



BOLIVIA **INFORMATION** **FORUM**

Bolivia Information Forum Bulletin **No. 16, September 2010**

CONTENTS

Page

- 1. Potosí: a strike for regional demands..... 2**

- 2. ECONOMY CHECKLIST: Growth up
(moderately), exports doing well..... 4**

- 3. Cement factory (FANCESA) in Sucre
returned to former owners..... 5**

- 4. Tackling poverty and inequality: getting to
grips with the legacy of centuries..... 6**

*The BIF Bulletin is published by:
Bolivia Information Forum,
Unit F5, 89-93 Fonthill Road,
London N4 3JH
enquiries@boliviainfoforum.org.uk
www.boliviainfoforum.org.uk*

Potosí: a strike for regional demands

The city of Potosí was closed down for over a fortnight in late July-August over a series of regional demands; the conflict, seen locally as a protest against central government and its lack of response to such demands, brought people from throughout the city together. Intransigent positions from both sides prevented an early solution, and though the *potosinos* gained what they had asked for, in fact their gains were limited.

What happened

The mining town of Potosí was brought to a standstill for 19 days in late July and early August. Road blocks, set up on the main roads leading to the town, prevented people arriving or leaving; some spent days stranded by the roadside. Most economic activity came to a halt. Those working in mining cooperatives stopped work, informal commerce was much reduced, tourism was interrupted, and people went without their daily income.

Those working in mining cooperatives stopped work, informal commerce was much reduced, tourism was interrupted, and people went without their daily income.

The demands posed by the Civic Committee of Potosí (COMCIPO) included:

- A plan to save the conical mountain that stands over the town (Cerro Rico), which after over five hundred years of plunder of its silver and tin is starting to look like a honeycomb and is collapsing in places.
- Making the silver and lead smelting plant, Karachipampa, work. This has long been a demand in Potosí, because it has never worked since it was first built in the late 1970s. In 2005 the Canadian firm Atlas Precious Metals entered into a joint venture enterprise with the state, but operations have yet to get

going.

- Building an international airport for Potosí.
- Finishing a road from Potosí southwards to Tarija.
- Installing a cement factory in Coroma, a village on the border with Oruro, near Pahuá (see below).

However, the issue that brought the city's demands to a head was a century-old dispute between Potosí and the neighbouring department of Oruro over which is the 'owner' of a hill (Pahuá) rich in minerals, some used in making cement. On July 15, in spite of negotiations then under way, the Potosí Civic Committee implanted its flag on Pahuá in support of its claim.

... the *potosinos* insisted they would not talk to government ministers, they would only negotiate with Evo Morales himself.

Key events of the 19-day conflict in Potosí included a very big march (some reports suggested that as many as 100,000 people took part, though with a total population of 160,000 this is probably exaggerated); members of the national Assembly and the governor of Potosí were pressured to get involved, taking part in hunger strikes (the governor talks of 'intense social and psychological pressure being felt by the people of Potosí'). *Potosinos* living elsewhere in Bolivia came out in support of their city and its people, some initiating hunger strikes in sympathy.

For their part, government ministers tried on four occasions, in both Sucre and Cochabamba, to meet with people from Coroma and with the Civic Committee and its representatives. They argued that it was impossible to negotiate on the question of the territorial dispute between Potosí and Oruro, unless they did so on neutral ground. However, the *potosinos* insisted they would not talk to government ministers, they would only negotiate with Evo Morales himself.

On the fifth occasion, the two parties met in Sucre, and the issues were dealt with in six committees. At one point, when the representatives of the Civic Committee had refused to continue the discussions and were on their way back to Potosí, local *campesinos* stopped them and made them return to the negotiating table. Agreements were finally reached on how to proceed on all points. Only then was the blockade lifted.

Trying to understand the conflict

Why did Potosí, which as a department voted resoundingly for Evo Morales in the general elections of December 2009 (75% of the vote), decide to question the government in this way?

Besides the territorial problem over the Pahuá hill and its resources which triggered the conflict, a contributory issue may have been the recently re-elected mayor René Joaquino being summoned to trial for his part in the irregular purchase of used vehicles by the municipality. Whilst this was a judicial matter, rather than a political one, people came out in defence of Joaquino at the beginning of the conflict.

However, underlying these factors are more fundamental causes: Potosí has suffered from neglect for centuries. The city's mines fed the colonial Spanish and European economies with its silver; the department's tin production was used to develop other regions of Bolivia, notably Santa Cruz, yet Potosí remains the poorest department in the country. So, with Evo Morales in government for a second term, people were expecting to see improvements. In spite of the social allowances that are now benefiting about 60% of Bolivia's people and increased public spending from gas revenues and mining royalties being channelled through departmental and municipal coffers, Potosí's regional demands are still to be met. People feel that they are getting very little back and little has changed.

The conflict highlights a number of points:

- The nature of the demands made was non-strategic: questions of the strategic use of natural resources could have been raised, but were not. It showed that large numbers will rally to protest about the underlying situation of neglect and exclusion.
- Bolivia has just begun a process of greater decentralisation, to departmental governors and assemblies, but these are still very weak. People continue to look to central government – and to the president – for solutions. At no

moment did the Assembly play an important role.

- The conflict was largely an issue for the city of Potosí. Outlying regions such as the Norte Potosí, Uyuni and the south were largely absent from, and indeed critical of the protest movement. Rural communities see the city dwellers as pursuing their own interests, not those of the department as a whole. The *campesino* organisation FRUTCAS in Uyuni, for example, blames the Civic Committee for blocking the setting up of an autonomous state body to undertake lithium production. They are also seen as having prevented an agreement with Chile for the waters it takes from the Silala.
- More radical voices were also heard, particularly during the big march that took place. Some shouted in support of federalism. Several hunger strikes included prominent members of the opposition. The right-wing press took full advantage of the government's predicament.
- At the beginning of the conflict, the Civic Committee raised its voice in opposition to two articles of the Autonomies Law, then being debated in the Plurinational Legislative Assembly. One has to do with the possibility of creating macro-regions within departments. The Committee thought that this would lead to the creation of a macro-region of south-eastern Potosí, including the area of the salt lakes rich in lithium. Whilst *campesinos* in Uyuni are in favour of this, the Civic Committee considers it to be very much against the interests of Potosí city, as well as the department as a whole. Faced with the eventual decline of mining in the Cerro Rico, the attractions of lithium production are very evident.
- The cost of the stoppage to individuals and those involved in productive activities was high. *Campesinos* took over the hydroelectric plant in Río Yura that feeds the large mine San Cristóbal; the mine suspended output. Mining cooperatives' losses were of about US\$200,000 a day; Potosí lost important amounts in royalties.
- The Civic Committee in Potosí is different from those found in the lowlands, and is made up principally of social organisations. These include the departmental workers' body (the COD), services union (electricity, telecommunications and water), transport workers, press, and university students (FUL). Celestino Condori, the leader of Civic Committee, is from the FUL.

ECONOMY CHECKLIST: Growth up (moderately), exports doing well

The government expects the economy to grow by just over 4% in 2010, rather less than what it expected earlier in the year. The strike and disturbances in Potosi appear to be the main reason for scaling back expected growth. In the first half year (to the end of June) GDP expanded by 3.3%. Although the Bolivian economy this year will grow less than the average for Latin America as a whole (about 5%), the country avoided the major downturn in 2009 caused by the world economic slowdown. In 2009, Bolivia distinguished itself by being one of Latin America's best performers, even though this was only 3.4%

Bolivia has benefited from buoyant demand this year for key minerals, particularly zinc and silver. In the first five months, minerals exports totalled US\$952m, up from US\$604m in the same period of 2009. The value of zinc exports, for example was US\$384m, compared with US\$206m in the first five months of 2009. The value of hydrocarbons (mainly gas) exports was up to US\$1.07b, compared with US\$908m in 2009. Altogether, exports were worth US\$2.31b in the first five months of this year, compared with US\$1.85b last year.

Bolivia has benefited from buoyant demand this year for key minerals, particularly zinc and silver.

The increase in export revenues will likely lead to an increase in the trade surplus this year, as well as an increase in the current account surplus (which includes trade and other non-capital transactions in the balance of payments). The trade surplus to May was US\$289m, compared with US\$179m in 2009. The current account surplus, in the first quarter of 2010 was US\$212m, or 1.2% of GDP. Overall, Bolivia continues to accumulate massive reserves in relation to the small size of the economy. As of early September, these stood at US\$8.9b, the equivalent of 49% of GDP.

The Morales government has maintained prudent fiscal and monetary policies, resisting the temptation to inflate the economy by pumping resources into it. Unlike some other countries, it has not used reserves to finance development spending. The government's fiscal accounts have been in surplus ever since Evo Morales took office in 2006. Last year, the fiscal surplus was whittled down to just 0.1% of GDP, but prior to 2006 the country had suffered chronic deficits of up to 9% of GDP. The Bolivian government has been repeatedly congratulated by international financial agencies (such as the World Bank and the Inter-American Development Bank) for its economic policies. Both institutions are currently expanding their lending to Bolivia.

One of the weak points of the government's record has been in failing to meet public investment targets.

One of the weak points of the government's record has been in failing to meet public investment targets. In August, Morales warned ministers about the likely shortfall in investment this year. Government figures suggest that public investment is running at about 25% of the figures originally budgeted. Much of this spending is on building physical infrastructure such as roads and electricity installations. Private sector investment is also at a low ebb, while the government is seeking to increase the amounts of foreign direct investment (FDI), particularly in mining and hydrocarbons.

There are signs that inflation is accelerating, but from extremely low levels. In 2009, annual inflation was no more than 0.26%. By July this year, annualised inflation was running at 2.2%.

Cement factory (FANCESA) in Sucre returned to former owners

On September 1, Evo Morales handed over the shares held by the private cement company SOBOCE in the national cement factory FANCESA to the governor of the department of Chuquisaca.

FANCESA was originally set up in the 1950s on the outskirts of Sucre by the Corporación Boliviana de Fomento (Bolivian Development Corporation-CBF), and was jointly owned by the CBF (later the Regional Development Corporation-CDR), the Municipality of Sucre and the University San Francisco Xavier.

The one-third share belonging to the CDR was privatised along with other properties belonging to the regional development corporations in 1992 when Jaime Paz Zamora was president. His minister of planning for the four years he was in government was Samuel Doria Medina, the main shareholder in SOBOCE. SOBOCE bought this one-third part of the shares of FANCESA in September 1999 for US\$26 million.

Since FANCESA is registered as a national firm, it would seem that international arbitration is not likely.

SOBOCE entered into an agreement with the University to hold its part of the shares, thus managing to control the management of the firm. For the year ending March 2010, profits were declared at \$20 million, shared between the different partners, the University, the municipality, SOBOCE and its Mexican partner Grupo Cementos Chihuahua. Until the re-nationalisation of FANCESA, SOBOCE held 51% of the third-part of the shares, Chihuahua 47%.

Since FANCESA is registered as a national firm, it would seem that international arbitration is not likely. So the mechanism used for paying compensation would be for an independent firm to settle the amount to be paid by the Department of Chuquisaca to SOBOCE. For now, there is no agreement between the government (which is offering \$26 million) and SOBOCE (which is

asking for \$80 million in view of the investments it claims to have made). Its Mexican associates are due to meet with government authorities in La Paz to put their case.

The government has talked of possibly launching an investigation into the way in which Doria Medina may have exerted official influence in order to purchase his part of FANCESA. For his part, Doria Medina has argued that the move has done little to enhance the investment climate in Bolivia.

Of the seven cement factories in Bolivia, four are run by SOBOCE (not including FANCESA, the largest of them). Without FANCESA, SOBOCE has lost its overriding control of the cement industry in Bolivia.

Cement is currently in short supply, given the buoyancy of the construction industry. This is particularly evident in Santa Cruz.

Cement is currently in short supply, given the buoyancy of the construction industry. This is particularly evident in Santa Cruz. The Government is attempting to regulate the rising price of cement.

Finance Minister Luis Arce points out that the re-nationalisation of property previously held by the state is part of the National Development Plan. He argues that private investment -- so long as it does not concern property previously belonging to the state -- is 'absolutely guaranteed'.

Tackling poverty and inequality: getting to grips with the legacy of centuries

The most recent UNDP Human Development Report (2010) shows that in Latin America, a region marked by inequality, Bolivia is one of the most unequal countries. The figures are from 2007 and the Gini index that measures inequality in the distribution of national income shows that Bolivia had a coefficient of 0.565 (where a score of 0.0 would mean complete equality and 1.0 would mean complete inequality). According to income measures, the richest ten percent of the population earn 94 times more than the poorest ten percent. We need to reflect on how this situation came about.

But first, it is important to look at what we mean by poverty and inequality. "Janiw pobriti (we are not poor), we are producers" is a phrase I heard in Ch'uñapata, municipality of Ancoraimes near Lake Titicaca. According to official statistics, 95.6% of the population of this community are living in poverty and 70.5% in extreme poverty, while 99.7% have unmet basic needs. International indicators tend to put us into categories that are defined by the lack of things. However, in Bolivia poor people are those that have no community, no family network to protect them.

... there are more developed areas with electricity, health and education, in the midst of rural spaces where people still live in the same sort of conditions as they did in the 16th century

The extractive model adopted from the Conquest onwards, based on mining, generated unequal development; there are more developed areas with electricity, health and education, in the midst of rural spaces where people still live in the same sort of conditions as they did in the 16th century. Development models implemented until 2005 resulted in the deepening of the social divide and increases in hunger and poverty. They benefited small economic groups and big multinationals; they also led to a loss of autonomy in our decision-making capacity.

The structural adjustment measures of the 1980s

aggravated inequality in Bolivia. They caused people's quality of life to deteriorate, reducing the role of the state, particularly with regard to social policy. To mitigate discontent, a variety of different measures were put in place, such as the Poverty Reduction Strategies and Popular Participation, a policy that decentralised some functions to local municipal government.

Towards the end of the neo-liberal cycle, per capita income had fallen from the equivalent of US\$1,100 in 1998 to US\$900 in 2002.

Towards the end of the neo-liberal cycle, per capita income had fallen from the equivalent of US\$1,100 in 1998 to US\$900 in 2002. The high poverty rates we endured during that period were a consequence of an unequal distribution of land in rural areas, and little social mobility in urban ones. These in turn were caused by the systematic marginalisation of indigenous peasants and the underlying racism prevalent in our society.

The first measures of change

When Evo Morales became president at the beginning of 2006, most poor people had huge expectations that things were going to improve. The redistributive measures announced through a series of social allowances reinforced such feelings. They include:

- The Bono Juancito Pinto, a grant of about US\$30 per year, given to over 1.8 million students in state primary schools.
- The Renta Dignidad, a pension for everyone over 60 years old of US\$30 a month.
- The Bono Juana Azurduy, which benefits mothers, who receive US\$260 for each child if they go to the doctor every month during pregnancy and attend post-natal check-ups.

Other measures introduced have reduced people's electricity bills, redistributed land to peasants and indigenous populations, and tackled problems of malnutrition.

According to official information from the Ministry of Development Planning, poverty levels in Bolivia have fallen and the country is now classified as a 'middle income country', albeit at the bottom end of the category. According to the ministry, "social allowances have contributed to the radical reduction of extreme poverty, understood in terms of income. Extreme poverty has been reduced from 41.2% in 1996 to 32.7% in 2008". However, the absolute number of people in extreme poverty is still rising; it went up from 3.2 million in 1996 to 3.7 million in 2007.

Attacking poverty

Extreme poverty is not just a consequence of inadequate income to cover basic needs. Lack of opportunities, such as jobs and programmes to support productive initiatives, highlight the need for economic policies that foster employment and productive investment. Public policies are required to reduce the structural barriers that keep most of our people in poverty.

The government has been working on proposals to eradicate extreme poverty, seeking to build on family potential. The approach has five components: **comprehensiveness**, attacking poverty in all its facets and developing multiple skills; **territoriality**, working from a local level upwards; **community management**, based on local and indigenous organization; **impact**, programmes oriented to fighting the causes of poverty; and **transparency and accountability**, with broad social participation at all levels.

The new constitution and the proposal that all should live well (*vivir bien*) enshrine these principles. However, there is still a need for more reflection, consistent policymaking and greater social participation to guarantee real, lasting social change and to promote greater equality.

This article was written for the BIF Bulletin by Roxana Liendo. Roxana has worked for many years in development, and has been in charge of a poverty reduction programme under the Morales government.