

Extreme Poverty: Vulnerability and Coping Strategies Among Indigenous Peoples in Rural Bolivia

Chapter I

*If the misery of our poor be caused not by the laws of nature,
but by our institutions, great is our sin.*
Charles Darwin¹

Introduction

1.1 Background and problem setting

Poverty reduction is a key policy target for many Latin American governments. Nevertheless, empirical evidence shows that the well-being of urban, but especially of the rural population in developing Latin American countries has not improved substantially in the last thirty years. In many countries (e.g. Brazil, Peru, Ecuador, Panama, Colombia and Bolivia), there has been growing social exclusion, extreme poverty, inequality and marginalisation of large parts of the population, most of them indigenous. This is especially true in the case of Bolivia. The economic perspectives of many Latin American countries (LAC) show that growth rates for the coming years will not permit acceleration in the fulfillment of the Millennium Development Goals (MDGs).

Bolivia is a landlocked country, located in the centre of Latin America, and one of the least developed in South America. Almost two-thirds of its people, many of whom are subsistence farmers live in poverty. The country is one of only three countries in Latin America whose largest population segment is comprised of indigenous population, the other two being Guatemala and Peru (ECLAC, World Bank and UNDP). The country suffers from high levels of poverty in urban areas and extreme and acute poverty in rural areas and rising inequality in spite of her enormous wealth of natural resources. As argued by Feiring. (2003), despite there being little or no disaggregated data for indigenous women and men in Latin America, it can easily be concluded that indigenous peoples are disproportionately represented among the poor. As a result, extreme poverty in most of Latin American countries is still more a rural than urban phenomena (Lopez and Valdes, 2000).

¹ In The Voyage of The Beagle, Chapter XXI.

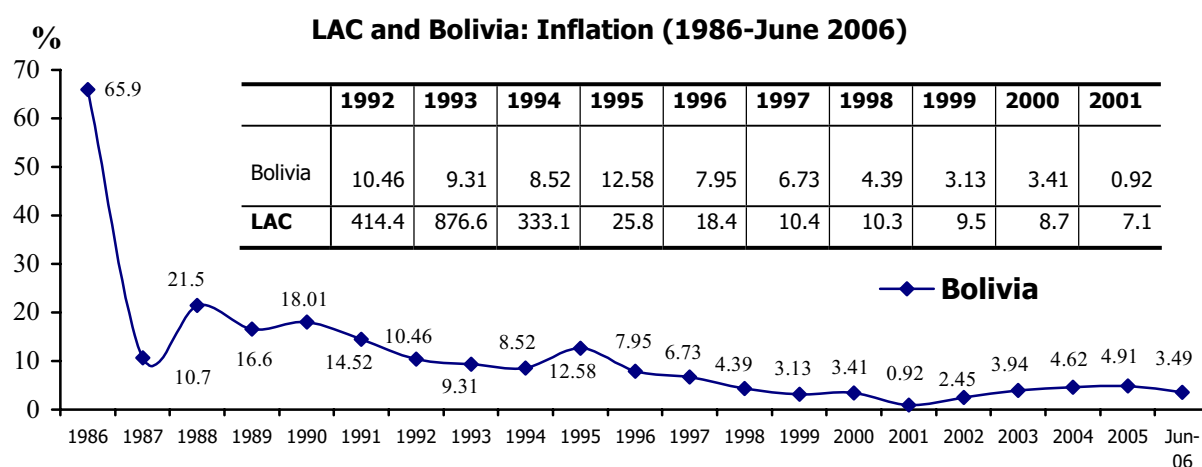
In the case of Bolivia most the analysis on poverty has a strong urban orientation. As argued by Lopez and Valdes (2000), the urban orientation of poverty analysis in Latin America leaves a big gap in understanding the nature and magnitude of rural poverty. The heterogeneity of the region’s rural poor – in education, per capita income, access to services, and security of land tenure – makes this gap a big detriment when designing a strategy to alleviate rural poverty. Therefore, a clear understanding of socioeconomic status of the indigenous rural poor is crucial for designing and implementing effective programmes and policies that promote equitable development.

1.2 Statement of the problem

1.2.1 Economic policy reforms in Bolivia

In the 1980s many least developed countries, including Bolivia, introduced successfully stabilisation programmes (SP), followed by structural adjustment programmes (SAP) to address long-term economic and social problems. Therefore, Bolivia experienced important economic, political and social changes during the 90s following major structural reforms in the latter half of the 80s. Bolivia has managed to leave behind the instability of the first half of the 1980s. After registering an inflation rate of 28.000 per cent in 1982, the country has been able to maintain, for the last 20 years, one of the lowest average levels of inflation in Latin America (see Figure 1.1).

Figure 1.1



Source: ECLAC - INE - BCB

A democratic government was established in Bolivia in 1982 and the country subsequently suffered hyper-inflation at a rate over 8,000 per cent till 1985 when the structural reform process began together with a new economic policy. The complex change of the Bolivian economy with the structural tendencies that began during the 1980s also included a comprehensive set of first generation of SAP with democratic and market-oriented reforms in an effort to redress the negative trends in a number of economic indicators. These reforms redefined the role of the government and turned the economy market-oriented in order to generate greater domestic competitiveness and open of the economy to attract of international capital.

Macroeconomic stabilisation was accompanied by market reforms to increase private sector participation, align prices with market forces and increase the integration to the global economy, as well as by important political reforms to strengthen the democratic process. As part of the Heavily Indebted Poor Countries (HIPC) Initiative in 2000-2001 the country developed its national Poverty Reduction Strategy with broad participation of different sectors and donors (see Gasparini, et al., 2004)

After confronting periods of recession due to the crisis of the 1980s, in the 1990s Bolivia managed to achieve positive economic growth. It even was one of the few South American countries to sustain a positive economic expansion during the crisis that affected the continent in 1999. In the past 20 years, Bolivia has introduced major structural reforms and institutional changes that have promoted stability, led to economic recovery and brought about conditions conducive to promoting economic growth in the country (Figure 1.2).

Market liberalisation began with government deregulation of domestic prices to enhance the transparency of operations carried out by economic agents involved in the goods and services market. On the labour market side, flexibility was enhanced by deregulating hiring and by consolidating special bonuses into the basic wage. In this way, prices regained their capacity to send adequate signals to economic agents.

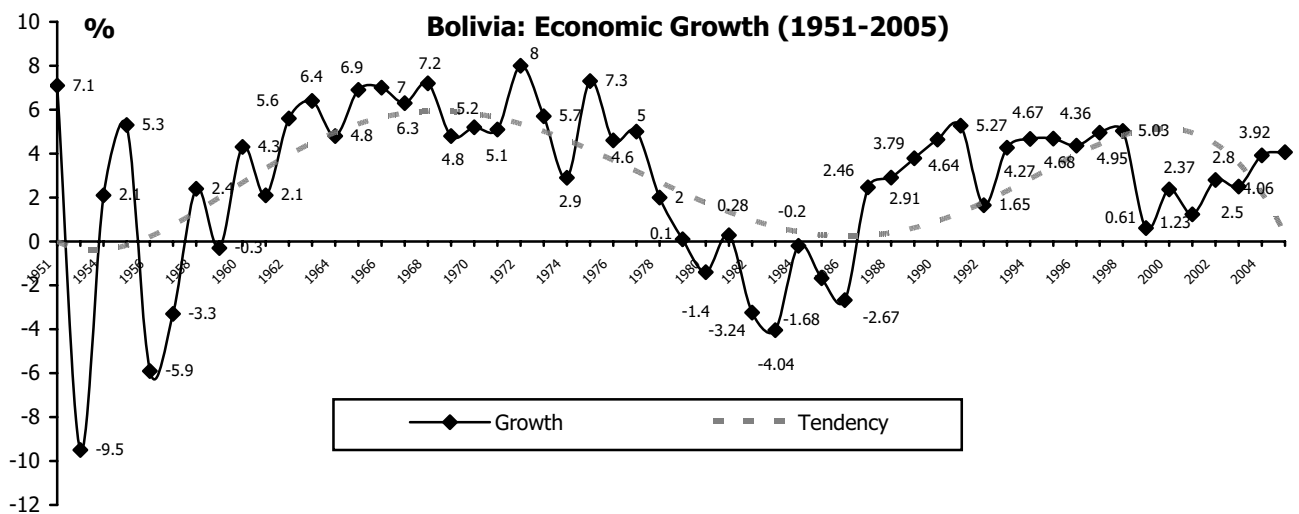
Opening the economy to foreign trade made it possible to reduce the production cost of tradable products. Customs tariff dispersion was eliminated, quasi-tariff barriers were reduced, and a tariff system featuring low, uniform rates was adopted. Exchange policy consisted of establishing a real, single and flexible exchange rate through mini-devaluations (crawling peg). A competitive real exchange rate was maintained through ongoing depreciation of the nominal exchange rate and low domestic inflation levels.

To promote exports, and particularly non-traditional ones, mixed institutions were established. Measures such as drawback certificates and customs drawbacks were implemented. These measures increased exports of non-traditional goods and imports of capital goods. The elimination of quantitative restrictions and tariff reduction led to improved expectations in the tradable sector.

The commitment of Bolivia's successive governments of the last twenty years to the free market economic system, following the trauma of hyperinflation in the early 1980s, has created conditions that have led to a period of steady economic growth specially in the 90s (Figure 1.2). This growth has been largely non-inflationary, thanks to the Central Bolivian Bank's (BCB) strict control of money supply growth.

Van Dijck (1998) shows, using time series analyses from the late 1940s to the early 1990s, that Bolivia was on a slow and volatile growth path during most of the period compared with the average performance of the Latin American economies. He also found that the level of gross domestic product (GDP) per capita in Bolivia stagnated in real terms between 1950 and 1990 despite the crisis of the 1980s while it nearly doubled in the rest of Latin America on an average, despite de crisis of the 1980s. External factors including deteriorating terms of trade and lack of dynamism in international demand for Bolivia's export commodities contributed to the weak overall growth performance of the country. According to van Dijck, major factors on the supply side which hampered growth are the low educational and skill level of the population, physical barriers and lack of access to the sea which increases the production costs. Policy failures and inconsistencies as reflected by the rate of inflation had a significant negative impact on overall economic growth.

Figure 1.2



Source: Author's calculations from World Bank data

As argued by van Dijck (2000), the Bolivian experiment was undoubtedly highly successful in the very short term at putting an end to political turmoil and economic destabilisation and decline. Nevertheless, he found that the impact of the new policies on private investment, overall economic growth and poverty alleviation was rather limited, particularly during the early stages; and results are still disappointing. This has raised serious questions about the appropriateness and adequacy of the neo-liberal agenda, while the extremely low overall level of welfare and widespread poverty in the country create an urgent need to intensify and redirect policy reform.

1.2.2 Social impact of the policy reforms and implications

Growth is a prerequisite for overcoming poverty and reversing inequality, but the rate of economic growth during the 80s in Bolivia has been disappointing, and their distribution has been uneven across the population. In the 90s the Bolivian economy expanded at an average annual rate of 4.4 per cent (Figure 1.2), but decelerated to an average rate of only 1.7% during 1999-2002 in the face of external and internal shocks. The country has achieved considerable improvements in living conditions, particularly in education, health and other social indicators; although yet insufficient to meet many of the MDGs (see L. Gasparini, et al., 2004).

In particular, progress in reducing income poverty during the 90s was very limited and has been partially reversed with the economic stagnation that set in after 1999. Bolivia continues to be one of the poorest countries in the region. Inequality remains among the highest in the region according international standards and is a key factor for the very small impact of growth on poverty. The Gini coefficient for the distribution of household per capita income in 2002 was close to 0.62, making Bolivia one of the most unequal economies in Latin America, and in the world (World Bank, 2005).

Also, in spite of the important successes achieved through economic reform and liberalisation, Bolivia has not been able to make significant progress in reducing poverty, which today affects 63 per cent of the population. Progress has been achieved by Bolivia in terms of raising the Human Development Index (HDI) (Table 1.1), but this level remains below expectations given the GDP per capita of the country.

Figure 1.3

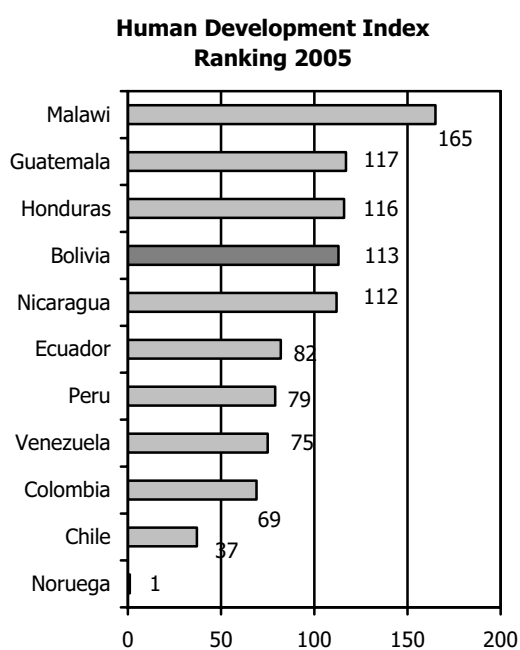


Table 1.1

Trend in Human Development Index (HDI)

	Norway	Chile	Venezuela	Peru	Ecuador	Bolivia	Guatemala
1975	0.868	0.704	0.718	0.643	0.630	0.512	0.512
1980	0.888	0.739	0.732	0.674	0.674	0.549	0.546
1985	0.898	0.763	0.740	0.698	0.698	0.580	0.562
1990	0.912	0.785	0.759	0.707	0.715	0.604	0.586
1995	0.936	0.816	0.767	0.734	0.730	0.636	0.617
2000	0.956	0.843	0.772	.....	.....	0.672	0.650
2003	0.963	0.854	0.772	0.762	0.759	0.687	0.663

Source: UNDP, 2006

Poverty in Bolivia is high and widespread. Although the proportion of people below the poverty line had been declining and poverty indicators have improved compared with the situation 20 years ago, the trends in poverty reduction have recently worsened. The average levels of access to basic services are far below those observed in other parts of Latin America.

At present, Bolivia occupies the 113th position on the HDI, (Table 1.2 and Figure 1.3) published by the United Nations and has a per capita GNI of US\$ 900 (Table 1.2), which is the lowest in South America.

Table 1.2
Basic country data

Poverty and social indicators (2003)	Bolivia	Guatemala	Honduras	Nicaragua	LAC¹	MIC²
Population, mid-year (millions)	8.8	12.3	7	5.5	533	2,655
GNI per capita (Atlas method, US\$)	900	1,910	970	740	3,280	1,490
GNI (Atlas method, US\$ billion)	7.9	23.5	6.8	4.1	1,747	3,944
Average annual growth, 1997-03						
Population (%)	2	2.6	2.6	2.6	1.4	0.9
Labour force (%)	2.4	3.4	3.1	3.3	2.1	1.2
Most recent estimate (latest year available, 1997-03)						
Poverty (% of population below national poverty line)	63	56	.....	48	.....	.....
Urban population (% of total population)	64	41	56	57	77	50
Life expectancy at birth (years)	64	66	66	69	71	69
Infant mortality (per 1,000 live births)	53	35	32	30	28	31
Child malnutrition (% of children under 5)	8	23	17	10	.....	11
Access to an improved water source (% of population)	85	95	90	81	89	82
Literacy (% of population age 15+)	87	70	80	77	89	90
Gross primary enrollment (% of school-age population)	115	106	106	108	123	114
Male	116	110	105	109	126	115
Female	115	102	107	108	122	112

Source: UNDP, 2006

Notes: 1. LAC = Latin America and Caribbean.

2. MIC = Middle income countries.

Over the past decade Bolivia has been one of the most reform-oriented countries in Latin America. Twenty years of democracy and more than 20 years of SAP have laid a foundation for economic stability. Despite some progress, poverty remains more widespread than in most other Latin American countries. The SAP has not paved the way for the reduction of inequality and social exclusion in the country, nor has satisfactory progress been made in the fight against poverty.