



BOLIVIA **INFORMATION** **FORUM**

Bolivia Information Forum Bulletin No. 6, April 2007

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[1] FLOODS: Not just a humanitarian issue

This year (2006-7), erratic and torrential rains began to affect much of Bolivia from December onwards. They caused serious flooding in the Beni and Santa Cruz, as well as the loss of harvests in many Altiplano and valley areas. Rains were particularly heavy from the second half of January to mid-March. The floods are connected to the episodic Pacific current and weather pattern known as El Niño.

El Niño visits Bolivia and the Andean region on a fairly regular basis, but its relative strength varies greatly, as do its physical manifestations. The reference point in recent decades has been the 1982-83 Niño. This brought floods to the eastern lowlands, and an extremely serious drought to the Altiplano and valleys. It practically wiped out people's livelihood assets in rural areas: in some places people are still trying to regain the production levels they had before that Niño. This has been the worst Niño year since the 1982-83 episode. Vice-president Alvaro García Linera confirmed that the initial estimate of the economic damage caused by El Niño at a macro level will be a 1% reduction in GNP this year.

Bolivia's national Civil Defence body (*Defensa Civil*) gives the number of families affected by the floods and/ or by irregular torrential rains/ frost and hail at the end of March 2007 as 98,000. The following breakdown shows which of Bolivia's departments have been worst affected, by numbers of families):

- La Paz: 24,935
- Santa Cruz: 21,803
- Beni: 18,331
- Potosí: 13,139
- Cochabamba: 11,451
- Tarija and Chuquisaca: about 4,000 each
- Oruro: 2,087
- Pando: 250

In Santa Cruz flooding has led to the destruction of crops, particularly soya, but also rice, maize and vegetables. In the Beni the floods made many people temporarily homeless, and cattle were also affected. However it is the country's highland areas which have been worst affected, by torrential rains, hailstorms and frost with loss of potato and other harvests. 2 million hectares have been affected in the highlands, compared with 330,000 in the lowlands. The rains also seriously affected much of Bolivia's vulnerable road system, making relief actions more difficult to carry out.

The government introduced a series of measures to facilitate relief work. Departmental and municipal governments were allowed to divert parts of their budgets to attend to the emergency (This is money received annually from the Treasury and from income from taxes on hydrocarbons). Strictures affecting the bidding for government contracts were somewhat relaxed. In early March, the government declared a state of national disaster, giving priority to those municipalities most affected. One per cent of the national budget was earmarked for emergency and reconstruction work. The government also created a special group, run by the armed forces, to carry out immediate rescue and humanitarian support.

A total of US\$160 million had been earmarked for relief and reconstruction work as of 21st March, coming from a mix of international sources, the national budget and local donations. According to Minister Juan Ramón Quintana, *Defensa Civil* administered 25%

of the resources available for relief work, with international donors administering the remaining 75%.

The situation has been particularly dire for those directly affected, but the issue has also become highly politicised:

- The declaration of a state of national disaster has had repercussions for proposed land reform in the eastern lowlands, where some individual farmers and cattle owners hold vast tracts of land. The agrarian reform process previously under way had required large landowners to show that their land was not lying idle (was fulfilling some *función económica y social*) or risk its confiscation. However, the state of emergency means this requirement will need to be postponed for some time to come, slowing down the reform process.
- Conflicting reports are circulating about the numbers of cattle which have been affected. Some claim that 100,000 head of cattle have been drowned, although cattle owners' organisation Fegabeni gives a lower figure of 22,500 head (0.6% of Bolivia's total cattle population). Meanwhile, Bolivia's vice-president has given a figure of only 150 dead cattle. Why such disparities? An epidemic of foot and mouth in Santa Cruz and the Beni was announced prior to the floods, which may have affected the numbers. However, if the higher totals prove to be accurate, why did farmers keep their animals in low lying areas when they had been warned in advance of the likelihood of exceptional rains?
- Pre-existing tensions between regional and central government The Morales government chose to take a hands-on approach to the emergency, with the President, vice-president and ministers frequently visiting affected areas. It also sought to strengthen the role of municipalities in dealing with the emergency, choosing to provide them with special powers rather than work through departmental/ prefectural heads with whom the government has frequently been in political conflict . In part the government's strategy has been a reaction to the attitudes of opposition figures such as the prefect of the Beni department, who in November effectively demanded *carte blanche* to deal with the coming emergency without reference to central government. When this was not accepted, the prefect ordered members of the Civil Defence delegation to leave the district. The issue has highlighted and exacerbated existing disagreements over regional autonomy. Although the issue is still pending before the Constituent Assembly, some prefects appeared to be taking advantage of the emergency to assume greater powers *de facto*, The government tends to see municipal governments as being more accountable.
- President Hugo Chávez of Venezuela visited Trinidad, the capital of the Beni, bringing aid to those affected. This was the first time a foreign president has visited the town. Local authorities refused to meet with him, though large numbers of the town's population turned out. The Chávez visit coincided with that of George W. Bush to South America.
- Evo Morales' personal distribution of cheques to affected municipalities was questioned by some sectors. However, this is the first time that he has begun to

reach out to the people of the eastern lowlands, where some of his main opposition lies.

The government is now preparing a national reconstruction plan, involving road repairs, employment, housing and development projects. A United Nations mission visiting at the end of March recommended the need to strengthen the country's capacity to prevent disasters and to undertake relief work, especially at the local level and at that of departmental prefectures.

[2] MINING: Re-nationalisation of the Vinto mineral foundry

Marking the anniversary of Oruro, on 9th February 2007 Evo Morales' government sent troops into the nearby Vinto metallurgical complex, to take the country's main foundry back into public ownership. Two days earlier the cabinet had approved Supreme Decree 29026, returning the foundry to the state. The Decree honours Federico Escobar, a miners' leader in the 1950s and 1960s.

Speaking on 9th February in Vinto, Mining Minister Guillermo Dalence said that there would be no compensation to Glencore of Switzerland, Vinto's owners since 2004 since the government was taking back state property which had been illegally transferred to the private sector. President Evo Morales also warned that mines belonging to former president Gonzalo Sánchez de Lozada would be re-nationalised. He also promised to respect jobs at the foundry and invest US\$10 million in it.

Vinto began operations in 1971 as part of the state metallurgical company ENAF (Empresa Nacional de Fundiciones). Bolivia thus began to earn more by processing its minerals locally instead of sending metal concentrates abroad. Although Vinto is primed to cast different metals, such as antimony, it has principally been used for preparing tin ingots for export. It is currently operating at about half its installed capacity (12,000 of a possible 20,000 fine metric tons a year). Though estimates vary widely, it was valued in the 1990s at between US\$54 and US\$140 million.

Privatisation: Vinto's chequered ownership history

Vinto, in common with much of the mining sector, was not privatised during the first waves of adjustment in 1985 and the mid-1990's. Instead it was sold off during the Banzer government (1997-2001). The delay was due both to initial resistance from the workers and the very low prices of most minerals, particularly tin, throughout this period. In December 1999, Vinto was privatised and sold to an Anglo-Indian firm, Allied Deals (which also bought the tin mine Huanuni). This firm passed its holdings to RBG, another UK-based company, which then went bankrupt. Vinto ended up in the hands of agents Grant Thornton. According to the original agreement, Huanuni and Vinto should then have returned to state administration through COMIBOL (Corporación Minera de Bolivia).

In fact, Vinto was sold in 2002 to COMSUR, Sánchez de Lozada's mining company. At the time, Sánchez de Lozada had just been elected president of Bolivia. Although

detailed information is hard to come by, and much of the paperwork surrounding the various transactions to which Vinto was subject has apparently been misplaced, press reports say that COMSUR paid Grant Thornton US\$6 million for the foundry.

At the end of 1999, Allied Deals bought the complex for US\$14.7 million from the Bolivian state, at a time when its immediate assets had been valued at US\$16 million. The government's argument now is that the handling of the 1999 sale was illegal and that the contract was never approved by Congress. It would appear that the state lost out badly, since the payment made did not reflect the foundry's real value (US\$140 million). The government points out that Glencore International, which acquired Vinto in January 2004 as part of a package Sánchez de Lozada sold off after being forced to leave the presidency, has made no subsequent investment. Nor has it carried out any major maintenance: two of the big foundry ovens lie unused, and the antimony oven is no longer operating.

The value of Vinto is of course related to the price of tin. In February this reached US\$6.19 per fine pound, its highest since 1980. Price rises are due to strong world demand for tin, boosted by strong demand in China and India, combined with the fact that Bolivia's main competitors: Malaysia and Indonesia, no longer produce ingots but products of higher value. Higher prices have led to minerals again playing a greater part in Bolivia's overall export figures [see *Economy article in this bulletin*], and figures for first two months of 2007 show a 69% increase over the same months last year.

Most recent owner Glencore International is affiliated with Bolivian firm Sinchi Wayra. After Glencore-Sinchi Wayra bought up COMSUR from Sanchez de Lozada, they inherited Vinto as part of the package. Other properties acquired by them at the same time included three important mines, Bolívar, Colquiri and Porco. These were operated in either joint ventures or leasing agreements with COMIBOL (According to newspaper *La Prensa*, Glencore/ Sinchi Wayra was Bolivia's largest mineral exporter in 2006. It exported minerals - zinc, silver, lead, tin - to the value of US\$503 million, representing 60% of all the country's mineral exports for 2006).

What re-nationalisation will mean

Glencore's initial reaction to the February 2007 takeover of Vinto has been to issue a sharply-worded note opposing the violation of private property and demanding compensation. It said that it would begin arbitration procedures if no compensation is offered. (Bolivia and Switzerland signed a bilateral investment protection agreement in 1991. This provides the legal framework for handling disputes, and Switzerland has given Bolivia twelve months to enter into dialogue.)

Vinto has been weakened by lack of investment over the years, and today much of Bolivia's tin is once again processed abroad. The return of the foundry, and of the key tin mine at Huanuni, to state control represent an opportunity for the public sector to seek to restore the fortunes of the mining sector, taking advantage of strong international demand and the high prices that come with it.

[3] Inequality: UNDP figures show Bolivia is region's most unequal country

Statistics on inequality, based on household surveys, are notoriously inaccurate. However, there is nothing ambiguous about Bolivia's relative position in the latest Human Development Report from the United Nations Development Program (UNDP). Whether inequality is measured by the Gini coefficient or by the ratio of income of the 10% poorest to the 10% richest households, Bolivia's inequality levels are the highest in Latin America by a sizeable margin.

These figures are from the 2006 UNDP report, which uses data from 2003:

<u>Country</u>	<u>Gini coefficient</u>	<u>10% Richest/Poorest</u>
Bolivia	60.1	168.1
Colombia	58.6	63.8
Brazil	58.0	57.8
Paraguay	57.8	73.4
Chile	57.1	40.6
Peru	54.6	40.5
Costa Rica	49.9	30.0
Mexico	49.5	24.6
Uruguay	44.9	17.9
Venezuela	44.1	20.4

Source UNDP Human Development Report, 2006.

Latin America, overall, is the most unequal region of the world, and Bolivia leads the pack. There are many reasons why inequality (expressed in terms of income) is so pronounced and so persistent in Latin America. One of the most important factors is the distribution of assets. In most countries of the region, this distribution has become more unequal in the last thirty years, due in large measure to the policies of privatisation and market opening.

Bolivia underwent a radical privatisation process in the 1990s. It is, of course, much harder to measure inequalities in asset holding than in income. But it is logical to suppose that privatising what used to be in public ownership is likely to increase asset concentration in the hands of a small group.

In tackling inequalities, organisations like the World Bank tend to shy away from distributive policies designed to make asset ownership more equal. Strategies like agrarian reform no longer find favour. Nor do policies like using the tax system to iron out inequalities: taxes have become less progressive rather than more so in the last 20 years.

International financial institutions, meanwhile, prefer to put emphasis on measures such as improving educational opportunities. Although improved education in countries like Bolivia is important in providing ladders of social mobility, it is no substitute for the redistribution of assets. This is, of course, not something which the asset-rich want to hear. Although Evo Morales' plans for land redistribution in lowland Bolivia have yet to

have much effect, land reform is a step in the right direction in reducing social inequalities. Progressive taxation is also an important way of redistributing income.

[4] MIGRATION: The last-minute rush for visa-free entry into Europe

Villa Arbolitos is a small community of 45 families, part of the Ayllu Secoya in the Norte Potosí provinces where Quechua-speaking *campesinos* grow potatoes and some barley. The community's relative proximity to the mining town of Llallagua has meant that for generations men have left the community during long periods to work in the mines. People are also forced to go further afield to complement their meagre income from subsistence farming. Temporary migration would take community members to the towns to work as bricklayers and construction workers; to the Chapare region to help with harvesting or 'treading' coca; to the department of Santa Cruz to work on the harvests; or to neighbouring Argentina to provide temporary labour in construction, agricultural harvests, etc. These days, however, four young people from Villa Arbolitos are working in Spain. Three of them, young women, are providing domestic care for older people or children, while one young man is working as a shepherd.

Bolivian migration patterns

While it has long been common for people from Peru, Ecuador and the Dominican Republic to migrate to Spain, this is a fairly recent phenomenon so far as Bolivia is concerned. Only in the last three years or so have large numbers of people begun to travel as far as Europe. Argentina had traditionally been the main destination for both temporary and permanent migrants: in the 1950-60s Bolivians used to work the sugar and tobacco harvests in Northern Argentina. In the 1980s they harvested grapes in Mendoza, while today they tend to work in vegetable growing, the textile industry, construction and in informal commerce. More than a million Bolivians are estimated to be living in Buenos Aires.

According to the Spanish statistics office (INE), at the beginning of 2006 there were just over 4 million foreigners living in the country (9.3% of the population), of which just under 140,000 were Bolivians; those officially registered in 2006 had increased over the previous year by nearly 42,000. However, analyses which try to include an estimate of the numbers of people without official residence or work papers suggest there may be closer to 400,000 Bolivians living in Spain. Bolivians in Spain work primarily in construction and agriculture, in manufacturing, commerce, looking after children/ the elderly, and in restaurants/ hotels.

All told, there are some 3 million Bolivians living overseas, compared with a population of 9 million in Bolivia itself. One of the priorities for migrants has always been to send back money to their families at home. The contribution to the Bolivian economy of remittances has increased over the last ten years. Remittances in 1997 accounted for 0.5% of GDP, whilst by 2006 this figure had increased to 4.7%.

2007's visa deadline

As of April 1, 2007, Bolivians have required visas to enter Spain. The new restrictions affect Bolivians travelling to Spain and the other 12 European countries in the Schengen Group. Travel to Norway and Iceland has also been restricted. Europe may therefore become more difficult to enter than the United States. In addition to the requirement to obtain a visa, Bolivians wishing to travel to Europe will be obliged to purchase health insurance, show return tickets and give evidence of sufficient resources for their stay. (Although the United Kingdom is not part of the Schengen Agreement, Bolivians are already subject to a similar series of procedures to be allowed entry.)

During March 2007 migration therefore reached fever pitch, as people tried to beat the deadline and travel to Spain visa-free. Airlines Aerosur and Lloyd Aéreo Boliviano (LAB) increased the number of their flights to Madrid, reaching a daily frequency by the end of the month. Passengers unable to find seats bought tickets on different routes, via Sao Paulo, Buenos Aires, Santiago and Caracas. Costs soared, with travellers offering up to \$4,000 for a ticket worth \$1,200-1,500. One enterprising group bought tickets to travel on the cruise ship Sinfonia, due to sail from Brazil to Spain and Italy. Between 3,000-5,000 Bolivians arrived in Spain each week during March.

Bolivian media reports showed scenes of Bolivian families being reunited in Spain; but also of hundreds of new arrivals being turned away every day. These included the ill-fated cruise ship party. To make matters worse, travel agencies and airlines in Bolivia were not only promoting 'now-or-never' trips but some were also swindling clients. Three employees of LAB were detained for overselling tickets and pocketing the money. This led to the Transport Regulation body (Superintendencia de Transportes) prohibiting LAB from selling tickets for national and international flights, a move that may break the back of this ailing flagship airline. Passengers left stranded in Santa Cruz and Cochabamba airports angrily demanded their money back.

Faced with poverty and few work opportunities locally, people are seeking work ever further afield in an increasingly globalised world, particularly in countries where pay is so much better. Though Bolivia may benefit from remittances from its nationals living abroad, there are serious implications in terms of the 'brain drain' and the migration of semi-skilled workers. Indeed there have been reports lately of a shortage of labour for construction work in Bolivia itself.

[5] Government Implements Direct Payment Programme for Schoolchildren

by Hugh O'Shaughnessy

Evo Morales has done himself a very good turn with his *Bono Juancito Pinto* scheme for schoolchildren in years one to five, as I discovered on a recent trip to Cochabamba and La Paz. Every child who is on the register of a school has the right to 200 bolivianos (£13.60) a year for his or her personal use. It cost the state some £65 million which

came from the increased payments the government negotiated last year from the oil and gas companies.

The ten needy old people whom I visited at a literacy class in a suburb of La Paz expressed delight at the payment which allowed the young people to buy whatever they wanted. Their main preference, the elderly students said, was for shoes and clothes.

The 200 bolivianos which were given out to some 1.2 million youngsters in 490,000 schools are a month's salary for some poorer Bolivians. It is a sign that the much increased gas and oil revenues are promising better days for Bolivia. They are already putting the foreign trade account and the fiscal balance into the black.

The Bono, or payment, is named after a 12 year old drummer boy in the army during the War of the Pacific with Chile in the late 19th century when Bolivia lost its sea coast to its southern neighbour and became landlocked. His drum was destroyed but he picked up a musket and fought the invading Chileans till he was killed.

The initial payment was an immediate illustration of the benefits of what the government called its nationalisation of the companies. The cash was distributed around the country by the three branches of the armed forces and seems to have been carried out with exemplary efficiency. "They were the only institution in the country capable of carrying out such a task", the finance minister Luis Alberto Arce remarked to me. I later discovered from a former minister that there was one contretemps when a nun was found to have plotted with a captain to make off with some of the cash. "But we caught them", he added with a grin. In his report to Congress in January on 2006 the President said that the distribution process had discovered 90 "ghost schools" which were not on the books of the education ministry. "We've really got to know how many schools we've got in the country," Morales said.

The Bono is to be a regular payment, the cash next time probably coming from the new revenues flowing from the takeover of the Vinto metal smelting complex, according to Minister Arce [*see feature in this bulletin*]. The Bono scheme has meanwhile prompted the appearance of 'Juancito Pinto', a lively new magazine for the youngsters whose first number contained pieces on topics ranging from the five senses to the work of Gabriel García Márquez.

Politically the scheme is very astute. It keeps the question of the country's landlocked status, about which Bolivian diplomats keep up a constant campaign, in the minds of the young. By giving the armed forces the job of distributing the cash the government demonstrates it wants to bring them into activity useful for the public at large. In such a way the President seeks to neutralise any anti-government sentiment in army ranks such as brought down many civilian governments in the past.

It also underlines the efforts Morales is making to bind them to society and more particularly to the indigenous peoples who, as the poorest in society, are the prime beneficiaries of the Bono.

[6] ECONOMY: Bolivian balance of payments achieves record surplus

Bolivia, like other countries in Latin America, has been able to cash in on the rise in commodity prices in recent years. But it has also managed to increase the volume of goods it sells abroad. The most recent statistics underline the export boom which is helping to generate both unusually high rates of growth and increases in tax revenues. Four main factors have boosted Bolivia's balance of payments which, in 2006, achieved an overall surplus of US\$1.5 billion (or 14.5% of GDP):

1. **Exports**. Exports in 2006 totalled US\$3.86 billion. This compares with just US\$1.6 billion in 2003. Exports last year were nearly 40% up on 2005. The fastest growing area of the export economy has been extractive minerals, but other non-traditional exports have also increased. Mining exports totalled US\$1.1 billion in 2006 (twice the level in 2005), while natural gas exports hit US\$1.67 billion (mainly to Brazil). Imports increased in 2006, but not nearly as fast as exports. The trade surplus hit a record US\$1.05 billion
2. **Remittances**. These are the funds which Bolivians living abroad send back to friends and family in Bolivia. The Central Bank estimates that remittances rose from the equivalent of 2.8% of GDP in 2005 to 4.7% of GDP last year. Most of this money comes from Spain and the United States, where most Bolivian migrants have settled.
3. **Foreign Investment**. Although foreign investment flows have fallen sharply in recent years, in 2006 they picked up somewhat, with inflows equivalent to 2.2% of GDP. In 2005, a year of particular instability and uncertainty, there was a net outflow of investment from Bolivia. Much of the new investment appears to have been in the mining sector of the economy.
4. **Debt relief**. Bolivia in the last year has benefited from multilateral debt relief, in particular from the IMF (US\$233 million) and the World Bank (US\$1.5 billion). This year it stands to benefit further, with the write-off of loans to the Inter-American Development Bank (just over US\$1 billion).

This year's trends. Like 2006, 2007 looks like being a good year for the Bolivian economy.

- The prices of minerals are likely to remain fairly high again this year, and Bolivia will benefit from the recent deal that raises the prices payable by Brazil for at least a part of the gas supplied.
- There should be some further increase in foreign investment, following the signing of an agreement with Argentina to build a pipeline there and the signing of new contracts with foreign investors in the gas sector (See BIF Bulletin No 4).
- There are signs that the US Congress may be prepared to extend the Andean Trade Preferences and Drug Eradication Act (ATPDEA) for a further period, safeguarding an important market for Bolivian non-traditional exports.