



## **BOLIVIA UPDATE JANUARY 2006**

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## EXECUTIVE SUMMARY

Newly-elected President Evo Morales of Bolivia has an unprecedented opportunity to improve the stability and economic prosperity of his country. He won more than 54% of the vote in December 2005 elections and his party gained control of the legislature. This victory gives Morales significant leverage to end the social unrest that toppled the past two presidents, implement institutional reforms, and address Bolivia's endemic poverty. To capitalize on this opportunity, his administration should immediately:

- Call a constituent assembly to rewrite or amend the constitution to make Bolivia's government accountable and more responsive to its citizens; and
- Implement a comprehensive program to develop Bolivia's hydrocarbons industry in a manner that is acceptable to investors.

The U.S. and other moderate governments will benefit from supporting Morales and ensuring Bolivia becomes a stable democracy, trading partner, producer of vital hydrocarbons, and ally in the fight against narco-trafficking. While Morales used anti-American rhetoric in his campaign as a tactic to gain support from his base, he has since moderated his approach and shown willingness to work together on critical issues.

By engaging Morales, the U.S. has a chance to win over Bolivia's resentful population and work toward common goals. Continued U.S. aid, technical and financial assistance from international organizations, and investment from multinational corporations, improve Morales' chances to successfully address Bolivia's poverty and instability.

If the U.S. and like-minded organizations shy away from Morales' leftist rhetoric, Morales will be left to succeed or fail based on his own efforts. If he fails, he could follow the path of his friends Venezuelan President Hugo Chavez and Cuban President Fidel Castro by consolidating power, mismanaging state resources, and inciting ideological acrimony in the region.

The U.S. and its partners should focus on an agenda of engagement to help Morales diffuse Bolivia's social tensions and prevent economic disaster. This agenda should include the following key items:

1. Encourage Morales to dedicate more resources toward education and long-term infrastructure development in Bolivia.
2. Provide technical assistance and funding for better schools and roads.
3. Encourage the private sector (particularly oil companies) to invest more resources on improving public relations, conducting citizen education of its efforts and expenditures, and donating community development projects in Bolivia.
4. Facilitate a dialogue between Bolivia and Chile to negotiate access for Bolivian exports via the Pacific through Chile.

## **BACKGROUND**

Bolivia's recent political turmoil, economic problems, and social crises led to socialist Evo Morales' victory in December 2005 elections. His administration faces serious challenges to bring political stability and economic development to the country.

### *Political History*

Bolivia established its current democracy in 1982 after 18 years of military dictatorships. Three major political parties emerged and dominated Bolivia's government. These parties, the Movement of the Revolutionary Left (MIR), the National Democratic Action (ADN), and the Nationalist Revolutionary Movement (MNR), formed 'pacts' among each other to control congress and govern more effectively. They ultimately limited the role of disenfranchised groups, such as Bolivia's indigenous population.

From 1982 until 2003, Bolivia experienced relatively peaceful government transitions between the established political parties. The preeminence of these parties was reinforced by a centralized, top-down government. The system of central government and 'pact democracy' ensured the stability of Bolivia's political establishment, but stifled meaningful popular participation and adequate financial oversight.

In the past decade, Bolivia gradually adopted laws allowing more local government and popular participation. In 1995 Bolivia adopted the Popular Participation Act, which promotes decentralization by creating autonomous municipalities. This led to more local participation in government and helped spawn active social movements.

As economic reforms failed to improve conditions for the country's overwhelmingly poor population in the late 1990s, segments of society demonstrated their discontent outside traditional venues, making use of civic groups, agricultural associations, unions, indigenous movements and other social organizations. The most contentious issue was and remains to be whether and how to industrialize the country's natural gas wealth.

Evo Morales, a poor farmer, rose to power through the coca leaf growers association during this time of transition. Under Morales' leadership, protests grew larger and more organized. The government could no longer stifle them. Amid violence, President Sánchez de Lozada was toppled in October 2003. His successor, vice president Carlos Mesa, was subsequently brought down in October 2005.

Since 2003, in no small part due to Morales' leadership and the emergence of his party Movement Toward Socialism (MAS)<sup>1</sup> and other civic movements, the traditional political parties have all but disappeared. Results of the latest election, discussed below, demonstrate the parties are no longer the driving force in Bolivia's politics. The heretofore disenfranchised social groups are now politically organized and have forever changed the face of Bolivia's government.

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<sup>1</sup> MAS is a combination of several social movements including peasants, indigenous groups, miners, coca growers, neighborhood councils, and, more recently, urban intellectuals.

## *Social Issues*

Poor relations between Bolivia's diverse peoples contributed to recent conflicts. Bolivia has more than 30 ethnic (*indigenous*) groups in addition to *mestizo* (European mixed) and 'white' populations. Approximately 65% of Bolivia's population is indigenous. However, all past presidents appeared 'white' or of Spanish descent. Bolivia's indigenous population is disproportionately poorer than the rest of the population. They were looked down upon by the rich, governing classes. In return, the indigenous population has long resented Bolivia's government and its economic policies that have failed to help them economically.

These ethnic differences are reinforced by division among Bolivia's regions. In particular, there is a divide between the dominantly indigenous, poor population of the highlands, versus the relatively more economically successful and more predominantly *mestizo* population of the eastern lowlands. Bolivians feel a strong identity to their region, based on (actual or not) ethnic identity and economic class.<sup>2</sup>

Together these regions have pushed for similar goals. They all seek greater regional autonomy and control over their local government and finances.

## *Autonomy*

Objection to unresponsive and ineffective central government fueled an important autonomy movement in Bolivia. Particularly in the hydrocarbons-rich provinces of Santa Cruz, Tarija, and others, a powerful 'civic committee' emerged, filling the void created by a lack of more direct representative democracy. These committees include representatives from the unions, chambers of commerce, associations, etc.

In recent years these committees have come to rival the authority and respect enjoyed by local government officials. The committees have pushed for increased revenues from energy production and other industries, as well as improved oversight and direction of spending.<sup>3</sup> Their efforts toward greater autonomy successfully produced a law allowing popular election of *prefecto* (or provincial governor) for the first time in December 2005. Previously *prefectos* were appointed directly by the president.

This movement also pushed for a constituent assembly to rewrite the constitution. This desire is generally shared by the entire country. A committee to initiate the process was appointed by interim President Rodriguez in December 2005. Morales promised to continue these efforts. Most Bolivians expect a vote on the constituent assembly by mid-2006, with a referendum to follow to approve the assembly's results.

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<sup>2</sup> For example, people born in the department of Tarija have great pride in their department, which even has its own anthem.

<sup>3</sup> In Santa Cruz and Tarija in particular, proponents of autonomy seek even greater political and economic independence. Some have entertained separatist ideas. One group in Tarija claims it will use whatever means necessary to achieve autonomy and the possibility of civil war, while unlikely, has been mentioned.

### *Economic Problems*

Bolivia is the poorest, least-developed country in South America. Per capita annual income hovers around \$1,000. Almost two-thirds of its people, many of whom are subsistence farmers, live in poverty.<sup>4</sup>

Bolivia's poverty stands in stark contrast to its rich natural resources. Among other things, Bolivia has significant hydrocarbons (including the region's second largest reserves of natural gas), mining, agriculture (including a budding wine industry), and tourism. Unfortunately, the country is largely unsuccessful in getting products to market and the wealth to its people.

Extensive neoliberal reforms initiated in 1985 and significant privatizations in 1995 have not improved the situation. Inadequate resources were dedicated to improving education and infrastructure. Poor schools contribute to Bolivia's political turmoil as uneducated workers are forced to subsist by farming or toiling in the expanding informal sector, doing odds jobs and sales that provide no tax revenue or safety standards. Bolivia's infrastructure is sorely inadequate, with poorly developed roads, communications, and basic services such as electricity, sewer, and water.

Adding to the challenge is Bolivia's geographical situation. The country is land-locked and lacks adequate access to its neighbors' ports. Much of the country's mountainous terrain is inaccessible by car, let alone truck. It has severe climates such as extreme cold in the Andes and high heat in the southeast lowlands, as well as torrential rains in the rich tropical regions that wipe out roads and flood rivers.

Without adequate infrastructure, Bolivians cannot get their abundant resources to market at competitive prices. In the alternative, they suffer in poverty or turn to coca leaf production. Coca production was largely restricted and reduced over the past decade through a successful partnership with the U.S. to promote eradication and prevent its production into cocaine for U.S. consumers. However, not enough has been done to provide economically viable alternatives for Bolivian farmers.

### *Natural Gas*

One of Bolivia's most valuable assets, and perhaps its best hope for greater future income, is the hydrocarbons industry. Bolivia has the second-largest natural gas reserves in the region, after Venezuela. The market for natural gas, including liquefied natural gas (LNG) that can travel by ship, is growing worldwide.

Bolivia's hydrocarbons industry remains largely under-developed because of controversy surrounding how to control it. Nationalistic Bolivians believe the industry should be owned and operated by the government so that all proceeds will belong to Bolivians. However, Bolivia does not have the technology or capital to industrialize its resources and private companies have already invested huge sums into the ownership, exploration, and industrialization of the

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<sup>4</sup> U.S. Department of State *Background Notes*.

country's hydrocarbons. These companies actively resist government efforts to raise taxes and regain greater control over the industry.

Bolivia also lacks a sea port to export natural gas to its best markets. Bolivia's best possibility is to export through northern Chile, something many southeastern Bolivians are willing to negotiate. However, many Bolivians resist negotiations due to long-held bitter feelings over the War of the Pacific (1879-1883), during which Bolivia lost its territory accessing the Pacific Ocean to Chile. Without resolution of this issue, Bolivia's gas industry earns only limited income from national consumption and reduced-cost exports to Argentina.

## **DECEMBER 2005 ELECTIONS**

The December 18, 2005 general elections were a watershed event in Bolivian politics. More than 84% of Bolivian voters participated in elections for a new president and legislature, as well as governors (*prefectos*) in each of the country's nine provinces (*departamentos*) for the first time.

Election day was overwhelmingly peaceful. The Bolivian election authority (Corte Nacional Electoral – CNE) handled the logistics and provided results in a professional manner. One significant problem arose because of recent changes to the voter registry (*padron*), which resulted in tens of thousands of Bolivians being unable to vote.<sup>5</sup> (Appendix I provides a more detailed report on the elections).

MAS presidential candidate Evo Morales won 53.74% of the vote.<sup>6</sup> This is the largest margin of votes for any presidential candidate since Bolivia's return to democracy in 1982. All previous presidents were selected by congress, per Bolivian law, after no candidate received a majority.<sup>7</sup>

The December victory was decisive for Morales and a significant mandate for his program. His campaign was notable for its rhetoric aimed at inflaming public sentiment against the U.S. and traditional Bolivian elites. He promised increased social spending, nationalization of the hydrocarbons industry, and legalization of coca leaf production.

The next closest presidential candidate, Jorge "Tuto" Quiroga of the citizen association PODEMOS (Poder Democrático y Social), received only 28.594% of the vote. Quiroga's popularity suffered because for many Bolivians seeking change, he represented the status quo.<sup>8</sup>

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<sup>5</sup> The padron was 'cleansed' during the year leading up to elections. This process is necessary to remove excess names of those deceased, moved, or otherwise ineligible. However, the CNE even removed the names of voters who did not participate in the previous, municipal, elections. Many were unaware of the requirement to re-register. On election day tens of thousands of eligible voters were turned away because their names did not appear on the voter list. Given Morales' victory margin, this issue did not affect the national election outcome, but it could influence smaller, local races. This issue should be addressed prior to future elections. *See Appendix I for a discussion of other important election issues.*

<sup>6</sup> For complete election statistics and results, see the national election court (Corte Nacional Electoral - CNE) website: [www.cne.org.bo](http://www.cne.org.bo).

<sup>7</sup> In some cases a president was chosen because they had more supporters in congress, although they did not win the most popular votes.

In addition to Morales' decisive presidential victory, his party, MAS, won control of the Chamber of Deputies with 73 of the 157 seats.<sup>9</sup> MAS also demonstrated strength in the Senate, winning 12 of 27 seats. While Quiroga's PODEMOS won 13 Senate seats, a recent endorsement of MAS by two opposition senators gives MAS control with 14 seats. In Bolivia's nine provinces, MAS won three *prefectos*.<sup>10</sup>

Morales was inaugurated on January 22, 2006. He will become Bolivia's first indigenous president and one of only a few in the entire continent over the past 200 years.

## ANALYSIS

Morales' unprecedented margin of victory, coupled by his support in the legislature, provides him the legitimacy and power to make significant improvement in the lives of Bolivia's people, but his window of opportunity is small. His supporters have high expectations and will again take to the streets if he does not meet their demands.

Morales can be most effective if he acts quickly to capitalize on his support and address two priorities: the constituent assembly and the hydrocarbons issue. The constituent assembly represents an opportunity to resolve past problems of overly-centralized government, disenfranchisement of certain sectors of society, and corruption. Morales will benefit by handling this process with the utmost transparency and not imitate his mentor Venezuelan President Hugo Chavez, who used constituent assemblies and referendums to consolidate presidential power and eliminate democratic checks and balances.

It will be difficult for Morales to resolve the hydrocarbons issue in a way that appeases all parties. However, delay on addressing this issue will cause further problems as Bolivians become frustrated and investors become wary of their commitments. An immediate dialogue among all parties, perhaps exploring successful models used in other countries, could facilitate a better outcome. The public would benefit from having as much information as possible regarding the process.

A positive relationship between Bolivia and the international community, particularly the United States, would help Morales' efforts. While Morales gained popularity for his anti-American rhetoric, moderate Bolivians understand the importance of friendship with the United States. Bolivia depends on U.S. aid (which amounted to \$91 million in 2005) and needs foreign investment to develop its industries.

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<sup>8</sup> U.S.-educated, center-right Quiroga served as vice president of Bolivia under President Hugo Bánzer and became interim president after Bánzer's resignation due to health problems in 2001.

<sup>9</sup> According to the CIA's *The World Factbook*, updated January 10, 2006.

<sup>10</sup> PODEMOS won another three, and other social movements or coalitions won the rest. One of the most interesting races was in the southern, hydrocarbons-rich *departamento* Tarija, where Mario Cossio of Camino al Cambio won 45.65% (64,098 votes), winning over former president Jaime Paz Zamora from Convergencia Regional with 33.92% (47,637 votes).

The U.S. stands to gain from having a stable, democratic government in the heart of South America. The U.S. seeks friendly trade partners in the region and benefits from access to Bolivia's rich natural resources. Also, it is in the U.S.'s best interest for Bolivia to continue restricting coca leaf production, which, if unchecked, promotes dangerous narco-trafficking.

If the U.S. does not constructively engage Morales, it runs the risk that he will increasingly turn toward his more extreme allies, namely Venezuela's Chavez and Cuban President Fidel Castro. If Morales fails in his efforts to improve Bolivia's situation, he could return to his anti-American rhetoric and place blame on the U.S. government.

Morales has moderated his rhetoric since the elections and shown willingness to engage all interests. With backing from the U.S. and guidance from moderate socialists such as Brazilian President Lula, Bolivia's future looks more optimistic.

## **RECOMMENDATIONS**

Morales should capitalize on his victory by immediately focusing on two priorities in his administration.

1. Ensure that the constituent assembly process proceeds apace and is handled with utmost transparency to maintain national and international confidence. This includes fixing the problems with the voter registry prior to holding new elections.
2. Strive to reach an agreement with the private companies that ensures their continued engagement in the hydrocarbons sector, yet pacifies his base through government oversight and funding of development programs. This public should be fully informed of the process.

The U.S., moderate democratic governments in Latin America, private companies, and international organizations should engage Morales as soon as possible and actively support his efforts to address Bolivia's economic, social, and political problems. They can do so by taking the following steps.

1. Encourage Morales to dedicate more resources toward education and long-term infrastructure development in Bolivia.
2. Provide technical assistance and funding for better schools and roads.
3. Encourage the private sector (particularly oil companies) to invest more resources on improving public relations, conducting citizen education of its efforts and expenditures, and donating community development projects in Bolivia.
4. Facilitate a dialogue between Bolivia and Chile to negotiate access for Bolivia's exports via the Pacific through Chile.

## APPENDIX I: DECEMBER 18, 2005 ELECTION REPORT

1. **Tens of thousands of eligible voters were turned away on election day due to changes in the voter registry.** The CNE conducted a cleansing (*depuración*) of the voter registry during the year leading up to December's elections to remove excess names of those deceased or moved. This process was necessary and long overdue; however, the CNE went so far as to remove anyone who had not voted in the previous election. Since the previous election was municipal (not national), many had not voted. In the Tarija province alone, 89,000 names were purged (*depurados*) from the voter list, leaving 177,976 registered voters. Thousands of voters showed up on December 18 only to find their names missing from the list. If they were in a major city, voters flocked to the few local CNE headquarters and waited hours in line to verify whether or not they appeared on the national registry. Many who were not on the list could prove they had voted in the previous election. Regardless, these citizens were turned away and will likely face a fine.<sup>11</sup> Officials estimate that nearly half of the *depurados* tried to vote on December 18, but were turned away. While not material in the national election where Morales won with a wide margin<sup>12</sup>, in close races on the local level this number could have changed election results.
2. **Thousands of voters crossed the border from Argentina to vote, providing opportunities for fraud and compromising overall voter confidence in the southeast region.** In the days leading up to the election, thousands of people traveled from Argentina into Bolivia's border towns to vote.<sup>13</sup> While this action is not illegal, it creates abundant opportunity for complaint and manipulation by political parties. The CNE and OAS officials received several official complaints that political operatives were paying for voters' transportation and lodging to influence their vote.
3. **Lack of transparency, ethics, and quality in the local media misled voters.** Media coverage of the election, particularly in the provinces, was poor for three reasons. First, in Tarija, *prefecto* candidates on both sides complained that the media extracted exorbitant fees for advertising and threatened not to cover their campaigns without sufficient payment. Both *prefecto* candidates confided to having spent over U.S. \$100,000 each on media payments alone during their campaigns. Second, newspapers printed news alongside paid material in a manner that made it very difficult for readers to decipher factual information from propaganda. This included unofficial polls from private parties that gave widely differing results. This is risky and can lead to hostilities from the losing party in close races when final election results vary greatly from expectations. Third, in Tarija in particular, there was a very negative ('dirty') campaign between the two candidates for *prefecto*. This included almost daily, full-page newspaper ads attacking the

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<sup>11</sup> In Bolivia voting is mandatory and proof of having voted is required for many essential activities such as opening a bank account and leaving or entering the country. Failure to vote results in a penalty. The fine is determined at the local level and varies by election. Proceeds go to the local election authority.

<sup>12</sup> Some analysts believe more rural voters were affected by the cleansing of the registry than urban voters because they did not vote in the municipal elections and were unaware of the requirement to re-register. These missing voters could possibly have created an even larger margin of victory for Morales.

<sup>13</sup> Many Bolivians have moved to Argentina or have dual citizenship. They return to vote on election day partly because voting is required to maintain eligibility for retirement funds.

other candidate. These negative campaigns will hinder future reconciliation efforts and exacerbate an already politically polarized electorate.

4. **The law banning transportation on election day is a hindrance to voters, particularly in rural areas.** In Bolivia, there is a law banning private and public transportation on election day.<sup>14</sup> This law was deemed necessary by the political parties seeking to curb political activity on election day (i.e., giving rides, rounding up voters, paying voters to elect a particular candidate, etc.). However, the consequence is that it is extremely difficult for the elderly, disabled, pregnant, or rural citizens to vote. It was not uncommon for citizens to have to walk four to eight hours to reach the polls. Bolivians admirably voted in huge numbers in December; however, this inconvenience ultimately discourages participation, particularly in municipal elections.
5. **Laws governing campaign spending are weak at best and mostly un-enforced.** There is a widespread belief that certain campaigns sought to win votes by giving out essential foodstuffs, particularly in poor areas. In addition, there was a strong perception that certain candidates received resources from outside the country. CNE officials in Tarija were unable to provide details on campaign spending laws. These campaign practices compromise the validity of election outcomes as the public perceives the victories to have been ‘purchased’.

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<sup>14</sup> With the exception of a few permits for hospitals, election workers, etc.