

USAID/BOLIVIA ALTERNATIVE DEVELOPMENT STRATEGY



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1991

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I. ECONOMIC BACKGROUND

Until 1990 when net reduction was achieved for the first time, Bolivian coca production had increased consistently since the late 1970s. A series of factors contributed to the expansion of Bolivia's coca-cocaine industry. In 1980, under the unconstitutional Garcia Meza military regime, the coca-cocaine situation worsened dramatically as this illicit trade penetrated into the highest levels of government. By 1985, the economic situation was chaotic; GDP had declined for three straight years with virtually all sectors of the economy showing declines.

Although the government adopted numerous economic reforms in an effort to mount a recovery program, they proved to be isolated and ineffective attempts which prompted strong union pressure and general popular resistance. The net effect of this situation was to exacerbate the nation's economic difficulties, resulting in a twenty-fold increase in the 1984-85 public sector deficit, and an inflation rate of over 20,000 percent between August 1984 and August 1985. Other negative factors were the 1983/84 natural disasters caused by "El Niño", drought and floods. These calamities caused tremendous losses and stimulated major political discontent at the GOB's inability to respond adequately.

In 1985, a new Paz-Estenssoro MNR Government implemented drastic measures to restore public confidence and bring about economic stabilization. Among these measures were the restructuring and decentralization of Bolivia's main state enterprises (the state mining enterprise and the state petroleum company) which resulted in the dismissal of thousands of workers. The collapse of tin markets, the closure of many of Bolivia's unproductive tin mines and reduced earnings from natural gas, exacerbated an already serious unemployment problem, providing a ready workforce for the expanding coca industry.

The Bolivian coca industry includes both production for licit domestic consumption of unprocessed leaf (estimated at perhaps one-fifth of Bolivia's total production), and cultivation of coca leaf--which in most instances does not per se violate the law--but which is destined for illegal purchase for use in illegal cocaine production, processing and marketing. Illegal cocaine production and export has been an extremely profitable activity which generates significant levels of foreign exchange, income, and employment for Bolivia. Export proceeds account for approximately 60 percent of total legal exports. The coca-cocaine business represents about 12 percent of the GDP and it provides employment (direct and indirect) to approximately 350,000 people, about 12 percent of total employment. However, while it has helped alleviate the foreign exchange shortfall, and provided an outlet for Bolivians seeking jobs, coca has distorted Bolivia's economic structure.

The cocaine economy has also threatened democratic stability, increased corruption, increased drug consumption and overall moral deterioration. It has also destroyed family and individual values. Other negative effects caused by such an economy are: deterioration of law and order in coca growing regions, damage to U.S. - Bolivian relations, and damage to Bolivia's position in the international community. The illegal cocaine industry has clearly taken an economic toll including the following serious consequences: 1) distortion of the price structure through the appreciation of the exchange rate, 2) making the economy greatly dependent on illegal cocaine production for its stabilization and reactivation processes, and 3) diverting resources which otherwise would go to legal and productive activities.

The "Coca Boom" is the latest in a succession of one-product "Booms" in Bolivian economic history which provide employment and income for a short period, but which then leave the country more impoverished than before. "Boom and Bust" cycles based on single commodities have plagued Bolivia's economy since colonial times.

In 1985 the Paz Estenssoro Government courageously undertook drastic measures to restore public confidence and to bring about economic stabilization policies which have since proven successful. In order to achieve the objective of full economic recovery, however, there remain substantial challenges: 1) finding new sources of foreign exchange, 2) increasing income and employment, 3) maintaining support for a fragile democracy, 4) strengthening human resources and institutional capacities, and 5) developing the country's infrastructure base in order to foster increased agricultural production, exports, import substitution, and other components of private sector led growth.

II. EVOLUTION OF THE ALTERNATIVE DEVELOPMENT STRATEGY

The search for the means to combat the illegal cocaine industry in Bolivia has gone through an evolution which can be summarized as follows:

-- Initial USG efforts were aimed at encouraging Bolivia to eliminate all coca production. Since enactment of the Bolivian coca and controlled substances law of 1988 (law 1008), the USG has supported a Bolivian Government program based upon phased total elimination of coca legally grown in the Chapare (the main source of coca destined for illegal processing of cocaine). This has been executed through voluntary, compensated eradication supplemented by reduction of cultivation in a defined "Traditional" area which produces in excess of licit domestic demand (conventionally accepted as about 10-12,000 hectares). (Coca cultivation outside these two zones has been illegal since the coca control law took effect, and is estimated to be of relatively small significance).

-- Subsequent programs were initiated to develop alternative crops to coca in the Chapare Region. The goal of the program was to gradually substitute coca with other economically viable crops.

Several lessons were learned from the second stage: 1) no crop could compete with coca's prices, markets, and added value, unless prices paid to primary producers of coca leaf were driven down by effective law enforcement, 2) successful technical assistance cannot be effectively provided, or received by target populations until such law enforcement takes place, and 3) it was critical that viable economic opportunities be available outside of the Chapare for labor presently employed in the coca sector, (particularly non-landowning labor), along with alternative agricultural inputs to coca growers remaining on the land.

-- As a result of lessons learned, the scope was broadened to support Alternative Development in areas outside of the Chapare (i.e. Associated High Valleys) which export labor to the Chapare, at the same time, project activities continued in the Chapare region to support the Bolivian Government's agricultural research, extension and credit programs in that area.

-- Currently, USAID's strategy is to continue with economically viable interventions in the Chapare, in the Associated labor-surplus High Valleys, as well as in areas with growth potential, but in conjunction with a broader and more concerted program as described below.

III. THE CURRENT ALTERNATIVE DEVELOPMENT STRATEGY

Stated simply, Alternative Development is the progressive transformation of the Bolivian economy from reliance on illegal cocaine production to a diversified, sustainable and growing economy that does not depend on cocaine. The strategy to accomplish this end will be achieved through the following activities toward which most of USAID/Bolivia's resources are directed:

-- Replacing lost foreign exchange earnings, income and employment provided by the illegal cocaine industry, and promoting equitable economic opportunities for men and women who have worked or are likely to work in that industry, and for Bolivians in general.

-- Our economic assistance package beginning in FY 1991 is designed to spur sustained economic growth, diversify Bolivia's export base to increase foreign exchange earnings, create jobs necessary to attract people from illicit cocaine production, and meet the basic needs of Bolivia's poorest population. Our resources and efforts, in conjunction with the GOB and the donor community, must create the conditions for sustained growth that will permit the transition from a cocaine led economy to one with a stable, legitimate, and diversified economic base.

-- The Mission's strategy is based on the premise that continuing, strong demonstration of GOB political commitment to effective counternarcotics law enforcement is essential to keep coca prices sufficiently depressed so that alternatives are attractive to growers. Only under such conditions will the economic activities under the alternative development program succeed in drawing people away from illegal cocaine production and prevent further migration to the Chapare region.

The Mission hopes to accomplish the following short-term operational objectives in pursuit of our strategy:

-- Compensate for foreign exchange losses, assist the GOB in maintaining economic stabilization and reactivation of the economy;

-- Generate jobs/employment opportunities for those actually or potentially engaging in coca cultivation or its illegal processing, support GOB narcotics awareness/prevention efforts, combat domestic abuse and build political support for counternarcotics objectives, and strengthen incentives for private sector investment that will allow the expansion of income and employment opportunities.

The range of target groups for USG assistance has been expanded in order to meet the primary objectives. In addition to activities which will affect men and women directly involved in coca cultivation and illegal cocaine processing, programs will serve the chronically and seasonally unemployed, as well as the underemployed populations which are potential sources of replacement labor. Additionally, efforts will be made to attract domestic entrepreneurs and international investors to Bolivia, with an emphasis on increasing exports. The strategy calls for continued agricultural research, extension, credit, marketing and infrastructure activities in the Chapare and adjacent high valleys. In addition, balance of payments support assistance, rural roads, electrification, export promotion and micro enterprise development activities will be executed there and throughout the country. Social and productive infrastructure will be expanded in coordination with other donors to make these regions economically attractive for alternative economic activities as law enforcement continues to depress the illegal market for coca.

The country team has arrived at a consensus on a successor activity to the current Chapare Regional Development Project which will be implemented in the Cochabamba department and adjacent areas of influence beginning in FY 1991. AID is concentrating its attention on the population of this geographic area because of their low incomes and consequent propensity toward provisioning labor to the coca industry.

Specific beneficiaries will be identified during the course of project development. In addition to current coca growing areas, special emphasis will be given to those who are engaged in lowest levels of the coca economy and are vulnerable to seeking employment in cocaine production. Short term employment opportunities will be generated with the view towards a transition to more permanent employment (jobs/vocational training). The project will emphasize income generation by strengthening market linkages in Santa Cruz and other potential domestic growth poles and export markets.

IV. THE GOB'S ALTERNATIVE DEVELOPMENT PROGRAM

The GOB's alternative development strategy was prepared by the executive directorate of the Ministerial National Council on Illicit Drug Trafficking and Abuse (CONALID), and is premised on: 1) recognition of the long-run distortions to Bolivia's economy and democratic system caused by dependency on cocaine production and export, and 2) recognition that any alternative development program has to be based upon conditions that can only be created by law enforcement and other efforts envisioned under the Cartagena agreements. The GOB's program contemplates phased, voluntary, compensated eradication of all legally-grown coca crops currently used for illicit cocaine production within a six-year period. It also includes continued enforcement of laws prohibiting coca cultivation in additional areas.

The strategy calls for an integrated program to replace the "coca" economy within the stated six years to compensate the social and economic costs of eliminating legal excess coca cultivation, and to promote the structural changes that are necessary to avoid foreign exchange losses resulting from elimination of the cocaine agro-industry.

MORE SPECIFICALLY, THE GOB'S STRATEGY SEEKS TO:

- Replace all economic activity related to the production of refined coca products for export or domestic abuse,
- Achieve a net rate of GDP growth (greater than the growth rate of the population),
- Initiate the decentralization of the state administrative and political apparatus to achieve greater efficiency,
- Improve the quality of life of the population by improving levels of nutrition, health, education and housing; raise the level of public investment with major emphasis on the provision of basic infrastructure; foster participation of the private sector in the management and control of productive activities and of some public enterprises, and raise the level and quality of employment.

The GOB's implementation plans call for activities aimed at: 1) compensating the population displaced from illegal cocaine production with short-term employment projects which support long-term infrastructure needs and other socially oriented goals; 2) generating investment oriented toward the diversification of the productive sector with priority given to projects that promote export capacity and/or agricultural growth, and 3) increasing balance of payments support to facilitate transition from a cocaine-dependent economy to a non-cocaine economy.

V. THE ROLE OF OTHER DONORS

Until recently the problem of cocaine production and export in Bolivia has been generally seen by the donor community as a USG concern, basically oriented toward interdiction, eradication and crop substitution efforts in the Chapare area. Bolivia has now demonstrated its willingness and ability to conduct an effective counternarcotics enforcement program, with consequent dramatic increases in participation in voluntary coca eradication programs. It has expressed a strong willingness to carry out its own alternative development strategy in the context of an integrated, national approach, including law enforcement, coca eradication, drug abuse prevention and treatment. The donor community needs to be sensitized to this broader vision of "Alternative Development" which encompasses more concerted national development efforts as well as serious enforcement efforts.

The role of the donor community is vital to the successful implementation of the GOB's alternative development strategy. The USG Mission in Bolivia will actively seek support for the alternative development plan among the main multilateral and bilateral donors, and will support the GOB's efforts to obtain the financial resources needed to implement its plan. The Paris Consultative Group Meeting of November 1990 was successful in substantially increasing the level of international donor commitments for Bolivia and generally supporting Bolivia's strategy for alternative development.

VI. THE FUTURE OF THE ALTERNATIVE DEVELOPMENT PROGRAM

The U.S. Mission will continue to assist Bolivia during its transitional period of reducing coca production and illegal cocaine export by promoting the expansion and diversification of legal non-traditional exports. Our proposed strategy for alternative development is tri-partite:

First, USG appropriated funds will finance specific projects, such as the Cochabamba Regional Development Project, Export Promotion, Micro and Small Enterprise, and Market Town Capital Formation. We intend to support infrastructure activities such as rural roads and electrification, which facilitate the adoption by landowners of products other than coca, and which provide alternative sources of income and employment in source areas for both coca cultivation and labor migration.

Second, USG balance of payments support (PL 480 Title III and ESF) will assist in offsetting foreign exchange losses from reduction of the cocaine trade as Bolivia reduces its economic dependency on cocaine. It will also reward continued sound economic performance and provide local currency for alternative development and other development projects.

Third, an expanded narcotics awareness program is designed to develop greater recognition among Bolivians of the grave consequences which a cocaine based economy has on the social and economic fabric of Bolivian society. It is also designed to build a base of political support for affirmative counternarcotics policies and to strengthen Bolivian participation in the economic transformation process.

CHAPARE AND ASSOCIATED HIGH VALLEYS PROJECT - ACCOMPLISHMENTS TO DATE

The focus of the Chapare and Associated High Valleys Project is to (1) develop alternative sources of foreign exchange (FX) to replace the FX the Bolivian economy derives from the coca/cocaine industry; (2) to provide alternative employment and income to coca farmers who voluntarily agree to eradicate their coca plantations; and 3) to improve the ecological, social, and agronomic conditions in rural areas from which Chapare migrants come (expulsion areas). In line with these objectives, AID has supported the following activities:

1. IBTA, the Agricultural Research Station, has conducted research on traditional, improved and new varieties of agricultural crops that can be grown in the Chapare on a commercial and hopefully exportable scale. So far, the following seem agronomically promising: citrus, coffee, cacao, coconut, macadamia, pepper, pineapple, vanilla, rice, maize, peanuts, tumeric and ginger. IBTA also provides extension services to and training to ex-coca farmers. It has helped to import plant material, and private nurseries are being established to generate the improved varieties locally. Over 3,500 hectares have been substituted since 1985.

2. Since several of the newly promoted crops take a number of years to start producing, (i.e. citrus, macadamia) farmers who eradicate their coca have received agricultural credit to facilitate the transition. As of February 1991, approximately 31% of the number of farmers who have reduced their coca have received loans totalling \$5.2 million, for crop substitution and livestock activities.

3. Marketing of Chapare crops is an important issue for the Alternative Development Program. Several AID projects are designed to promote exports, investments and joint ventures in agricultural processing, in order to provide markets for the increased production emanating from the Chapare. Coordination of activities among these projects within the program will help in locating markets for Chapare products. As examples, approximately 30 hectares of maracuya were planted and the first harvest was sold to "Productos del Valle" for processing and distribution to the local Cochabamba market. Ginger was introduced in the regional market and had a good acceptance. Quality pineapples and bananas were exported to Argentina and Chile.

4. The lack of adequate infrastructure is a major obstacle to Alternative Development in the Chapare as well as the neighboring "expulsion areas". For many Chapare communities AID has provided "social infrastructure", including six schools, four mothers' club/union centers, two health posts, a potable water system, and a campesino market.

In the neighboring high valleys area (an expulsion area), where environmental considerations are less of a problem than in the Chapare, AID has financed the improvement of over 330 kms. of rural roads. Additionally, over fifty small-scale high impact community works have been implemented: four nurseries, sixteen potable water systems, twenty five irrigation works, three soil conservation works, four infiltration galleries, and two dams. Electrification was provided to the towns of Aiquile and Mizque.

Development of the High Valleys is considered particularly important for the following reasons: (a) an estimated 60% of the labor force engaged in coca growing in the Chapare is seasonal migrant labor coming from the High Valleys where they work part of the year, (b) many long-term migrants to the Chapare came from the High Valleys and would likely return to the High Valleys if employment and earning opportunities there could be improved and interdiction was effective, and (c) the High Valleys have the potential of producing substantially more with irrigation, credit extension, and technical assistance.

CHAPARE AND ASSOCIATED HIGH VALLEYS PROJECT - IBTA

USAID/Bolivia, through the Bolivian Agricultural Technology Institute (IBTA), is involved in an ambitious program to support farmers who wish to cease cultivating coca and begin cultivation of other crops. IBTA, utilizing the La Jota research station, has had a central role in developing planting programs which meet the particular agronomic and topographic requirements of this ecologically fragile environment.

The La Jota staff is optimistic about the coca substitution potential of its planting strategies, since it was observed a change in attitude by Chapare farmers in requesting participation in the Regional Alternative Development Program. In 1991, more than 4,000 farmers were trained at the research stations and in communities. This doubled the amount of farmers trained from 1985 to 1989. Since 1985, Chapare farmers have planted over 3,600 hectares with genetic material from IBTA and 2,000 additional hectares have been planted with traditional crops or devoted to cattle. Farmers formed several Producer's Associations for fruits, tubers and vegetables, and community or private nurseries. Visits from farmers to the research stations in need of technical information or purchase of planting material increased in 1990 over 300% of that of the previous year. Annual crops such as beans, rice, and corn varieties developed at the research stations are being planted by a large number of farmers.

In selecting crops to promote, the La Jota researchers seek plants which combine high value, low weight, durability during shipment, lack of need for sophisticated agricultural techniques or inputs, and characteristics that comply with the ecology and climate of the Chapare. La Jota has developed planting systems which meet these requirements. IBTA researchers recommend that farmers raise annual crops (rice, yucca, ginger, tumeric), intermingled with higher value, longer-term, or perennial crops (pepper, pineapples, palm trees for hearts of palm and coconuts, as well as tropical fruit trees such as maracuya, guanabana, and star fruit). In this manner the farmers receive income at the outset from their annual crops until their other crops, which produce their first yields in two to five years, are ready to market. The researchers recommend that these low-and middle height crops be protected by taller fruit trees and other species, and find macadamia to be a particularly high value tree to plant. Macadamia trees produce nuts after 7-8 years.

One of the approaches of the La Jota researchers to crop substitution is promotion of groundcover plants to keep out weeds without use of herbicides.

The groundcover also provides nitrogen to replace that depleted by other crops in the same field, obviating the need for fertilizer. Depending on the nature of the soils of the fields in question, the researchers suggest several different crop mixes for cultivation.

Funding for this vital work is being provided by both development assistance funds from our Chapare Regional Development Project, and from local currency generations from the PL 480 Title III Program which are contributed by the Government of Bolivia.

CREDIT FUNDING FOR THE CHAPARE AND ASSOCIATED HIGH VALLEYS PROJECT

AID, through the Instituto Boliviano de Tecnología Agropecuaria (IBTA) agricultural research station at La Jota and other entities, is involved in an ambitious program to support farmers who wish to cease cultivating coca and begin cultivation of other crops.

One of the factors most important to farmers considering reducing their coca cultivation is how they can fund the change to cultivation of the new crops. The fact that some of the new crops promoted by IBTA require three to five years before fruit or nuts can be sold makes this a very serious issue.

AID shares the concerns of the farmers about having sufficient funds available prior to the new crops yielding income, and has developed a program to provide farmers with credit during those critical years. Farmers who reduce their coca production, and produce a DIRECO certificate to that effect, are eligible for loans to finance their new crop plans. Farmers also are required to certify that they will not in the future cultivate coca, and to provide IBTA-approved investment plans showing the proposed use of the credit. These loans extend over several years, and are the first loans available to farmers in Bolivia other than crop loans. The funds for the loans are Bolivian Government funds generated through sale of wheat donated by the U.S. Government pursuant to Public Law 480 (PL-480).

The PL-480 Executive Secretariat disburses these funds to farmers involved in crop substitution, and has approved the Boliviano equivalent of 5.1 million dollars for 974 loans in the average amount of 5,300 dollars per loan. Once credit is approved, IBTA/Chapare gives a three week course on types of genetic material available for the farmers' given area as well as prices. IBTA also helps farmers plant the material in their own land and their extension services are scheduled to keep track on the crops' evolution. PL-480 was reluctant to finance crops for which technical parameters and markets were unproven. Therefore, at the beginning of the credit program, the first hundred loans were granted mainly for traditional crops such as citrus and bananas, cattle raising and a few for housing improvements. The rest of the loans were recommended by IBTA/Chapare, for crops such as: coffee, macadamia, pepper, pineapple, citrus, cacao, vanilla, rice, maize, peanuts, turmeric and ginger. Currently the split is 60-40 between traditional and non-traditional crops.

The PL-480 Secretariat is being used as the main financial agency for these Bolivian Government funds. Our long-term approach is to strengthen existing local financial institutions so that they may eventually be able to administer the credit component of the alternative development program.

TENTATIVE ALTERNATIVE DEVELOPMENT FUNDING

PROJECT TITLE AND NUMBER	FY 91	FY 92	FY 93	FY 94	TOTAL
0602 ECONOMIC STABILIZATION	66,000	89,500	94,500	105,500	355,500
0609 JUSTICE SECTOR	500	0	0	0	500
0585 EXPORT PROMOTION	2,000	7,000	5,500	5,700	20,200
0603 ANDEAN PEACE SCHOLARSHIP	1,000	1,200	500	0	2,700
0617 COCHABAMBA REGIONAL DEV.	3,000	18,300	15,100	5,600	42,000
0596 MICRO ENTER. DEVELOP.	0	4,000	3,000	3,000	10,000
0587 STRENGTHENING DEMOCRACY	0	0	2,000	3,000	5,000
0610 DEMOCRATIC INSTITUTIONS	500	0	0	0	500
0613 DRUGS AWARENESS	2,500	3,000	3,000	600	9,100
0.07 PROG. DEV. AND SUPPORT	500	500	500	500	2,000
0614 RURAL ELECTRIFICATION FOR ALTERNATIVE DEVELOPMENT	1,000	5,000	4,400	4,600	15,000
0622 ROADS FOR ALT. DEVELOPMENT	0	1,500	1,500	1,500	4,500
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SUBTOTAL	77,000	130,000	130,000	130,000	467,000
TOTAL (4 YEARS)					467,000

USAID/Bolivia Actual and Projected Obligations

(In Millions of Dollars)

	FY 1990	FY 1991	FY 1992	FY 1993
Development Assistance	24.2	22.6	22.5	25.7
Economic Support Fund	33.4	77.0	130.0	130.0
(Projects)	(9.5)	(11.0)	(40.0)	(40.0)
(Cash Transfer)	(23.9)	(66.0)	(90.0)	(90.0)
 PL 480				
Title II	13.2	14.9	14.5	14.5
Title III	20.0	20.0	20.0	20.0
 Totals	90.8	134.5	187.0	190.2

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