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THE DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES

THE DEVELOPMENT GAP

The World Bank, the IMF and Illegal Drug Production: The Case of Bolivia

The U.S. "war on drugs", most would agree, has been an abject failure. Drug use in the United States has reached epidemic levels and is closely related to the problems of violent crime, social disintegration and reduced worker productivity. So far, the targets of this war have been street gangs, cartels, money launderers, addicts and growers. But there are two other culprits that have so far escaped the scrutiny of policymakers and the law enforcement community. They are huge organizations, with annual budgets in the tens of billions of dollars, that operate in secret only a stone's throw away from the White House. They are the Bretton Woods institutions: the World Bank and the International Monetary Fund (IMF).

The Andean region of Latin America is the source of most of the cocaine consumed in the United States. Yet, in spite of the billions of dollars that has been spent on eradication and interdiction efforts, as well as on so-called "alternative development" programs, the war on drugs has failed to stem the flow of narcotics from this region to the United States. In fact, drug production in the region has been growing steadily over the last decade, an increase largely attributable to a declining economic situation exacerbated by economic "structural adjustment" policies required of governments by the World Bank and the IMF in return for badly needed capital. These policies have led to a rapid increase in the ranks of the poor, driving many into drug production as the only means of survival. The situation in Bolivia, the world's second largest producer of coca, best exemplifies the clear connection between the economic programs pushed by the Bretton Woods institutions and the growth of illicit drug production.

Bolivia: Adjusting Farmers towards Coca

In 1985 the Bolivian government began to implement, with the assistance of the Bank and IMF, a structural adjustment program, which it called the "New Economic Policy" (NEP). The NEP was supposed to address the catastrophic economic situation at the time, which included a world-record annual hyperinflation rate of 24,000 percent and a 24-percent drop in per capita GDP between 1980 and 1985. Although the NEP has curbed inflation, it has been absolutely devastating for the poor, especially small peasant farmers.

Bolivia's adjustment program has emphasized export production through the redirection of credit towards export producers. Most peasant farmers in the country lack the necessary capital to engage in such production and also are considered bad credit risks. The one bank that traditionally gave loans to small farmers, the Banco Agricola Boliviano, has been closed. Therefore, most of the loans in the agricultural sector go to medium- and large-scale producers. In fact, Bolivian peasants today receive only four percent of the country's available credit, despite the fact that they produce 70 percent of the country's agricultural output. Under the NEP, interest rates have averaged over 20 percent per annum, so even those small farmers deemed creditworthy find borrowing money prohibitively expensive.

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Furthermore, fuel subsidies have been cut, leading to significant increases in the cost of transportation of agricultural products. Between 1987 and 1989, the cost of fuel rose 33 percent, which resulted in a parallel increase in the price of Bolivian-grown food crops. Meanwhile, foreign-grown wheat has been able to enter local markets more easily due to the NEP's creation of a single flat, low-tariff rate on imported goods, which is among the lowest in Latin America. Adding to Bolivia's agricultural crisis has been the U.S. "Food for Peace" program, which has provided subsidized food from the United States that undercuts local producers, who cannot compete with the flood of cheap food entering the country. The fall in food production due to these and other factors, such as the removal of price controls and subsidies under the NEP, has been matched, not coincidentally, by a dramatic rise in coca production.

Coca Production on the Rise

Coca leaf has been grown and used for medicinal and nutritional purposes in the Andean region for more than 5,000 years. In recent years, however, most coca has been grown for processing into cocaine in neighboring countries. As rural poverty has increased in Bolivia, so too has the amount of coca produced. During the first three years of the NEP, coca production in Bolivia expanded at an annual rate of 13 percent, faster than that of any other commercial crop in the country. As one farmer exclaimed, "Coca is the only alternative for me. I cannot get bananas to the market, even if I could get a better price for them. How else can I feed my family?" In fact, the prices farmers get for legal export crops are simply not competitive with those of coca: one acre of coffee brings in US$114, while coca generates US$329 an acre. Ironically, coca is the one export crop that does not require large amounts of capital.

> *"We call this policy of structural adjustment the policy of 'every man for himself'. They abruptly liberalized trade, privatized state-owned enterprises, including the Agrarian Bank, and eliminated the programs that regulated prices. The social impact was brutal: thousands of people found themselves without employment or the means to produce, and poverty increased greatly."*
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> **Chaparé peasant leader Valentín Gutiérrez, Federación Carrasco Tropical, Bolivia (3 May 1994)**

Adjustment-induced changes in non-agricultural sectors have also exacerbated the coca problem. Many state-owned mines and factories have been closed and their employees laid off, contributing to high levels of unemployment and a rapid growth in informal-sector activities. In the industrial sector, average real wages fell 22 percent between 1988 and 1991, while the percentage of temporary workers in the workforce increased from 9 to 24 percent, leading to a decline in the demand for food crops. Many workers and their families who have lost jobs have migrated to coca-growing areas in search of employment. If they should be lucky enough to find work, the wages are quite lucrative: while the average annual income in Bolivia is US$150, coca crushers can earn at least 12 times that amount.

By 1990, annual coca exports from Bolivia had reached an estimated US$700 million, nearly as much as all other exports combined. According to the U.S. Embassy in the Bolivian capital, La Paz, some 40,000 families are now engaged in coca farming. The U.S. Drug Enforcement Agency estimates that they produced some 80,300 metric tons of coca leaf in 1992. After its processing into crack or powder in third countries, this cocaine would have an estimated street value of US$22.9 billion, over three times Boliva's GDP for that year.

Alternatives

Over the last four years alone, the United States has spent US$2 billion in the Andean countries in an attempt to halt illicit drug production. Much of this money, however, has been spent in support of adjustment programs that provide incentives to farmers to grow non-traditional export crops, such as pepper and macadamia nuts. The U.S. Agency for International Development (USAID) promised big profits on the new crops, but when the harvest came in there were no markets. Now, over 2,000 producers have gone to court to insist that the debts they accumulated as part of this project be forgiven. As Bolivian peasant leader Valentín Gutiérrez observed, "the phrase 'alternative development' has come to have a very negative meaning in Bolivia. Instead of providing us the tools or appropriate technical assistance to improve the production of traditional crops, USAID insisted that we produce new export crops."

"We have presented our own alternative development projects to AID, but without success to date," explains Guitierrez. "We propose that the projects begin from the needs and capabilities of the peasants themselves, and that, together with them, AID design policies to improve production and marketing of traditional crops, products that can be sold in domestic markets, as well as processing citrus and other crops."

Examples of the potential of this approach already exist. One Bolivian farmers' organization, El Ceibo, has increased peasant control over the processing and distribution of local agricultural output, bringing farmers a greater share of the profits. In 1990, El Ceibo earned US$600,000 from cocoa beans, powder and butter for its cooperative members. The organization provides marketing, training, agricultural extension and transport, while exporting through alternative trading organizations in the United States and other Northern countries.

Conclusion

It is only by increasing such opportunities for peasant farmers and others living precariously in the Bolivian economy and by supporting them with an appropriate set of economic policies that the coca problem will begin to be resolved in any significant way. International pressure coupled with the risk of illegal cultivation does not make coca the most desirable crop to grow. Farmers are therefore open to new options, but their true concerns and perspectives must be taken into consideration. And their message is clear: there can be no significant change in their situation until the structural adjustment policies that limit their options and deepen their poverty are eradicated.

prepared by Laura Parsons with Ross Hammond

Sources for this paper include: Central Intelligence Agency, World Factbook, Oct. 1993; Brooke, James "U.S. Aid Hasn't Stopped Drug Flow from South America, Experts Say," New York Times, 21 Nov. 1993; U.S. Department of Justice, Drug Enforcement Administration, Worldwide Cocaine Situation Report 1992; Healy, Kevin "Structural Adjustment, Peasant Agriculture and Coca in Boliva," in Jorge Lawton (ed.) Privatization Amidst Poverty: Contemporary Challenges in Latin American Political Economy, (The North South Center, 1993: Miami).

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