional reforms</li> <li>▪ Central Bank autonomy</li> <li>▪ Privatization (capitalization) of public enterprises</li> <li>▪ Pension reform</li> <li>▪ Decentralization and municipalization of the public administration</li> <li>▪ Sectoral regulatory frameworks (SIREFI, SIRESE)</li> </ul>

	<b>Political Events</b>	<b>Actors</b>	<b>Arenas and Currencies</b>	<b>Economic Events</b>
1997-2002	<ul style="list-style-type: none"> <li>▪ Fragmentation of the electoral vote</li> <li>▪ Need to form Mega-coalitions to assure governance (AND-MIR-NFR-UCS)</li> <li>▪ Increased political volatility</li> <li>▪ National Dialogue</li> <li>▪ Zero-Coca policy</li> <li>▪ War for water</li> <li>▪ Counter-reform process begins</li> <li>▪ Police force strike</li> <li>▪ March to Caracollo</li> <li>▪ Fragmentation of the PMP</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government (Banzer - Tuto)</li> <li>▪ Congress (Political parties)</li> <li>▪ Civil society</li> <li>▪ Trade Unions (COB)</li> <li>▪ Informal Groups and social movements (Coca producers, landless movements, pensioners)</li> <li>▪ Corporative groups</li> <li>▪ NGOs</li> <li>▪ International Financial Organizations</li> <li>▪ Rural workers and Indian groups (CSUTCB-CIDOB)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Congress with increased opposition to the reform process from non-traditional parties (MAS)</li> <li>▪ Road and street blockades</li> <li>▪ Attempts to channel social sector demands through the National Dialog</li> </ul>	<ul style="list-style-type: none"> <li>▪ Large foreign capital inflows owing to the reform process</li> <li>▪ International crisis out-brake</li> <li>▪ Large fiscal deficit</li> <li>▪ Pro-cyclical policies</li> <li>▪ Custom Law</li> <li>▪ Zero-Coca policy</li> <li>▪ Strict financial regulation and credit crunch</li> <li>▪ HIPC II</li> <li>▪ Exports of natural gas to Brazil began</li> </ul>
2002-2003	<ul style="list-style-type: none"> <li>▪ Increased fragmentation of the electoral vote</li> <li>▪ Sanchez de Lozada second term</li> <li>▪ Alliance between former antagonist parties (MNR-MIR-NFR)</li> <li>▪ Black February</li> <li>▪ Black October (War for Gas)</li> <li>▪ Overthrow of GSL government</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weakened Government Alliance</li> <li>▪ Congress (weakened coalition of traditional political parties)</li> <li>▪ Congress (emerging opposition political parties-MAS)</li> <li>▪ Social Movements coca producers, Indian groups, neighbor organizations</li> <li>▪ International Cooperation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weakened Congressional majority</li> <li>▪ Strong opposition to reforms in Congress (MAS)</li> <li>▪ Tough and radical opposition to government outside Congress (road blockades and street demonstrations)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Deepening of economic crisis (increased fiscal deficit, credit crunch and slower growth)</li> <li>▪ Failed attempt to recover the reform process (BONOSOL, SUMI, Capitalization)</li> <li>▪ Failed economic adjustment measures (tax on personal income) with high political costs</li> </ul>

	<b>Political Events</b>	<b>Actors</b>	<b>Arenas and Currencies</b>	<b>Economic Events</b>
2003-2005	<ul style="list-style-type: none"> <li>▪ Constitutional succession (Mesa government)</li> <li>▪ Gas Referendum</li> <li>▪ Resignation of CMG and call for new elections</li> <li>▪ Break down of PMP based on political party alliances</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weak government with no congressional representation</li> <li>▪ Divided Congress opposed to the government</li> <li>▪ Regions (Santa Cruz)</li> <li>▪ Social movements (coca growers, neighbor organizations (El Alto)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Continuous confrontations between Government and Congress</li> <li>▪ Continuous confrontations between Government and Regions (Santa Cruz and Tarija) and regional "cabildos"</li> <li>▪ Road blockades and street demonstrations by labor and social movements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Partial economic recovery</li> <li>▪ Attempts to reduce the fiscal deficit (tax regularization, tax on financial transactions, domestic fuel price increases)</li> <li>▪ Reversal of reforms accelerate</li> <li>▪ New Hydrocarbons Law (50% Royalties)</li> <li>▪ Unilateral termination of the contract with Aguas del Illimani (water services)</li> </ul>
2005-	<ul style="list-style-type: none"> <li>▪ General elections with direct election of regional authorities (Prefectos)</li> <li>▪ Landslide victory of Evo Morales</li> <li>▪ Constitutional Assembly (process)</li> <li>▪ De-institutionalization and polarization (ideological and regional)</li> <li>▪ Referenda for regional autonomies in regions opposed to the government</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government (with strong Presidential leadership - Morales)</li> <li>▪ Congress (lower chamber controlled by the government and upper chamber by the opposition)</li> <li>▪ Prefectos-Regions and regional organizations</li> <li>▪ Constitutional Assembly</li> <li>▪ Trade Unions (COB) and social movements (coca producers, miners and Indian movements)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government approves nationalizations by Supreme Decrees</li> <li>▪ Senate does not pass laws set forth by the government</li> <li>▪ Regions carried out referenda to deepen autonomic processes</li> <li>▪ Constitutional Assembly approves a Constitution without the support of the opposition</li> </ul>	<ul style="list-style-type: none"> <li>▪ Commodity price boom</li> <li>▪ Nationalization of previously capitalized enterprises (hydrocarbons, telecommunications)</li> <li>▪ Populist economic policies</li> <li>▪ Government's National Development Plan outlines the strategy to reverse market-oriented reforms</li> <li>▪ Inflationary pressures and exchange rate appreciation</li> <li>▪ Reduced FDI flows</li> </ul>

## Annex C

## Classification of Political Parties used in the Paper

Political Party	Not Classified	Systemic	Antisystemic
ACP	X		
ADN		X	
ADN-PDC		X	
AND-NFR-PDC		X	
AP		X	
ARBOL			X
ARENA	X		
ASD		X	
AUR	X		
CONDEPA			X
CONDEPA-MP		X	X
EJE			X
EJE-Pachakuti			X
FNP	X		
FPU		X	
FREPAB			X
FSB		X	
FULKA			X
INDEPENDIENTES		X	
IU			X
L J			X
MAS			X
MBL		X	X
MCC		X	
MFD		X	
MIN			X
MIP			X
MIR			X
MIR-NM		X	
MKN			X
MNR		X	
MNR - MRTKL		X	
MNR-MBL		X	
MNRI			X
MNRI-1			X
MNRV		X	
MRTK			X
MRTKL			X
NFR		X	
PDB		X	
PDC		X	
PODEMOS		X	
POR			X
PS			X
PS-1			X
UCS		X	X
UCS-FSB		X	
UN		X	
USTB			X
VR-9		X	
VSB			X

Doble entries correspond to different elections.