



LATAM COMPILATON

Latin America:  
changes against continuity

2014

**d+i** LLORENTE & CUENCA



## CONTENTS

|  |     |
|--|-----|
| Prologue   | 3   |
| New developments in the indigenous movement: environmental protest                                   | 5   |
| Religious change in Latin America, present, past and future  | 26  |
| The challenges of taxation in Latin America  | 51  |
| “Without infrastructure there is no development”<br>General state of infrastructure in Latin America | 78  |
| 2014 Political Balance,<br>towards a change in the electoral cycle of Latin America?                 | 95  |
| LLORENTE & CUENCA  | 117 |



## Prologue

Transformation is, maybe, the concept that could best characterize Latin America from the mid-twentieth century until now. During this time, the region has lived a real revolution whose stamp has marked both the development, social and economic model and the main political model which, in addition, has been accompanied by deep cultural changes. A metamorphosis process which remains as much in force as ever these days.

In the Latin American electoral and political scene, for example, according to what has happened at the ballot box over the year ended, we can conclude that this has been the first of a new period in the region. Hegemonies of certain parties and leaderships which, until now, seemed to be unbeatable at the ballot box, are increasingly difficult to support. In contrast, the heterogeneity and volatility of the vote have become protagonists of the new electoral phenomenon.

This situation arises as a result of the emergence and consolidation of the middle classes. As a consequence, the agendas, the public policies and even the appearance of the society have changed.

Something similar has happened with the indigenous mobilizations which, nowadays, present a much wider agenda that covers and embraces broader interests. In this sense, the growing pressure and dispute on natural resources located in different territories favours the unification of the different ethnic groups and serves them as the basis to elaborate a proposal for development that gains support between non-indigenous and urban sectors, and gets international support.

As for the religious field, in contrast with the traditional Latin American homogeneity related to Catholicism, diversification, product of the advance of the different Protestant, Evangelical and Pentecostal churches, together with social changes, has made the religious panorama in the region more complex, especially in countries such as Guatemala, Honduras, Brazil or Chile. In this sense, it is to be expected that, although in the coming years the increase of Evangelical churches will not be exponential it will go to the rhythm of social changes. As a result more moderate Evangelical churches will appear in a more civilized and educated society.



Apart from strictly social matters, guaranteeing the current and future economic growth of the region, as well as regional integration, depends, mostly, on the decisions adopted in the field of investment in public works. Supporting infrastructure development means supporting the development of the country. In this way, in the coming years Latin America will have the chance to consolidate its progress towards full development.

In addition, over the last 20 years Latin American countries have managed to reduce the current gap between tax revenues and expenditures. Although traditionally Latin American taxation has been considered low, with an unstable structure and with high tax evasion levels, the truth is that these beliefs are out of date due to the important changes undergone in the Latin American tax structure over the last decades.

In short, Latin America is facing a context where changes are taking place in a visible manner. A region constantly changing is presented before us, much more complex, with growing tensions and demands from middle classes and popular sectors where changes, in both social and economic terms, prevail decisively over continuity.

**José Antonio Llorente**  
Founding Partner and Chairman



**New developments in the  
indigenous movement:  
environmental protest**

**d+i** LLORENTE & CUENCA



1. INTRODUCTION: 30 YEARS OF THE INDIGENOUS MOVEMENT (1980-2013)
2. CAUSES OF THE RESURFACING OF THE INDIGENOUS PROBLEM (1980-1992)
3. THE FIRST WAVES OF INDIGENOUS PROTESTS (1990-2003)
4. CRISIS AND CHANGE IN THE INDIGENOUS MOVEMENT (2003-PRESENT)
5. THE BREAK BETWEEN THE LEFT AND THE ENVIRONMENTAL-INDIGENOUS MOVEMENT (2009-PRESENT)
6. MAP OF THE CURRENT INDIGENOUS PROTESTS
7. CONCLUSIONS

## 1.INTRODUCTION: 30 YEARS OF THE INDIGENOUS MOVEMENT (1980-2013)

The emergence and visibility of the indigenous movement is one of the most important political and ethnic-social developments in the recent history of Latin America. This has taken place in parallel with the introduction of democracy into the Latin American countries in the eighties. Although its roots go back to the start of the twentieth century, it was only in the final quarter of the last century that indigenous intellectuals and leaders took the reins of the movement and turned it into a new political force, managing to add their demands to national political agendas through direct political intervention.

Thirty years ago, coinciding with the transitions to democracy (in the 1980s) and the final consolidation of this (in the 1990s), we saw the appearance of the indigenous movements, with particular force and intensity in Ecuador and Bolivia, and with a lower capacity for growth in other countries such as Mexico, Guatemala, Brazil, Peru and Chile.

At that time there was unprecedented growth in indigenous activism (the so-called “awakening of the indigenous question”) with the rise of these movements and their range of new demands relating to issues such as land, autonomy and cultural diversity. In addition, these demands called into question the traditional model of liberal-republican states created in the nineteenth century, due to the rejection of cultural homogeneity and the universality of civil rights.

However, their progress from the 1970s to the current time has not been straightforward. As can be seen from the discussion below, they have passed through different phases and strategies before reaching the current position.

## 2. CAUSES OF THE RESURFACING OF THE INDIGENOUS PROBLEM (1980-1992)

**“The process of moving towards democracy that began in the 1980s and that was consolidated on a regional scale in the 1990s, created opportunities for new political forces, organised from civil society, to gain political influence, including those from the indigenous sectors”**

In the 1980s, the indigenous political movements organised themselves and created their own political forces that sought autonomy and the recognition of their identity, an increase in their influence and even wanted to take power through the electoral route (the case of Ecuador since 1996) or through armed struggle (Zapatista uprising in Chiapas in 1994).

In that period the movement had undoubted successes, as recalled by the academic Salvador Martí: “The appearance of the Zapatista movement and the discourse developed by Subcomandante Marcos from the Second to the Sixth Declaration of the Selva Lacandona, the marked multicultural accent of the peace accords in Guatemala in 1996, the active role of the confederation of pan-Andean indigenous organizations in Ecuador, the intense mobilization of Aymara and Quechua organizations in Bolivia, the organized presence of the Mapuches in Chile, and the media impact of various leaders of Amazonian peoples in the Amazon basin. All these examples are a sign of the importance of this phenomenon in Latin America”.

However, why did we see this boom in the indigenous movements in the eighties and nineties?

We can highlight at least four factors:

### The emergence of democracy

The process of moving towards democracy that began in the 1980s and that was consolidated on a regional scale in the 1990s, created opportunities for new political forces, organised from civil society, to gain political influence, including those from the indigenous sectors. In short, democratisation enabled civil society to play a more important role in the context of less authoritarian states with reduced powers after the structural reforms of the 1990s.

In a report coordinated by Heraldo Muñoz, Director of the United Nations Development Programme (UNDP), it states that “in the Latin American socio-political scene at the end of the 1970s and the start of the 1980s, the processes for the transition from dictatorship to democracy and the fight for civil rights, reflected in the demands from certain social groups, acquired a central place in the public arena. From this scenario came the so-called new Latin American social movements (Calderón and Jelin, 1987: 84): “collective actions with a strong participation base using non-institutional channels and that, at the same time, are developing their demands, finding ways to express themselves and forming collective groups, or in other words, recognising themselves as a social group or category”.



**“The emergence of an indigenous urban intellectual elite helped to provide ideological support and establish networks of support for the protests both inside and outside the country”**

**Reaction to the economic and social changes arising from the “neo-liberal” reforms of the 1990s.**

These reforms in the 1990s led the state to withdraw from many areas, leaving a hole that was filled by civil society. In this conducive situation we saw the re-emergence of local indigenous groups, to date controlled or co-opted by the state, which established direct relationships with a large number of international organisations (governments, non-governmental organisations, initiatives by municipal bodies, etc.).

From the late 1970s the policies of the indigenous groups also found material and intellectual acceptance and support from the Catholic Church (its role was very important, for example with the Salesian priests in Ecuador) and non-governmental organizations (NGOs).

Similarly, the economic model changed and there was a move from the politics of Import Substitution Industrialisation, seen in the 1940s, 1950s and 1960s, to the new politics of a “neo-developmental” nature, extracting and exploiting natural resources. This affected the interests of the rural indigenous areas, where the mineral resources are normally found, and helped to accelerate their mobilisation.

As argued by the sociologist Fernando Calderón, these changes formed part of “a series of transformations in the social structure of the different countries,

whose main features would be: a) more complex asymmetries in the patterns of social inclusion and exclusion, in both symbolic and material aspects; b) changes in the basic institutions of socialisation and of communication forms and structures; c) the addition of new issues to the political and socio-economic agenda, on the basis of cultural demands, in particular multicultural rights, associated with the new asymmetries of social exclusion; and d) the development of new informational specificities in the mechanisms of exclusion due to the impact of globalisation.”

**The emergence of an indigenous urban intellectual elite** helped to provide ideological support and establish networks of support for the protests both inside and outside the country.

**The favourable international context**

The growth of the indigenous movement was favoured, internationally, by various events taking place in the nineties starting with the celebration of the 5th Centenary, an event triggering the polarisation and exacerbation of feelings for and against that date. It was a reason for demonstrations and protests, which were also supported by the Nobel Peace Prize being awarded to an indigenous person (the Guatemalan Rigoberta Menchú) in 1992.

In parallel, also in the year 1992, in the context of the Ibero-American Summit, an agreement was signed in Madrid to create the Fund for the Development of

“While rural demands were focussed on agricultural reforms, today the indigenous people are largely demanding their right to recognition and to the affirmation of their identity”

the Indigenous Peoples of Latin America and the Caribbean, at the same time as the Inter-American Development Bank dedicated human and financial resources to supporting projects in this area. Similarly, the Organization of American States decided to ask the Inter-American Commission on Human Rights to run a project for the Inter-American Declaration on the Rights of Indigenous Peoples.

One of the most important and far-reaching changes was convention 169/89 from the International Labour Organization which recognised that the priorities in terms of development would be established by the indigenous peoples themselves. In its articles 6, 7 and 15 it set out mechanisms for participation, the right to be consulted and prior consent so that the indigenous peoples could defend their statutory rights and decide what exploitation model they wished to implement in their territories. From there, ways have been created for the indigenous people to influence decisions when their territories are a target for companies or governments that want to extract resources.

Lastly, we should not forget the increase in the academic work focused on indigenous issues in the 1990s (although it had been growing considerably since the 1960s-1970s), with a clearly favourable bias towards the indigenous demands which in some cases resulted in the idealisation of the indigenous values, culture and way of life.

All of that favoured a large change and transformation taking place in terms of the objectives and internal ideological coherence of the movement since as José Bengoa said “whereas in the past, especially the 1960s and 1970s, the indigenous people asserted their rural identity and class, at the moment the organisations have highlighted their ethnic particularities. While rural demands were focussed on agricultural reforms, today the indigenous people are largely demanding their right to recognition and to the affirmation of their identity. In the first part of the last century the most active players politically and those with greater visibility on the national stage were the peasants who were subjects”.

### 3. THE FIRST WAVES OF INDIGENOUS PROTESTS (1990-2003)

After the rebirth of the indigenous movement in the 1980s and the stimulus experienced at the start of the following decade, the moment of take-off and growth took place in the 1990s. During these years the movement was characterised by its heterogeneity and by the diversity of its demands and strategies, with each country having its own specific features and situations.

However, in the 1990s we could already see a number of important parallels and continuities across the entire region. The aspirations of these movements were aimed in various directions, demanding economic, social and



**“The legitimacy of the indigenous movement grew above all in moments when there were no predominant social or popular figures on the public stage and the political legitimacy crisis was heightened”**

cultural rights as well as civil and political rights.

There were examples, to a greater or lesser extent, of this type of “indigenous awakening” across the length and breadth of the region, although it was in Ecuador where it took hold most strongly.

In the 1980s the Ecuadorian indigenous people created a strong union organisation, the Confederation of Indigenous Nationalities of Ecuador, which brought together the most important regional indigenous organisations such as ECUARUNARI (Confederation of Peoples of Kichwa Nationality) and CONFENAIE (Confederation of Indigenous Nationalities of the Ecuadorian Amazon). Later, in the 1990s (1995), the political wing, Pachakutik, was founded.

At the start of the 1990s, CONAIE organised the first indigenous uprising of contemporary times, with demands for multiculturalism and plurinationalism. Later, there was a march by the indigenous peoples of Pastaza in 1992, and the events rejecting the 5th Centenary of the Discovery, which gave the process of creating CONAIE a national and even international dimension.

From this foundation it tried to make the leap into the political arena through its political party, Pachakutik, an organisation that won 20% of the votes in the presidential elections of 1996 and 14% in 1998. It actively took part in the 2000 coup against Jamil

Mahuad and gained power in 2003 as part of the coalition formed with the party of Lucio Gutiérrez.

As argued by the sociologist Jorge León Trujillo, the legitimacy of the indigenous movement “grew above all in moments when there were no predominant social or popular figures on the public stage and when the political legitimacy crisis was heightened. That is when the indigenous organisations managed to capture the space for opposition vacated by the unions, using protest as an expression of social discontent. Popular demands were added to this protest, thanks to which the indigenous people constructed an image that embodied ethics and finally, one-off issues of general interest against the then predominant deregulatory trend”.

All of these indigenous protests at the end of the 1980s and in the 1990s had very clear political and legislative effects since in the nineties they were accompanied by a wave of constitutional recognitions of indigenous rights by the governments. The protests also turned the indigenous people into public figures, which allowed them to influence government proposals and policies.

It is what Donna Van Cott, of Connecticut University called the new type of “multicultural” constitutionalism in Latin America, in which the multi-cultural nature of societies and the existence of indigenous peoples as distinct sub-state collectives is recognised; indigenous common law is recognised as official and as public

**“From the protests of the 1980s and 1990s, the indigenous movement extracted as a result the right of the indigenous people to determine their own development”**

law, as are property rights over communal land. Also recognised is the official status of the indigenous languages in the territory and the areas where the peoples are located, guaranteeing a bilingual education along with the right to create autonomous regional areas.

This “multicultural constitutionalism” had a direct impact in 1991, in Colombia, where the new Constitution addressed the indigenous issue: “the State recognises and protects the ethnic and cultural diversity of the Colombian Nation”. Later, other countries followed suit. For example, the Constitutional Reform of Argentina (1994) recognised the “ethnic and cultural pre-existence of the Argentine indigenous peoples”. The constitution of Bolivia in 1994, before the rise of Evo Morales, already defined the country as “free, independent, sovereign, multi-ethnic and pluricultural, constituted as a Unitarian Republic, (which) adopts for its government a representative democratic form laid down in the unity and solidarity of all Bolivians”.

That in Guatemala (1985) declared that the country was formed of diverse ethnic groups among which were the indigenous groups of Mayan descent and subsequently agreements have established the recognition of its pluriethnicism and multiculturalism.

In Bolivia, during the government of Gonzalo Sánchez de Lozada (1993-1997), an indigenous leader, Víctor Hugo Cárdenas, was chosen

as Vice-President of the country at the same time as the Law of Popular Participation was approved, in 1994, which promoted a process of decentralisation and greater indigenous participation.

In terms of the protests of the 1980s and 1990s, the indigenous movement won the right for the indigenous people to determine their own development, as recognised by the United Nations Commission on Human Rights and by the Universal Declaration of Indigenous Peoples.

#### **4. CRISIS AND CHANGE IN THE INDIGENOUS MOVEMENT (2003-PRESENT)**

The indigenous movement in the region became less focussed in various ways between the late 1990s and the start of the new century. In Ecuador, this was due to the alliances with the traditional parties no longer working, and in Mexico it was because Zapatism had reached its limit in terms of its potential to keep progressing.

In addition, as argued by the academics Nancy Postero and León Zamosc, the indigenous groups realised that “the simple existence of a demographic majority does not guarantee a favourable electoral result”, as the failure of the 1999 referendum in Guatemala showed. This was a consultation in the Central American country, in which extensive constitutional reforms that increased the rights of the indigenous people were expected to be approved. However, only

**“The Bolivian Water and Gas wars showed that a short-term issue, but one of great importance, could serve as a point of connection between the indigenous peoples and the other social groups”**

18% of the population turned out to vote and the “No” vote was victorious.

These failures meant that at the start of the new century the indigenous movement reached the conclusion that to gain more influence it would have to build bridges with the non-indigenous political movements and that to have more of an impact and following it would need to find more common ground than just the indigenous demands.

Since the turn of the century the general approach to protesting has had a series of specific characteristics:

- The armed option is not the right approach, instead using low-intensity conflicts and protests that raise questions about the monopoly of violence by a state that cannot repress these protests as overwhelmingly as it did when dealing with the old uprisings. All of which provides the indigenous movements with the power of veto and “blackmailing the state”.
- In addition, these indigenous groups managed to create broad alliances that go beyond the indigenous issue, adopting policies that could be supported by other social groups in “strategic alliances that can open the way to advancing toward solutions really overarching the indigenous issue since they affect all social sectors”.

This means that while the Ecuadorian electoral route was in terminal decline (this collapse of the indigenous movement in Ecuador could be seen in 2006 when it obtained only 2% of the votes in the elections, leading to the loss of internal cohesion), other methods were becoming more important. For example, in Bolivia the “Water Wars” (2001) and later the “Gas Conflict” (2005) showed that the way to grow, to make their voice heard and to achieve political success in setting the agenda was not exclusively indigenous protest focussing on the problems of that ethnic sector.

The Bolivian Water and Gas wars showed that a short-term issue, but one of great importance, could serve as a point of connection between the indigenous peoples and other social groups, therefore gaining the ability to reach wider sections of the population. Combined with charismatic leadership (of the Evo Morales type in Bolivia), this gave the movement a wider influence.

Over the last decade, therefore, the indigenous movements have had a much wider agenda that covers and includes much broader social and ethnic interests. In addition, growing pressure and battles over natural resources located on indigenous lands (or claimed by them) encourages the unification of the different ethnic groups and serves as a foundation for them to develop an alternative development proposal (ecological and environmental) that wins support among non-

“The new protests that have been taking place over the last decade have learned from the failure of the armed route in the 1990s”

indigenous, urban sectors and gains the international backing that legitimises this type of environmentalist message.

The new protests taking place over the last decade have learned from the failure of the armed route in the 1990s (the Zapatist case) and of the electoral political route (the case of Ecuador with Pachakutik, and Katarism en Bolivia).

As argued in 2010 by the academic at the University of Salamanca, Salvador Martí, “the fact that most of the strategic resources of the 21st century (water, biodiversity, gas, oil, minerals, forests) are located in areas inhabited by the indigenous people will mean that episodes like those of Bagua in Peru, Awas Tingni in Nicaragua, and Ralco in Chile, will multiply in the future. So, despite the closing down of the “opportunities” that is emerging in this new cycle, the fight of the indigenous people for their rights is going to continue. The organisational learning over the last few decades and the recognition of specific rights as a result of the constitutional and legislative reforms are a decisive factor”.

This was the case, in the early years of its rise to power, for the Movement Toward Socialism (MAS) in Bolivia. The *Cocalero* movement that began in the 1980s was defined as the movement of the producers of coca leaves. It brought together indigenous elements to defend coca as the “sacred leaf” and united various social and indigenous groups.

However, it was also capable of building a broad social coalition in which environmental issues were of key importance. The academic Sofía Cordero Ponce says that “MAS is not a simple expression of the indigenous communities, but instead a force which represents a plurality of popular sectors. In 2002 it obtained 20% with an indigenous approach, but exceeded 50% in 2006 and 60% in 2009 thanks to a broader proposal that covered the popular groups, the indigenous peoples and the middle classes”.

However, this alliance between environmental and indigenous groups is not new and has clear roots dating back to the 1990s. José Bengoa, in an ECLAC report, described how from this era we saw the consolidation of “the alliance between the indigenous movements and the environmentalists on the continent. This alliance can be seen from the many conflicts that involve both the indigenous peoples and the “greens”. The indigenous leadership for its part has included elements of the environmental approach in its own indigenous approach, and for their part, for many environmental movements the indigenous people are the “historical guardians of the environment”, often producing a certain idealisation of them. Regardless of the depth of this alliance, there is no doubt that it has allowed the indigenous movement to move closer to broad sectors of the population and public opinion, which consider respect and care for the environment to be a higher and non-negotiable issue.

**“The current indigenous-environmentalist approach is a reaction to the extractive policies”**

In some countries, like Ecuador for example, the alliance has been efficient in terms of winning votes and obtaining parliamentary representation”.

The current indigenous-environmentalist approach is a reaction to extractive policies and responds to the arguments of governments and transnational companies dedicated to mining and water-related business ventures. They reject the existence of a new technology that protects the environment, so-called green mining, modern and responsible. They do not believe that mining generates employment and fosters sustainable economic development for the communities. Nor do they believe that the transnationals involved in mining metals respect human rights, since they accuse them of causing the uprooting of human groups from their lands, damaging the environment of the peoples and causing lung and skin diseases.

#### 5. THE BREAK BETWEEN THE LEFT AND THE ENVIRONMENTAL-INDIGENOUS MOVEMENT (2009-PRESENT)

However, this alliance between the environmentalist and indigenous movements and the new left (embodied by Evo Morales in Bolivia and Rafael Correa in Ecuador) did not last long. In reality, it was present while these new regimes were emerging and establishing themselves (2005-2009) but once these leaderships had settled down they started to move away

from the environmental groups and to come into conflict with their respective agendas.

The clash of approaches (developmentalism vs. “indigenous philosophy of living well” based on being in harmony with nature) was due, as Sofía Cordero says, to the developmentalism of governments like those of Correa and Morales “seeking the return of the active state” which clashes with “the new subjects recognised among the public who demand their rights as “equals”. However, a public with new collective subjects obliges the state and its institutions to give up areas of power, which is not normally to the liking of the current Bolivian or Ecuadorian governments, with a strong centralising approach and strong presidential systems. It is often thought that the state’s interests are universal compared to the more specific nature of community interests and it is suspected that the self-governments could be colonised by transnational companies”.

This developmentalism of the governments of Correa and Evo Morales has ended up coming into direct conflict with the environmental-indigenous approach. Two conflicts are revealing in this respect. In Ecuador, in 2012, CONAIE initiated the “March for Water, Life and the Dignity of People”, rejecting the signing of contracts with Chinese companies for large-scale mining.

In Bolivia, a long conflict began around the construction of a road that crossed the Isiboro Secure National Park and Indigenous

**“The left, both reformist and from the “21st Century” movement, experienced a serious conflict between the supporters of developmentalism and the environmentalists”**

Territory (Tipnis), which was opposed by many of the indigenous peoples settled there, who demanded their right to prior consultation.

So, the left, both reformist and from the “21st Century” movement, experienced a serious conflict between the supporters of developmentalism and the environmentalists. A decade ago both lefts were united around the leadership of Morales, Correa and Humala. Today they are opposing each other with different approaches to the countries and economies.

For example, Evo Morales started his political career clearly linked to the environmental groups, as did Rafael Correa and Ollanta Humala who initially opposed the extractive mining projects. However, at the current time, the Cocalero leader argues that behind the environmental movement there is a “new type of colonialism” and Rafael Correa calls the environmentalists “infantile”.

They are all now on the opposite side of the argument to the environmentalists since they support the extension of the model of exporting primary products, a proposal which clashes head-on with the environmental approach.

As a result, according to a report by the World Bank, most of the current social conflicts in Latin America relate to the environmental and social aspects of mining. The Office of the

Public Defender of Peru, in a report, also identified one of the causes of social-environmental conflicts as the “justifiable fear of the public about the potential contamination that could result from mining activities”. The mining companies are clearly aware of this and have been almost ubiquitous in incorporating the environmental issue into their Corporate Social Responsibility work.

Disputes about natural resources are therefore the most recurring element of mining conflicts. However, the World Bank says that it is not always a question of environmental conflicts in the strictest sense of the word, or in other words, limited to defending biodiversity for its own sake. Although this is the aspect that most interests the environmental organisations, the rural communities consider the environmental issue also, and probably more, in terms of the right of access to land and water, or in other words, to the resources that are the basis of their household finances.

So, “the indigenous movement has appropriated the environmentalist approach which scarcely existed in the 1950s and 1960s since the old indigenous groups focussed on the language of exploitation”, says Bengoa. In the 1970s the environmental movement grew stronger in the developed countries, and “the uncontrolled externalities of capitalist development started to be of concern to growing sectors of society in the developed countries”. In the

**“The defence of the land has stopped being a rural struggle and has instead become an environmental struggle”**

various international forums, the indigenous demands moved closer to the environmental proposals and in 1992, in the Earth Summit, the meeting of these two approaches took place: “The indigenous people at the start of the 21st century have become the main players in the defence of the environment. The defence of the land has stopped being a rural struggle and has instead become an environmental struggle”. As argued by Bengoa, coordinating with the environmental movement has allowed the indigenous movements to establish a shrewd alliance with the post-modern sectors of social demand.

This is because they have seen an “urban reinterpretation of the

indigenous tradition undertaken by the indigenous people themselves on the basis of indigenous interests and objectives. There is no doubt that many elements of the indigenous vision of the past existed at an earlier stage, but nor should the dispassionate observer be in any doubt that many of these elements are an idealisation of the past”.

## 6. MAP OF THE CURRENT INDIGENOUS PROTESTS

According to data from the Observatory of Mining Conflicts in Latin America there are currently more than 180 socio-environmental conflicts in the region that involve 183 mining projects and 246 communities.

The countries with the greatest number of conflicts are Peru and Chile with 33, Argentina and Mexico with 26, Brazil with 20 and Colombia with 12. The rest of the countries have fewer than ten conflicts.

In the following section we analyse some of these conflicts and their political impact.

### Peru, the changing policies of Humala

In the 2011 campaign Ollanta Humala argued strongly against the mining of gold and the wastage and contamination of water.

This anti-mining policy, a response to the indigenous protests during the administration of Alan García that led to protests in Cajamarca and Cusco and to the events in Bagua (Amazon) where 33 people

**TABLE OF ENVIRONMENTAL CONFLICTS IN LATIN AMERICA**

|                    |    |
|--------------------|----|
| Peru               | 33 |
| Chile              | 33 |
| Argentina          | 26 |
| Mexico             | 26 |
| Brazil             | 20 |
| Colombia           | 12 |
| Bolivia            | 8  |
| Ecuador            | 7  |
| Panama             | 6  |
| Guatemala          | 6  |
| Nicaragua          | 4  |
| Dominican Republic | 4  |
| El Salvador        | 3  |
| Honduras           | 3  |
| Costa Rica         | 2  |
| Paraguay           | 1  |
| Uruguay            | 1  |

Data: Observatory for Mining Conflicts in Latin America

**“In the Peruvian Amazon region the indigenous communities continue to fight for their land and their way of life”**

died, was very loud and clear from Humala: “I have seen a group of lakes and they tell me that they want to sell them. You want to sell your water? What is more important, water or gold? Because you don’t drink water, don’t eat water, but we drink water, our children drink water, our livestock drink water. And from there comes the milk, comes the cheese, comes wealth. Water for the Peruvians!”.

Later, once in Government, he made a significant u-turn and tried to gain the support of both the environmentalists and neo-developmentalists at the same time. The most serious challenge for Humala’s government is in Conga (Cajamarca), in the north of Peru, where there is strong opposition to a mining project from the US company Newmont. The residents of this rural region fear that the open-cast gold mine, whose construction would require the replacement of four Andean lakes with artificial reserves, could contaminate the water resources and affect the health of the people.

To date, Humala has defended the project: “The Conga project (in the region of Cajamarca) is an important project for Peru, because it is going to allow it to undertake a great transformation. (...) We reject extreme positions: water or gold. We propose a more sensible approach: water and gold”.

However, this change and this proposal have meant him having to deal with large anti-mining protests in the country led by broad indigenous and popular groups. Humala has faced, according

to reports in the local press, more than 200 social conflicts, and during the government of his predecessor, Alan García, according to the Office of the Public Defender of Peru, 195 people died in clashes with the security forces between January 2006 and September 2011.

In addition, in the Peruvian Amazon region the indigenous communities continue to fight for their land and their way of life. Much of the area covered by the rainforest in Peru has been granted through concessions to mining and oil companies. Mining companies alone account for almost 14% of the land and more than 75% of the Peruvian Amazon is under concession to the oil industry.

Humala has chosen to continue with economic growth based on a mining-exporting model. Of total exports, 60% come from the mining sector of the economy and Peru is in sixth place in terms of the largest gold exporting countries in the world.

### **The developmentalists vs environmentalists battle in Bolivia**

Evo Morales took the presidency in 2006 with an indigenous manifesto focussing on respect for mother earth, the Pachamama. “The Earth does not belong to us, we belong to the Earth”, said Morales at the UN General Assembly in 2009.

However, his approach is now less indigenous and more nationalist, more neo-developmental and less environmentalist. This change

**“The indigenous organisations, particularly in the lowlands, demand access to the land and the management of natural resources under community models”**

explains, for example, the TIPNIS conflict since 2011 resulting from the construction of a road through the Isiboro Sécure National Park and Indigenous Territory (TIPNIS) which is being driven by the Morales government.

In the face of indigenous resistance to this project, Evo Morales had no hesitation in breaking with the indigenous-environmentalist groups since “the historic enemies of the indigenous movement present themselves as defenders of the environment when their policies were never aimed at conservation. The right involves itself in the conflicts taking place in some regions or sectors, to inflict damage on the government. When there is a border dispute the entire right is there, they get involved to magnify things, to deepen things and to confront their own colleagues”.

The academic Pablo Rosell argues in an article for the magazine *Nueva Sociedad* that “the central issue behind the Tipnis conflict is the direction of the development model. The proposal for the road is a material and symbolic milestone for the pre-eminence of a conventional development model (physical integration of the country) and brings with it the risks of the expansion of the agricultural boundaries in detriment to the conservation of virgin forest areas”.

He adds that “for the organisations that recognise themselves as essentially indigenous, land is the key issue, since it is the basis for an

economic life based on ancestral uses and customs. The indigenous organisations, particularly in the lowlands, demand access to the land and the management of natural resources under community models. For the organisations that recognise themselves essentially as agricultural, in contrast, the central demand is access to land that can be cultivated”.

Not only has the government of Evo Morales distanced itself from the indigenous movement, but the ruling administration, with its policies of patronage, of co-optation and conditional transfers, has ended up dividing the indigenous movement. The Confederation of Indigenous Peoples of Bolivia (CIDOB) has fractured into two groups. One associated with the Movement Toward Socialism (MAS) and the second, critical of the government, led by Adolfo Chávez, a leading figure for the Tacana people who was behind the two marches against the construction of the road through the Isiboro Sécure National Park and Indigenous Territory (TIPNIS).

#### **Correa’s break with the indigenous and environmental movements**

Something similar happened with the president of Ecuador, Rafael Correa, who while strengthening his grip on power has been losing the support of the indigenous and environmental movements, such as his ex-chancellor Fander Falconí. Correa and the indigenous movement have come from working together (in 2006 CONAIE supported Correa in second round

**“Correa and the indigenous movement have come from working together (in 2006 CONAIE supported Correa in second round and aligned itself with the politics of the government) to rejecting and condemning the policies of the other”**

and aligned itself with the politics of the government) to rejecting and condemning the policies of the other.

The movement divided and fractured with the emergence of Correa, among other reasons because of its policies of patronage and co-opting the executive since the president wanted to win over the indigenous population bypassing the organisations. The centralist nature of decision making and the developmentalism of Correa came into conflict with the policies of the indigenous movement which argued for, among other things, prior consultation, and above all prior consent, before any extraction project could be started.

So, for example, while in 2007 he defended the idea of conserving the Yasuní-ITT (Ishpingo-Tambococha-Tiputini) from oil companies, in 2013 Correa proposed a diametrically opposite policy: “We have tens of thousands of millions of dollars that the Ecuadorian people urgently need. We cannot be silly, useful to nobody, we will take.... the decision to continue and to responsibly exploit the ITT”

For Rafael Correa, this “childish environmentalism” holds back the development of the country and is managed “from the shadows (by) those that have never won an election but want to prohibit, prevent this country from taking advantage of its non-renewable natural resources. I am never going to take part in these games, history will tell

us who was right once the dust settles, it will be clear who acted for the homeland and who acted on the basis of fundamentalism, dogmatism and childishness”.

Correa defends a “Korean style” development and administration model that gives priority to economic development and the centralised presence and management of the state in that process, through public companies such as Petroamazonas. An approach that clashes directly with the indigenous movement which tends to support decentralised government in which decisions about the exploitation or otherwise of natural resources is the responsibility of local powers emanating from the indigenous movement.

#### From Lula to Daniel Ortega

Other left-wing presidents in the region have also had similar problems. It is enough to recall the rupture between Lula da Silva and Marina Silva, his Minister for the Environment, in 2008.

At that time the environmental organisation Greenpeace claimed that the resignation of Marina Silva showed that the government of Luiz Inácio Lula da Silva “has decided to abandon the Amazon”: “The resignation shows that this government is not serious, does not respect the environment or the Amazon”.

In Brazil the greatest problem is in the Amazon due to the conflict with the indigenous groups in this area whose interests clash

**“In Brazil the greatest problem is in the Amazon due to the conflict with the indigenous groups in this area whose interests clash with the initiatives of the mining companies and landowners”**

with the initiatives of the mining companies and landowners.

October 2013, for example, hundreds of indigenous people from different tribes and regions marched on the Brazilian capital to ask for more support from the federal government for their rights. The indigenous people were protesting about a legal initiative proposing that the jurisdiction over everything related to the creation and demarcation of new indigenous lands, which currently corresponds to the Executive, be passed over to Parliament. The indigenous people oppose this and argue that this change will give more power to the landowners and the mining and logging companies operating above all in the Amazon, where most of the indigenous reserves in the country are to be found.

In Chile, work started on the HidroAysén hydroelectric project during the administration of the socialists Ricardo Lagos and Michelle Bachelet (2000-2010), despite protests from the environmental groups. The protests by the indigenous Mapuche groups, which continued into the administration of Sebastián Piñera, have found significant support from the groups on the left and in the campaign for the 2013 presidential elections the *Nueva Mayoría* candidate, Michelle Bachelet, even argued for the HidroAysén project to be halted.

HidroAysén is a company formed by Colbún and Endesa (Chile), the latter controlled by Endesa

España, which plans to construct five large hydro-electric plants in the basins of the rivers Baker and Pascua, in the Chilean Patagonia. The electricity produced would be transported more than 2,300 kilometres, to Santiago de Chile and the mines in the north, over the longest high voltage line in the world. The hydroelectric complex would contribute 2,750 MW to the Central Interconnected System (SIC), with an annual average generation capacity of 18,430 GWh.

The local communities have shown their rejection of this and have proposed that legislation be enacted to grant Patagonia the protected status of “*Reserva de la Vida*”, but for now, Chilean law recognises that ownership of water sources is private and in the region of Aysen Enel, Endesa owns more than 90% of the water rights.

Another project that brings the developmentalists from the left and the environmentalists head-to-head is the *Canal Seco* in Nicaragua, proposed by Daniel Ortega with the support of a company of Chinese origin that wants to construct a new Inter-oceanic canal, like the one in Panama.

Indigenous sectors in Nicaragua support the *Mesa Nicaragüense ante el Cambio Climático*, or Nicaraguan Round Table against Climate Change, which brings together more than 20 environmental organisations from the country and expressed its rejection of the project to construct the inter-oceanic canal

“as it is proposed”: “We share the desire to find alternatives that lead us rapidly to improve the levels of poverty, but these routes must not compromise the ability of future generations to live in a healthy environment”.

#### Other regional points of conflict

- **Mexico:** The indigenous movement in Mexico, with its roots going back to the revolution, bounced back in the first half of the 20th century but suffered a profound transformation when the Zapatista uprising took place in Chiapas in 1994.

At the moment, beyond the exhausted Zapatista movement, the current indigenous protest movements are carrying out acts of peaceful social protest such as complaints, marches, rallies, sit-ins, hunger strikes, land invasions and taking over municipal palaces and government offices.

Guillermo Trejo, from the University of Notre Dame, highlights the changes seen over the last 25 years in the demands and identities of the indigenous people who have shown themselves capable of constructing a strategic indigenous leadership and transforming the identity of their movements as economic and political circumstances and opportunities vary.

At the moment, beyond the exhausted Zapatista

movement, the current indigenous protest movements are carrying out acts of peaceful social protest such as complaints, marches, rallies, sit-ins, hunger strikes, land invasions and taking over municipal palaces and government offices.

So they moved from demands of a political nature (1976-1993) focussed on the end of “the repression by chiefs, landowners and public authorities (state and municipal police); the release of political prisoners; and the removal of municipal authorities, to new demands in the 1990s focussed on the awakening of the indigenous consciousness as a public demand and identity, among the Chiapas, Oaxaca, Guerrero, Veracruz and Puebla movements”.

As explained by Trejo, although the Zapatista EZLN started as Marxist-Leninist guerrillas, from the end of 1994 to 1995-96 they embraced the ethnic and autonomous approach. The ethnic demands in general, and the demands for indigenous autonomy in particular, became one of the main elements of a fledgling national indigenous movement “the objective of the organised indigenous movement is no longer land but rather territory; they no longer demand resources for the indigenous people but rather dispute the rules for

“The current indigenous protest movements are carrying out acts of peaceful social protest such as complaints, marches, rallies, sit-ins, hunger strikes, land invasions and taking over municipal palaces and government offices”

“Panama currently has five indigenous districts that represent 20% of the national territory”

deciding on and sharing out the resources that belong to them as indigenous people; they no longer demand the removal of the public authorities but instead now demand the ability to elect the public authorities under their own rules”.

- **The voice of the indigenous people in Panama:** Over the last few years, the indigenous people themselves have come out of anonymity denouncing the “injustice against its people and their resources.” Many indigenous people have managed, through making a huge effort, to gain access to university education, becoming successful professionals and occupying important posts. Despite there being no shortage of obstacles in their path, the indigenous people of Panama have relied on their organisations to stand up to the rest of the country. Thanks to this mobilisation, today their presence has become much more felt and palpable.

Panama currently has five indigenous districts that represent 20% of the national territory (417,559 inhabitants): the district Ngäbe - Buglé, the district Kuna Yala, the district Emberá-Wounan, the district Kuna de Madugandi and the district Kuna de Wargandi. It is these peoples who have stimulated interest in the

topics that concern them, to such a point that we can take just a few of the many examples from the past few years: protests against the reforms to the Mining Code in 2011; the strike harshly repressed in Changuinola in 2010; and demonstrations in the Ngäbe territory against the hydroelectric plants in January 2008, which led to human losses and injuries.

This protest set a precedent for the indigenous struggle in Panama, halting legislative reform and obliging the Ex President Ricardo Martinelli to sanction a law that prohibited mining, and created a special regime for the protection of water and environmental resources in the indigenous district of Ngäbe Buglé. The indigenous peoples have become more belligerent and their struggles are becoming more skilful in various parts of the country. This is a topic that will continue to be latent in the current Panamanian government which will have to look for ways to enter into dialogue with these groups who have an autonomous administrative regime in their lands, where many of the water and mineral resources to be exploited are located.

- **Guatemala:** The traditional division between the different indigenous ethnic groups in Guatemala (Kaqchikel vs

**“The fight against the mining companies at the local level has led to the rearticulation of the indigenous movement”**

Quiche people, among others) and the Mestizo groups (Ladino people) with the indigenous group diminishes (although it does not disappear) when in the centre of the debate there is the rejection of the mining companies. This is what is happening in the area of the Guatemalan Altiplano, fundamentally indigenous (districts of San Marcos, Huehuetenango, etc.) where a *Consejo de Pueblos del Occidente*, or Western People’s Council, has been created to oppose the extractive policies of the government.

An environmental and anti-extractive approach followed by organisations such as the National Indigenous and Peasant Coordinator (CONIC) a member of the National Maya Coordination and Convergence - WAQIB KEJ, UASP, of CLOC and that has great significance in the population as a whole and the support of the Catholic Church. For example, we can cite Bishop Álvaro Leonel Ramazzini, for whom “the mining companies, largely Canadian, that mine for gold, silver and other metals in Guatemala and in Mexico “not only leave crumbs but are also the generators of social conflicts, in addition to them destroying the environment”.

The fight against the mining companies at the local level has led to the rearticulation

of the indigenous movement, as has been recognised in various academic papers, such as the one by Joris van de Sand on “Mining conflicts and indigenous peoples in Guatemala”: “The organisational responses of the community to mining show interesting signs of a revitalisation of the indigenous identity. Some observers, for example, interpret community consultations as a recovery of the indigenous community as a collective group. Others have noted that the fight against mining has to date scarcely been discursively articulated around demands for the recognition of indigenous collective rights, and that the communities have not yet managed to translate their requirements into a clear and comprehensive political programme for the reform of the state. They suggest that the communities must relate their struggle to aspects of their identity, as a source of social-political capital”.

## 7. CONCLUSIONS

The indigenous issue has been present in Latin America, with a strong political component, for the last 30 years. It has taken on different forms and characteristics but what seems to stand out is that it has a formidable ability to adapt, allowing it to survive over time. It had an indigenous message until the 1950s, a

**“The national states have been incapable of finding institutional channels to address the environmental-indigenous demands and make them compatible with the need for development in the countries”**

marxist message (indigenous people seen as a social class) until the 1980s-1990s, and currently has an environmental and anti-globalisation message.

In addition, it is one of the few phenomena that exists on a regional scale, from Mexico, passing through Central America and covering most of the countries in South America (Colombia, Peru, Brazil, Chile and Argentina). The Observatory of Mining Conflicts in Latin America calculates that there are currently 175 socio-environmental conflicts in the region that involve 183 mining projects and 246 communities.

It also has a significant ability to set or alter the political agenda in countries. The environmental-indigenous movement, although eminently local in character, has the potential to build networks of support and solidarity at a national and even international level that strengthens its presence and opportunities for influence.

Similarly, the conflicts that trigger the indigenous-environmental protests are very disruptive since they generate the sensation of a lack of governability or the loss of the monopoly for legitimate violence by the state, although in reality they rarely possess the power to overthrow institutions.

Latin America has entered a cycle of greater stability, but there are key areas, such as

environmental issues, linked to land and natural resources, that could upset this balance. Some analysts believe that these conflicts will tend to escalate due to a lack of institutional routes capable of offering solutions and negotiating platforms.

Over the next few years, the pressure due to extraction, from both companies and governments, due to the high commodity prices (since even if they fall in the short-term, these are going to remain above historical prices) allows us to predict that new conflicts will arise, of a local nature but with a strong national impact in the countries where they take place. The national states have been incapable of finding institutional channels to address the environmental-indigenous demands and make them compatible with the need for development in the countries.

As argued by Salvador Martí “many of the most valuable strategic resources of the 21st century (such as water, biodiversity, precious metals, oil and gas) are present in areas inhabited by indigenous peoples... the struggle of the indigenous peoples for their rights will continue, albeit through another coalition of players, with a greater presence of local forces and less support from the international networks ... the indigenous protests will continue ... and these protests can no longer be captured



**“The current patterns of production and consumption are unsustainable because they generate large economic and social and environmental costs that erode their own foundations for material sustainability in the medium and long term”**

by governments... they will be quieter and with a greater emphasis on the protection of natural resources and therefore more focused on the area of land and local life”.

Their ability to alter national policy may be increased if we see economic crises in which the discomfort of the middle classes combines with the indigenous protests to result in the common rejection of the institutions and the presence of foreign interests.

As Alicia Bárcena, General Secretary of ECLAC, says “the current patterns of production and consumption are unsustainable because they generate large economic and social and environmental costs that erode their own foundations for material sustainability in the medium and long term. The environmental issue is part of the public agenda ... due to the growing demands of the citizens” which in that area find common ground with the indigenous demands.



**Religious change in Latin America  
Present, past and future**

**d+i** LLORENTE & CUENCA



1. INTRODUCTION
2. A DIFFERENT AND HETEROGENEOUS PHENOMENON
3. HOW MANY EVANGELICALS ARE THERE?
4. HOW ARE THE EVANGELICALS
5. BRASIL, THE COUNTRY WITH THE LARGEST NUMBER OF EVANGELICAL CHRISTIANS
6. THE SITUATION IN GUATEMALA
7. THE SITUATION IN HONDURAS, NICARAGUA AND EL SALVADOR
8. REST OF CENTRAL AMERICA AND THE CARIBBEAN
9. THE CHARACTERISTICS OF THE MEXICAN CASE
10. PENTECOSTALISM IN THE ANDES
11. CAUSES OF THE GROWTH OF THE EVANGELICAL MOVEMENT
12. CONCLUSIONS

## 1. INTRODUCTION

The emergence of Marina Silva's candidacy for the Brazilian presidential elections in 2014 has highlighted the importance of Evangelicals in the political sphere of some Latin American countries. Surveys indicate that Silva gained votes for channeling protest votes against PT's government and Evangelical vote. As a supporter of the Socialist Party, which advocates for secularism principles, Marina's religious beliefs have always been present during the campaign: she publicly expressed her rejection of homosexual marriage as well as any kind of abortion. The votes cast for her skyrocketed since she obtained the "progressive" and the Evangelical votes: the conducted surveys showed that Dilma won the Catholic votes (38% to 30%). Marina obtained a more significant advantage among non-Pentecostal Evangelical churches (44% to 29%) and Pentecostals (41% to 31%). Votes clearly had a religious component even though the key factor was charisma given that Evangelical pastor Everaldo (Christian Social Party, PSC) always obtained 1% to 3% of the votes when Marina was the favorite candidate among Evangelicals (43%).

Few months earlier, in May 2014, the Citizens' Action Party (Partido Acción Cívica) (PAC) in Costa Rica, which had won the presidency in the April elections, tried to build alliances with other political forces in order to obtain enough votes to be able to choose the authorities of the executive power. To that end, this Social Democratic party reached an agreement with the left-wing party Broad Front (Frente Amplio) and with the Costa Rican Renovation Party (Renovación Costarricense) (RC), which has two representatives and embodies the values and aspirations of the Costa Rican Evangelical Christians. At first, PAC accepted to postpone the legislation promoting the rights of gay people in exchange for RC's political support. Although the agreement finally failed due to the pressures and criticism of the gay community, who had previously supported PAC and its candidate to presidency, Luis Guillermo Solís, this facts showed perfectly the extent of not only the social and religious influence but also the political influence that Evangelical Christians have, which enabled them to create new parties represented in Parliament that play a key role in the political arena.

Brazil and Costa Rica represent a further example of how Latin America has lived a true "silent revolution" ever since the 1950's. During this more than half century, the economic and development model has changed (from import substitution industrialization to the current models of primary goods exports), the social structure has undergone significant transformations (there has been a shift from a polarized society to a society in which the broad and heterogeneous middle classes and urban communities are becoming more and more relevant), the prevailing political model has

**“The proportion of Latin Americans claiming to be Catholic decreased from 75% in the mid-1990s to roughly 67% in 2014”**

also evolved (from dictatorships and authoritarian governments to the prevalence of democratic systems) and also, many profound cultural changes have taken place due to the rapid urbanization, the increase of literacy rates and the progressive integration of women into the labour market.

Among these changes, the most significant one is the religious diversification as a result of the rise of many Protestant, Evangelical and Pentecostal churches thanks to which the Latin American religious panorama has become more complex, especially in countries such as Guatemala, Honduras, Brazil or Chile, where between one third and forty percent of the population, previously Catholic, has now converted to any of these Evangelical churches.

Thus, the traditional and historical Latin American religious homogeneity linked to Catholicism (as a result of the Portuguese and Spanish conquest and colonization) has been broken in the last fifty years due to the explosive growth of the different branches of the Evangelic movement (Pentecostals first and Neo-Pentecostals later on).

Interestingly, the political modernization (democratization), the social modernization (urbanization and rise of middle classes) as well as the economic modernization (globalization) has not led to secularization (as it did in other parts of the world). Latin America is still a region where religion (either Catholic or Protestant) plays a crucial role for the majority of the population of

all countries except for Uruguay. There is a broad consensus among scholars about the extent of this change, but no agreement was reached regarding the reasons for this. Marcos Villamán, a Dominican expert in history and the current situation of religion, points out that “it is an undeniable fact that the current social and religious landscape is quite different from the one we had few years ago: the obvious dominance of the Roman Catholic trend accompanied by a slight presence of historical Protestantism and some other Evangelical branches has been currently replaced by a massive emergence of Pentecostal and neo-Pentecostal churches.”

The proportion of Latin Americans claiming to be Catholic increased from 75% in the mid-1990s to roughly 67% in 2014, as shown by the regional survey of public opinion Latinobarómetro. According to the survey’s director Marta Lagos, this shows that “the (Catholic) Church is no longer omnipotent and entirely dominant”. Cristian Parker Gumucio, from the Dominican Center for Research of Costa Rica, highlights in the same vein that “the Catholicism growth rates have been constantly increasing” and the definition of it as “a Catholic continent” is now outdated, since “we are witnessing a clear pluralism in the Latin American religious sphere”. In this analysis, Parker claims that the new religious panorama in Latin America shows a decline of Catholicism and Catholic Church: “this continent has neither been secularized nor converted to Protestantism: we are living a reality subject to a slightly but constantly



**“A distinction must be made between historical Protestantism, which was a consequence of emigration in the 19th century, and the one that explosively emerged at various stages during the 20th century”**

growing religious pluralism against the Catholic Church, although it is still prevalent”.

The particularities of the Evangelical movement in Latin America, as well as its heterogeneity regarding the level of development in different countries, its main characteristics, the way they are, how many they are, what they believe and the political role the different branches play (Protestant, Pentecostals, neo-Pentecostals...) will be explained below.

## 2. A DIFFERENT AND HETEROGENEOUS PHENOMENON

“There is no need to explain that the word ‘Pentecostalism’ designates a broad religious movement that includes a wide range of groups with many different practices”. This statement made by scholar Heinrich Schäfer (Doctor of Theology and Sociology) fairly reflects the meaning of these new religious Protestant movements that arrived to Latin America in successive waves culminating its great expansion from the 1970’s onwards.

Indeed, we should first underscore that we are witnessing a very heterogeneous (Evangelical) religious phenomenon and, even though “Evangelicals” is the most widely used term, it also hides a broad range of situations. In popular language and even in mass media, “the word ‘Evangelical’ refers to any Christian that is not Catholic”. Nevertheless, a distinction must be made between historical Protestantism (Presbyterian, Methodist, Baptist...), which was

a result of the emigration in the 19th century, and the one that explosively emerged at various stages during the 20th century, especially during the last third.

The first Protestantism, the historical and traditional Protestantism of the 19th century, started to develop after the independence of Latin American countries and then following the success of the parties and liberal forces in the second half of the 19th century, thanks to a more lax legislation with regard to non-Catholic religions. This Protestantism was formed by two different churches of missional origin:

- European, mainly Lutherans (Germans), Presbyterians (Scottish), Anglicans (English), Waldenses (French and Italians), Reformed (Dutch and Swiss), Baptists (Welsh) and Mennonites (Dutch and Swiss).
- North American, such as Lutherans, Episcopalians (Anglicans of American origin), Presbyterians, Quakers, Methodists and Baptists.

Then, during the 20th century, three religious waves linked to Pentecostalism arrived to Latin America. Such religious reform movement emerged inside of Evangelism, born in the United States in 1904:

- The first Evangelical wave was developed around the 1910 promoted mainly by the Evangelical Assembly of God Church but also by the Church of God, the Church of Prophecy or



**“Whereas Pentecostalism tried to grow within the popular sectors, neo-Pentecostalism flourished in the middle and upper classes”**

The Prince of Peace Pentecostal Church in Guatemala.

- The second movement, the first Pentecostalism, started during the 1950's, with many churches such as the Church of the Foursquare Gospel - National Evangelization Crusade (1953), Pentecostal Church “Brazil for Christ” (1956), New Life Church (1960), “God is Love” Pentecostal Church (1961), House of Blessing Church (1964), Wesleyan Methodist Church (1967).

According to American anthropologist David Stoll, this second wave of Evangelism was very successful since the proportion of Latin American Pentecostals increased from two thirds of the Latin American Protestants in the 1960's up to three quarters in the 1980's. In 1984, 9.9 million out of the 12.9 million existing “members and supporters” outside the United States were in Latin America and more than six million lived in Brazil, mainly because Pentecostalism reached a strong presence in the urban popular sectors in that period.

- Finally, the third movement, which is currently the most successful one, is neo-Pentecostalism, originated from the Pentecostal movements and the charismatic renewal movements that took place in the 50's and 60's. In this particular segment the following churches stand out: Household of Faith (1975), Universal Church of the

Kingdom of God (1977) and International Church of God's Grace (1980). The greatest increase took place in Central America from the 70's onwards, especially in Guatemala (Verb and Elim Churches), Honduras, Nicaragua and El Salvador.

These movements were born and developed while Latin American societies were undergoing a process of transformation, according to Jean Pierre Bastian, researcher of the Centre of sociology of religion and social ethic (Strasburg): “this ignored movement, despised even by the historical Protestantism until the 1960's, underwent an expansion during the 20's that, in fact, has changed the current balance of powers in the Latin American religious sphere. This dissemination and expansion were accelerated during the 1950's since Latin American populations and societies went through dramatic changes thereafter, with massive migrations of peasants to the future large metropolis within the different countries in the region.”

Neo-Pentecostalism (the Evangelical growth since the 1970's is mainly due to the neo-Pentecostals) is characteristic for having introduced some doctrinal changes (particularly regarding the role of the Holy Spirit) in the liturgy, where they emphasize on “the emotional fervor”, on emotions and spontaneity. Whereas Pentecostalism tried to grow within the popular sectors, neo-Pentecostalism flourished in the middle and upper classes. These new churches are related to urban movements, linked with the emergence of a mass society and



**“The new churches provide spiritual services but also access to health”**

totally rooted in this globalized world, as they expand, among other things, thanks to the professional use of mass media (their message is spread through radio, television and Internet). Likewise, they manage their churches in an entrepreneurial way of production and distribution of religious goods.

They show a charismatic leadership and they have a horizontal structure, which has contributed to spread their influence towards large countries such as Brazil or countries having strong cultural and ethnic contrasts like Guatemala. They are similarly known for their organization through local churches and independent or semiautonomous groups (aside from the Episcopalian denominations) where the key figure is the pastor). Yet, the internal structure of each church is strongly pyramidal but they are also capable, flexible and autonomous enough to adapt to the specific circumstances of each region or country.

Mainly neo-Pentecostalism but also Pentecostalism, appeal to the irrational, sentimental and experimental part of every individual, use the indigenous languages fluently (hence its successful introduction in the indigenous rural areas) as well as the common language to create a closer relationship with their followers. Their strategies are based on marketing, particularly in healing, usage of music in ceremonies and the emphasis on the oral tradition as well as in the traditional popular practices.

Their sermons are particularly popular within minority groups such as women, indigenous groups and poor people. Pentecostals and neo-Pentecostals “are widely present geographically speaking, in favelas, in the countryside and in the outskirts of the cities. They have a very fluent communication with the social base and that is why the different political forces try to be close to them”, says Roberto Romano, author of “Brazil: Church against State” and professor of ethics and philosophy in the State University of Campinas. He also adds that “it has been very well received by women given their interest for a restoration of the household and family unit attracting female interest as it implies rejection of domestic violence and sexism”.

Evolution in recent times has led to a process of institutionalization and bureaucratization, social pluralism and even transnationalization of the Evangelical churches caused by the usage of mass media. These churches initially attracted the most vulnerable sectors of society (internal migrants, unemployed people and low-income sectors). Yet, from the 1980’s onwards, mainly the neo-Pentecostals have specialized socially and aim at middle class sectors, university students, professionals and business owners. The new churches provide spiritual services but also access to healthcare. They also help their members fight against alcoholism and drug addiction and they offer refuge against the crisis of the values of the traditional family. They are grouped around

**“The most successful Christian organizations have their headquarters in other countries and have become international companies”**

charismatic leaders (such as Cash Luna in Guatemala, René Peñalba, Tomás Barahona and Misael Argeñal in Honduras) who run their churches as if they were companies and one of their hallmarks is the construction of large temples (Cash Luna inaugurated in 2013 the new headquarters of the House of God Church, with the capacity to seat eleven thousand people) as well as schools and universities.

Given their adaptability they have been able to rapidly get used to the new communication systems developed during the 90's: websites, radiostations, TV channels, together with an extensive infrastructure in schools, libraries, cafeterias and recording studios. There is a musical worship that appeals to emotions, physical healings and economic prosperity. The most

successful Christian organizations have their headquarters in other countries and have become international companies. According to the Guatemalan sociologist and Protestant pastor Vitalino Similox “Pentecostal churches have become companies which develop strategies of marketing and multilateral distribution of symbolic and religious goods. (This hybridization translates into) “a juxtaposition of different levels of borrowing that include all beliefs and ways of transmission.”

### 3. HOW MANY EVANGELICALS ARE THERE?

As scholar David Martin points out, the Pentecostal and neo-Pentecostal movements have undergone a significant and rapid growth. Unlike the modest increase of the old reform movements such as Protestant during the 19th century or Evangelical until the 1950's, neo-Pentecostal churches have nowadays “by far exceeded (Protestantism) given the growth of Pentecostalism, mainly the Assemblies of God. These Assemblies of God represent 25% of the current Evangelical force in Latin America.”

As the Table 1 shows, in just half a century, Protestantism has grown from 7 million in Latin America to 107 million in the 21st century, with particular attention to the progression registered in countries counting more than 40% such as Guatemala, Honduras, Nicaragua and in Mexico or Chile, where it represents more than a fifth of the total population.

**TABLE 1**

| COUNTRY            | 1960      | 1990             | 2010              | 2013-2014         |
|--------------------|-----------|------------------|-------------------|-------------------|
| Latin America      | 7,700,00  | 37,000,000       | 107,000,000       | 107,000,000       |
| Brazil             | 4,000,000 | 19,600,000(13%)  | 42,300,000 (22%)  | 42,300,000 (22%)  |
| Mexico             | 897,000   | 4,675,000 (5.5%) | 8,000,000 (10%)   | 8,000,000 (10%)   |
| Chile              | 834,000   | 1,200,000 (12%)  | 2,000,000 (16.6%) | 2,000,000 (16.6%) |
| Argentina          | 414,000   | 1,360,000 (4%)   | 4,000,000 (9%)    | 4,000,000 (9%)    |
| Dominican Republic | 327,000   | 700,000 (10%)    | 1,800,000 (18%)   | 1,800,000 (18%)   |
| Cuba               | 264,000   | No data          | 1,000,000 (10%)   | 1,000,000 (10%)   |
| Guatemala          | 149,000   | 3,325,000 (35%)  | 5,500,000 (40%)   | 5,500,000 (40%)   |
| Peru               | 94,000    | 1,680,000 (8%)   | 2,610,000 (12.5%) | 2,610,000 (12.5%) |
| Colombia           | 92,000    | 2,400,000 (8%)   | 5,000,000 (16%)   | 5,000,000 (16%)   |
| Panama             | 57,600    | 360,000 (10%)    | 600,000 (16%)     | 600,000 (16%)     |
| Bolivia            | 46,600    | 525,000 (7.5%)   | 3,000,000 (16%)   | 3,000,000 (16%)   |
| El Salvador        | 41,778    | 1,155,000 (21%)  | 2,000,000 (38%)   | 2,000,000 (38%)   |
| Uruguay            | 42,600    | 45,000 (1.5%)    | 55,000 (8%)       | 55,000 (8%)       |
| Honduras           | 37,666    | 255,000 (5%)     | 2,000,000 (41%)   | 2,000,000 (41%)   |
| Paraguay           | 36,560    | 308,000 (7%)     | 500,000 (8%)      | 500,000 (8%)      |
| Venezuela          | 26,000    | 800,000 (20%)    | 1,300,000 (13%)   | 1,300,000 (13%)   |
| Nicaragua          | 34,600    | 525,000 (7.5%)   | 1,800,000 (30%)   | 1,800,000 (30%)   |
| Costa Rica         | 22,000    | 275,000 (8.9%)   | 1,000,000 (21%)   | 1,000,000 (21%)   |
| Ecuador            | 40,000    | 300,000 (3%)     | 1,700,000 (13%)   | 1,700,000 (13%)   |

Source: Own elaboration based on Latinobarómetro 2014

**“Nowadays, 20% of the 600 million population in Latin America and Caribbean are Evangelicals”**

With more than 560 million believers (105 million of whom live in Latin America and in the Caribbean area), Evangelicals represent 25% of the total number of Christians worldwide, according to the French National Centre for Scientific Research (CNRS) data. The number of Evangelical churches is increasing in Latin America: while in 1990 there were just around 50 thousand Protestants in Latin America, in 1930 the figure skyrocketed to one million. Later on, this figure doubled with each decade: 5 million in 1950, 10 million in 1960, 20 million in 1970 and 50 million in 1980. It is estimated that in 2000, there were around 100 million Protestants/Evangelicals. Nowadays, 20% of the 600 million population in Latin America and Caribbean are Evangelicals, the majority of whom live in Brazil (42 million members), although Guatemala, where Evangelicals represent more than 40%, has the largest proportion in relation to its total population.

Likewise, this group has a constant progression and growth, as recently noted the census conducted by the Brazilian Institute of Geography and Statistics (IBGE). An almost 10 percentage point drop was registered in the number of Catholics between 2000 and 2010: the percentage fell from 74% to 64.6% of the population during that period. A researcher of IBGE, Claudio Crespo, highlights that “in the 1970’s, 92% of the Brazilian population were Catholic and now this figure represents only 64%. That means, there has been a 28 percentage point drop in 40 years. Compared to the 1970’s,

one out of four Catholics are no longer Catholic. In 2000, Brazilian Catholics numbered 125 million and represented 73.6% of the population, while in 2010 they were only 123.3 million and represented 64.6% of the population. During the same period, Evangelicals gained nearly 20 million followers and grew from 26.5 million (15.4% of the population) to 42.3 million (22.2%). Similarly, in Guatemala, in 1935, they represented 2.8% of the population. This figure was stable until 1950, then it increased each decade: In 1960, 3.2%, in 1970, 5.8%, in 1980, 13.8%, in 1990, 18.0%, in 2000, 29.8% and in 2010, 31.7%. In 2014, the proportions registered were 47% of Catholics and 40% of Evangelicals, according to the report of the Latinobarómetro.

In this regard, researcher David Stoll notes that “what makes these Evangelical achievements so significant is not the simple growth in absolute terms. After all, the high birthrates in Latin America could double the number of Protestants every twenty years without changing the ratio to the total population. What is striking is the increasing percentage of Evangelicals. Ever since 1960, Evangelicals have nearly doubled their proportion to the population in Chile, Paraguay and Venezuela, as well as in some Caribbean countries such as Panama and Haiti. According to the same source, since 1960, Evangelicals have tripled their proportion to the population in Argentina, Nicaragua and Dominican Republic. In Brazil and Puerto Rico, the proportion of Evangelicals shows a fourfold increase since 1960. In two



**“Agnostics and non-believers have increased elsewhere but in Latin America the number of believers, both Catholics and all kinds of Protestants, has persisted”**

Central American countries, El Salvador and Costa Rica, as well as in two Andean countries, Peru and Bolivia, the ratio of Evangelists has increased fivefold during the same period of time. In some other Andean countries such as Ecuador and Colombia and also in Honduras, it is thought that this proportion has even jumped sixfold. And in Guatemala, the Evangelical proportion to the population from 1960 to 1985 has increased sevenfold.”

What is the reason for which Evangelical churches, both Pentecostals and neo-Pentecostals, have enjoyed such level of expansion ever since the 1970's?

Many theories have tried to answer this question:

- Starting with the conspiracy theories based on the Rockefeller report written in 1969, the rise of Evangelical churches is the result of a United States and CIA's counterinsurgency strategy which aimed to stop the rise of the Theology of the Liberation. This led to this conspiracy theory which has taken root among the society and among important figures such as the Mexican cardinal Juan Sandoval Iñiguez, who even claimed that “they (Protestants) are here due to a United States' initiative, as the Rockefeller report states.”
- The hypotheses that began developing from the late nineties are more serious and better considered by the academic and intellectual

world. These theories are more focused on endogenous causes which emphasize on the socioeconomic modernization and urbanization processes undergone by Latin American countries. Such processes caused, on the one hand, a clear secularization context but, on the other hand, a diversification of religious practices within increasingly more plural societies that have experienced a cultural change including religious regrowth. Unlike other areas of the world, this modernization has not led to a generalized secularization. Agnostics and non-believers have increased elsewhere but the number of believers in Latin America, both Catholics and all kinds of Protestants, has persisted. As Villamán points out, “religion, in this context, would be one of the favorite answers since it builds certainties and brings sense to individual and social actions. This is one of its recognized social roles”.

Yet the truth is that the Evangelical rise is due to many causes, as Emile Willems, Lalive d'Epinay, David Martin or Jean Pierre Bastian's works have shown in the last decades. They all stress that Evangelical churches arise in Latin America between the 50's and 70's amidst a context of numerous changes that explain why their emergence was particularly favorable:

- **Crisis in the Catholic Church:** The Evangelical expansion cannot be understood without taking into account the crisis

“Since the mid-twentieth century, population growth and the shift from a rural society to an urban one generated a situation for which the Catholic Church was not prepared”

the Catholic Church went through during the 1960's and 1970's. The Catholic Church was very divided back then, had no internal coherence, and was radicalized and politicized by the most traditional sectors (some of the members of the episcopacy elite) and by sectors related to Marxism, from which the Theology of Liberation arose. Vitalino Similox, Presbyterian pastor, theologian and sociologist, explains that “in the 1970's, some upper-middle-class Catholics who felt betrayed when a sector of the Catholic hierarchy started to express preference for the poor, discovered in the Prosperity Theology, the professionally organized shows ran by preachers and prayer meetings held in luxury hotels, a new explanation for their privileged position in society from a Christian point of view. Prosperity Theology also offered an attractive option to many poor or middle class people wishing to strengthen low personal discipline and increase their self-esteem.”

Furthermore, since the mid-twentieth century, population growth and the shift from a rural society to an urban one generated a situation for which the Catholic Church was not prepared due to the lack of necessary human resources to look after the crowds who started to populate the peri-urban areas. Internal migrations and the population explosion exacerbated the so-called “priestly vocation crisis”.

- **The new Pentecostals boost:** The Catholic Church also suffered from the counterinsurgent states' repression during the 60's and 70's and thus the gap was filled by some Protestant churches not so closely linked with politics. At the same time, new Protestant missions from the United States, both Evangelical and Pentecostal, were planned. They preached a new way of being closer to God based on conversion, religious ecstasy, personal experience and miracles. The arrival of these Evangelical missions offered an alternative for those who could not find refuge in the Catholic Church, which did not fulfill people's religious necessities and could not cover the whole territory.

In addition, Evangelical churches, firstly developed by American missionaries, gained some autonomy and gradually dissociated themselves from the United States. In the 1970's, the local pastors started to transform the message preached by Evangelical missionaries and adapted it to the Latin American necessities and culture. This generated hybrid forms of religiosity combining Latin American popular Catholicism with imported Protestantism.

As David Martin said “one thing is clear: contemporary Latin American Evangelical religion is entirely local. Evangelical Faith is currently just one of the many ways

“Evangelical religion  
is a genuine part  
of Latin American  
society”

in which Latin America expresses its faith. Criticism made by North American Christians about Evangelical religion in Latin America is based on this religion not adapting to the North American liberal rules. For instance, it has been described as a recreation of paternal and personal relations extrapolated to the conditions of a contemporary megacity. The reason is quite straightforward: Evangelical religion is a genuine part of the Latin American society.”

- **Adaptability and diversity:** Over the same period, Evangelical churches proved that in addition to being flexible, they also had greater adaptability and acculturation, according Jean Pierre Bastian’s, who highlights that “we could say that the adaptation to the Latin American market and the creation of hybrid original products offered by Pentecostals throughout the region is based on this ‘blend’.” This is especially noteworthy with regards to music production for hymns, which, in fact, had an Anglo-Saxon origin and, since that moment, all songs were directly inspired by endogenous popular musical traditions. Nowadays, these movements called “Praise Ministries” are seen everywhere and they are based on the local music, particularly samba and other tropical styles like salsa, etc. This new musical expressions have been called “salsa-gospel” or “zamba-gospel”. However,

the most important thing is that Pentecostals were built upon popular cultures and have now become Latin American popular religions as opposed to the previous historical Pentecostals, which were limited to radical liberal actors and to middle and upper-classes, but not to working classes.”

Furthermore, they managed to solve in a better way the crises affecting the countries in the region: they offered support for those most in need during the economic crises such as the crisis of the 80’s, they also created support networks in cases such as the Managua earthquake in 1974 or the Guatemala earthquake in 1976. At the same time, they gradually gained autonomy from the headquarters in the United States given that they filled the gap left by the State. That is why their members had special benefits for joining them (schools, legal advice, health posts...). They were also very skilled in marketing techniques since they took advantage of the technological innovations such as radio, television, satellites and now the Internet. Thus, they used the mass media strategically in order to reach a wider audience.

According to scholar David Martin “Evangelical groups are building a social space for themselves which they fully control and where common people have equal value, can be leaders and try to outdo themselves. They might be contributing to make real the standard component of stable democracies: a “respectable”



**“Women find a second partner within the community who will neither beat her nor leave her the weight of the burden of family care or spend their low incomes on alcohol or on another woman”**

working class with modest but realistic economic and educational ambitions and strongly concerned about a stable social and moral order. They are practical and pragmatic, rather than theoretical people and they aim to reform the society by changing the cultural traditions. Of course, such reforms have limits and in any case the Evangelicals are a just a minority, but in many places of the contemporary Latin America it may appear that the field of politics is not as promising. The religious field might be at the moment the one offering more chances to achieve an active reform of practices and an ethos mutation. After all, in Latin America, religion is the most attainable and widespread language to obtain comfort and encouragement.”

Therefore, one of the keys to the success of congregational and Pentecostal Protestantism is related to its adaptability to (or compatibility with) Latin American cultures. That is the case of the indigenous areas in Mexico and Central America that are closer to native traditions than Catholicism and historical Protestantism. Carlos Garma, social researcher, claims that “Pentecostalism is attractive for the indigenous communities since it is somehow similar to their native traditions of spiritual healing and Pentecostal worships fit in well with the syncretism of the indigenous popular religiosity.

As David Martin explains, Pentecostal churches have not only developed a moving and participatory pietistic liturgy providing an alternative to traditional churches but also managed to reach out and attract

a “population historically silenced, particularly indigenous communities and women and to create a religious institutional space where the poor can speak out, practice solidarity and find important emotional and social satisfactions.” Evangelicals in Latin America have managed to get the attention of women, not only emphasizing in domestic, familiar and home matters but also trying to fight the sexism and the culture of violence against women, which has led to a feminization of style and language: “Women find a second partner within the community who will neither beat her nor leave her the weight of the burden of family care or spend their low incomes on alcohol or on another woman.”

#### 4. HOW ARE THE EVANGELICALS

Pentecostal and neo-Pentecostal evangelism is taking root in the current juncture, especially within the urban middle classes, young people and indigenous people living in the rural areas. As regards gender, the general trend shows that the female population is slightly higher than the male population and, in terms of age, the majority sector ranges from 35 to 45 years old.

As to the social situation of the parishioners, it is quite heterogeneous. Whereas some churches such as the Foursquare Church and the Christian Mission Church represent the poorest sectors, the middle class is more present in the Church of Christ and the Church of God. Baptists and the Church of Christ represent the upper classes. Regarding the level



**“Politically speaking, the Evangelical environment is also very heterogeneous although the most conservative sectors are the ones prevailing, particularly in terms of values”**

of educational attainment, the largest sector is, in the first place, the one formed by parishioners who have not completed their primary education and, in the second place, those who have not completed their secondary education. Only a small minority have not completed any education whatsoever but all of them can read. As for university degrees, 70% of those who obtained a university degree are Baptists. On the other hand, not many of the members of the Foursquare Church have completed either their secondary education or a university degree, which shows that the average level of education within this church is lower. Baptists and members of the Church of Christ belong to higher classes and their political involvement is greater than the Pentecostals' involvement.

Politically speaking, the Evangelical environment is also very heterogeneous although the most conservative sectors are the ones prevailing, particularly in terms of values. Thus, in Colombia there is a long tradition of Evangelical presence in the political arena since the first Evangelicals took part in the legislative power in the early 90's. Currently there is a party called Independent Movement of Absolute Renovation (MIRA) which obtained 326,946 votes in the Senate in 2014 and could not make it by ten thousand votes. They managed to keep their legal personality thanks to the 412 thousand votes obtained in the Chamber, which gave them three seats.

In Peru, at present, the strongest party is National Restoration (RN) led by Humberto Lay Sun.

Evangelicals supported engineer Alberto Fujimori in 1990 and one of his pastors, Carlos García, as second Vice-President of the Republic. After the coup d'état in 1992, 'fujimorism' and Evangelicalism ended up being politically separated. In Chile there are around 200 Evangelical candidates including majors and councilors, concentrated in some indigenous regions such as Biobío and Araucanía and more specifically in places like Lota, Curanilahue, Arauco, Lebu and Los Álamos. Amongst them there are militants of Christian Democracy (DC), National Renovation (RN), Independent Democratic Union (UDI), Party for Democracy (PPD), Radical Social Democratic Party (PRSD), Socialist Party (PS) to a lesser extent, and the Regionalist Independent Party (PRI). In the case of Brazil, the members of Evangelical churches have managed to be present in 16 different political groupings and have created three different parties: the Brazilian Republican Party (PRB), the Social Christian Party (PSC) and the Republic's Party (PR). There is even an Evangelical party in Mexico, the Social Encounter Party (PES).

## **5. BRAZIL, THE COUNTRY WITH THE LARGEST NUMBER OF EVANGELICALS**

Brazil is the country with the largest number of Evangelicals in absolute terms (while Guatemala remains at the top in relative terms) since it is estimated that they add up to over 42 million worshippers, having grown exponentially since 2000, as 60% of the new Evangelical worshippers adopted the movement

less than a decade ago. According to the Brazilian Institute of Geography and Statistics (IBGE) they accounted for 15.4% of the total population in 2000 (26.2 million) and already comprised 22.2% in 2010 (42.3 million). This development amounts to 16 million people within 10 years, which approximately equals to the total population of Chile.

Among the most important Evangelical churches of Brazil a few stand out. Assembly of God, under the leadership of Manoel

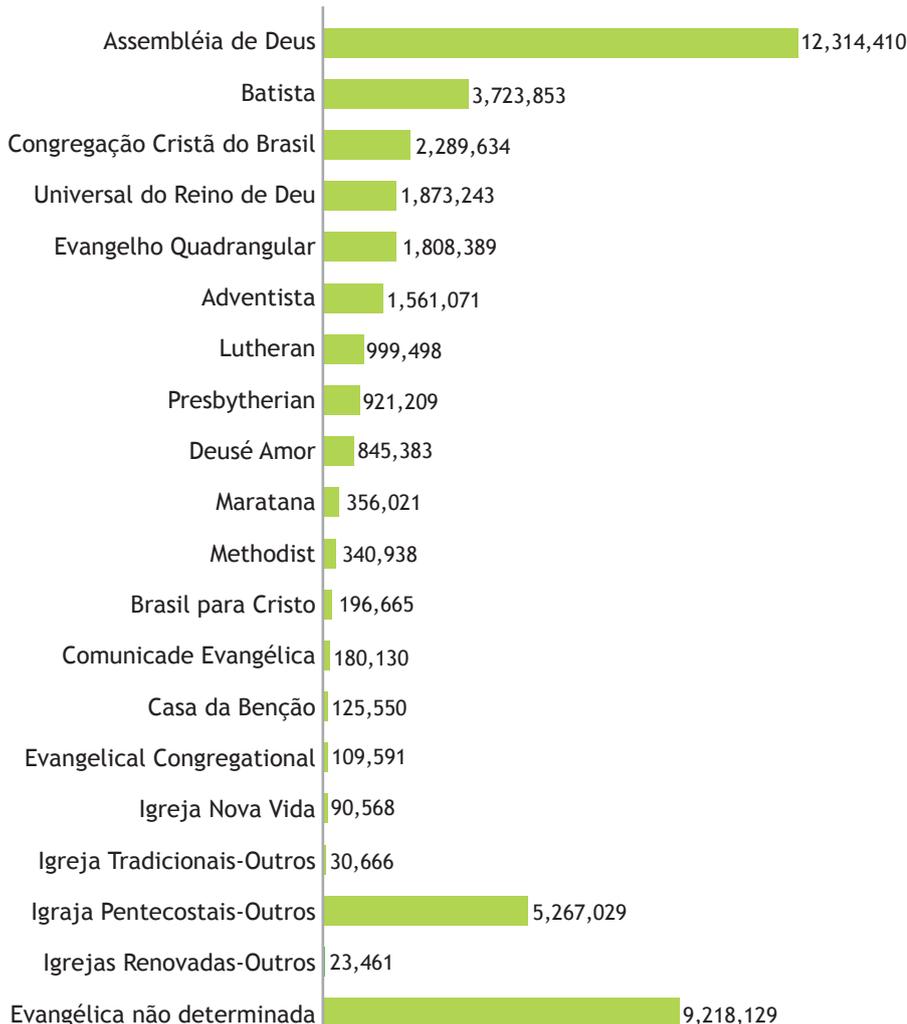
Ferreira, represents 12 million believers, Iglesia de la Gracia, headed by Romildo Ribeiro Soares, is quite influential as well, Iglesia Universal del Reino de Dios, led by Bishop Edir Macedo, has 1.8 million followers, Iglesia Mundial del Poder de Dios, whose most significant head is Valdomiro Santiago, adds up to 400,000 worshippers and Iglesia de la Victoria en Cristo, which counts with 40,000 members among its ranks and is led by Silas Malafaia, a strong abortion and same-sex marriage opponent, who achieved the election of his brother by the PSD (Social Democratic Party of Brazil).

As shown in table 3, the great growth starts during the eighties, which took place under a variety of circumstances: the financial crisis of the late seventies and eighties, the explosive urban growth which entailed the proliferation of favelas (slums) which is usually characterized by the lack of Catholic and State presence and where both physical (thefts, assaults, gang harassment) and economic insecurity is constant.

**In the 2014 election, alliances with the Evangelical parties were key**

According to the 2010 census of the Brazilian Institute of Geography and Statistics (IBGE), Evangelicals amount to 42.3 million worshippers, 22.2% of the total population, an increasingly interesting voting group in the Brazilian political arena. Evangelism is the fastest growing religion in Brazil, which contrasts with the permanent

**TABLE 2:  
EVANGELICAL POPULATION IN BRAZIL**



Source: <http://www.evangelizacao.blog.br/quem-sao-os-evangelicos-quantos-sao-e-onde-estao-no-brasil.aspx>

“The recovery took place in 2010 with the renewal of the political structure. Nowadays, the representatives of the Assembly of God are the most numerous”

decline of Catholicism in the country. Catholicism equaled to 73.6% of the population in 2000, but only accounted for 64.6% 10 years later. If this trend remains unchanged, a third of the Brazilian population might become Protestant in the next ten years.

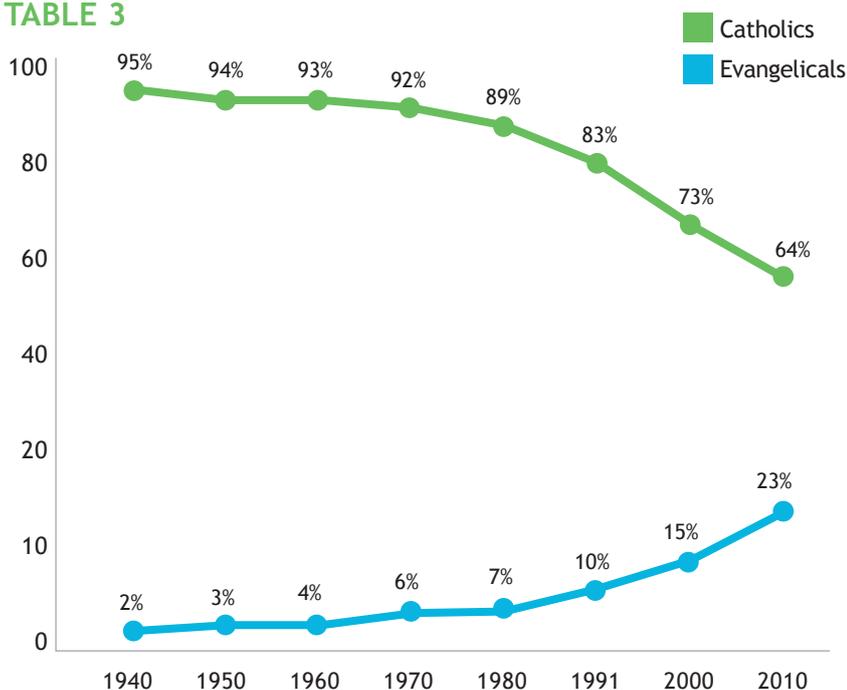
The Evangelical Parliamentary Front (Frente Parlamentario Evangélico) was established in 2003. According to an article of the magazine *Veja*, three years later, the Congress was hit by a scandal that exposed the corruption of Evangelical politicians. This is known as the *Mafia de las Sanguijuelas* (The leeches’ Mafia), in which 23 Evangelical politicians took part by embezzling funds in order to fill their pockets and those of businessmen. Out of these 23 politicians, 10 were members of the *Iglesia Universal del Reino de Dios*

and nine came from the Assembly of God, which ensued the loss of representation of the Evangelical parties in the 2006 election. The recovery took place in 2010 with the renewal of the political structure. Nowadays, the representatives of the Assembly of God, which has multiple branches, and contrary to the *Iglesia Universal*, lacks a sole leader, are the most numerous.

Apart from the members of Congress, four senators form the Evangelical group in Congress. Most of the 77 representatives are in line with Dilma Rousseff’s ideology. But, since certain proposals regarding abortion and same-sex marriage are not a priority in the political agendas of the opposition parties, the Evangelicals fulfill two functions: on one hand, they support the Government in economic and social assistance affairs and on the other, they express their disagreement when the Government tries, for example, to discuss issues such as abortion or extending the rights of homosexuals.

Under these circumstances, it was essential for Dilma Rousseff’s 2014 reelection campaign to reestablish links with the Evangelical community, whose relationship with the Government was one of confrontation, as could be seen in the 2010 electoral battle, when the religious parties held a controversial debate about abortion. It is no coincidence that the nine parties of Rousseff’s coalition decided to create a specific committee to gain their sympathy. Rousseff also founded the Campaign Evangelical Committee for thematic discussions.

TABLE 3



Source: Revista Semana

**“Evangelical vote has grown greatly in the last 20 years in Brazil, especially with the establishment of Neo-Pentecostalism”**

In 2014 presidential election, Dilma Rousseff was not the only candidate trying to get the Evangelical vote. PSDB member Aécio Neves met with bishop José Wellington Bezerra da Costa, President of the Convención General de las Asambleas de Dios en Brasil, in order to fortify his position in relation to the Evangelical parties. Candidate Marina Silva, even though Evangelical, considers religion should not be mixed with politics. Therefore, she kept a distance from these issues, as she opposed merging religion and political matters. But socialists agreed on holding political dialogues with important Evangelical groups, such as the Assembly of God. This approach was made by the Articulation and Mobilization Commission, led by a representative of PSB and one of la Rede.

Other Evangelical leaders supported candidate and Bishop Dias Ferreira de Cary, member of PSC. Dias Ferreira openly stated his opposition against the legalization of abortion and same-sex civil union and strongly supported reducing the legal age for adulthood from a criminal point of view. Even though the polls indicated that a mere 3% or 4% of all electors intend to vote for him, Everaldo legally deserved the same amount of time in the news and political debates of Globo TV as Dilma, Aécio and Marina Silva.

The reality is that the Evangelical vote has grown greatly in the last 20 years in Brazil, especially

with the establishment of Neo-Pentecostalism, which still works in a more private way, therefore turning them into an important actor in the Brazilian political context. But while Evangelical vote guarantees an important base for the elections, it limits the scope of the mandate. After being elected, the representatives of these groups have to work for their voters. This means defending conservative initiatives, including the criminalization of abortion and non-legalization of drugs. These measures satisfy specific groups, but upset others, therefore impairing the politician.

## 6. THE SITUATION IN GUATEMALA

Apart from Brazil, Guatemala is one of the countries in which the appearance and growth of Evangelism is most noteworthy. Guatemala has experienced a deep religious transformation since the seventies. Even though it is true that there is no religious affiliation official census, it is estimated that between 65% and 70% of the total population is Catholic, and 35% to 40% is Protestant.

Guatemala is one of the countries where Evangelism has been most adopted. The lines of development have been parallel to those observed in other countries: in the 19th century Protestantism grows thanks to the liberal governments opening up, but the number of worshippers remained meager. From 1882 to 1940 Evangelical population was insignificant, since it only accounted for 2% of the population.

**“Currently, Guatemala is the Latin American country with the largest number of Evangelicals in relation to its total population”**

The growth of Protestantism begins in the 19th century, especially since 1871, with the arrival of Methodists, Presbyterians, Nazarenes, Episcopalists, Baptists and Lutherans. After WWII the Pentecostals appeared on scene (Assembly of God, Foursquare Gospel and Church of God) and in the seventies, the Neo-Pentecostals with churches such as Elim, The Verb and Christian Fraternity. By 1978 the Evangelical presence amounted to 17.98% of the population and in 2001 it was already over 30%.

Currently Guatemala is the Latin American country with the largest number of Evangelicals in relation to its total population. Even though numbers are not exact, it is estimated that around 40% of the population of almost 13 million people are members of one of the many different Protestant churches of the country. The difference between Catholics and Protestants was reduced by 22% in 18 years, from 1996 to 2013, according to the study “Las religiones en tiempos del Papa Francisco” (“Religions in times of Pope Francis”) carried out by the Latinobarómetro Corporation in Chile. According to the survey, 54% of the population were Catholic in 1996, while 25% were Evangelical. But, in 2013, only 47% stated they were Catholic, a mere 7% more than Protestants (40%).

Christian Fraternity represents a good example of the success of Evangelism seeking to play a bigger role in the society of Guatemala, as it owns the largest religious building in Guatemala and Central America, a huge concert hall with 11,000

seats. In reality, it is a facilities complex, which includes a school, nurseries and a parking area. These are known as megatemples, where Bishops like Cash Luna of the House of God Church carry out their work. That is the path that these churches have taken, including Cash Luna’s one, which has over 25 radio stations throughout the country.

In addition, the political visibility of Evangelism in Guatemala has been quite noteworthy, since, in at least in two occasions, the President of the country was Evangelist: in 1982 after the coup d’état by which Efraín Ríos Montt rose to the power and in 1991, when Jorge Serrano Elías won the elections. More recently, Harold Caballeros was a candidate to the presidency of the country in the 2011 elections.

## 7. THE SITUATION IN HONDURAS, NICARAGUA AND EL SALVADOR

Along with Guatemala the most important growth case of Evangelism in Central America took place in Honduras, El Salvador and Nicaragua. The Honduran case is especially remarkable, as the country has been in the midst of a political crisis since 2009 and a social crisis due to the high levels of poverty, inequality and insecurity. In this context, the number of Evangelical churches, and more concretely, Neo-Pentecostal churches, has been growing.

Catholicism has lost 29% of its worshippers during the past 17 years in Honduras, according to the aforementioned survey (“Las

**“In 2013 the Catholicism has dropped to 47% while Evangelism has risen to 41%”**

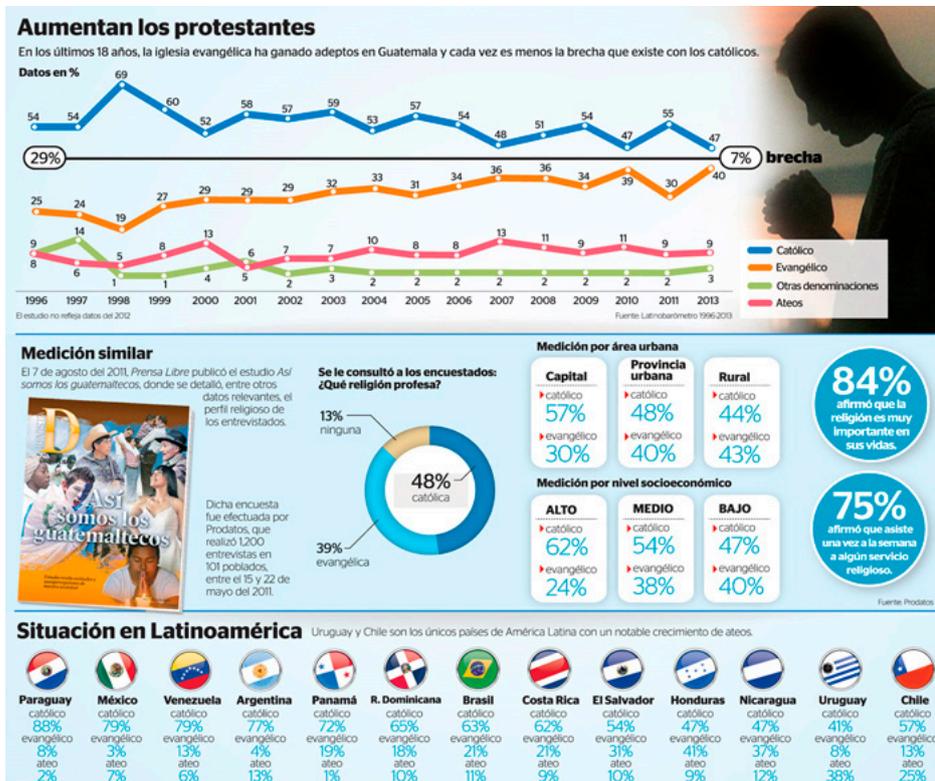
religiones en tiempos del Papa Francisco”) carried out by the Latinobarómetro between 1995 and 2014. This situation can also be appreciated in other countries, although not with the same strength as in Honduras: Nicaragua (-30% Catholics), Costa Rica (-19%) and to a lesser extent Panama (-17%), El Salvador (-13%) and Guatemala (-7%). According to the survey “Honduras is the most representative case of the change in religious beliefs of the last 17 years” since Catholicism has lost “an advantage equal to 58 percentage points over Evangelism and a total of 29 percentage points of Catholic worshippers”. In 1996 Honduras religious beliefs were split as follows: 76% Catholics

and 12% Evangelicals. In 2013 the Catholicism has dropped to 47% while Evangelism has risen to 41%. Not only did Honduran Catholicism ceased to be dominant, but it now possesses the same power as Evangelism. This is the fastest and most important change in the Latin American religious sphere since 1996.

The number of Evangelical churches in El Salvador has grown greatly as well. In 1996, 67% of the population was Catholic, in 2013 this number fell to 54%, a loss of 13 percentage points. Evangelicals, 15% in 1996, have doubled in 2013, reaching 31% of the population. Surveys carried out by M&R Consultores reflect that in Nicaragua, a country with an estimated population of 5.8 million people and Catholic majority, this number is decreasing. The Catholic group has been on decline since 1991, last time when it reached the 90% mark. From there on, the 1995 Census showed that Catholics only accounted for 72.9% of the Nicaraguan population and this figure dropped to 58.5% in the 2005 Census. More recent surveys by M&R reflect the negative trend of Catholicism in Nicaragua: in April 2013, only 53.4% were Catholic, 30% Evangelical and 14.1% people stated being believers, but did not worship any particular religion.

To sum up, the growth of Evangelical churches in Central America is due to many causes: intern conflicts (civil wars) that took place in Guatemala, El Salvador and Nicaragua between the seventies and eighties destabilizing the countries,

TABLE 4



Source: Prensa Libre

**“In the rest of Central America Evangelical churches have a lesser relevance when compared to the Northern Triangle and Nicaragua”**

divisions and confrontations in the core of the Catholic Church which hindered any efforts to cope with the changing social context (rural-urban migration), while Evangelical churches were more flexible to respond to the new social groups that arose as a result of it. Apart from what has already been explained, the natural disasters that caused hundreds of thousands of deaths and injuries cannot be ignored either. Both State and Church did not know how to respond to these events appropriately. And that gap was filled by the Evangelical churches (Guatemala earthquake in 1976, Hurricane Mitch in Honduras in 1998...).

#### 8. REST OF CENTRAL AMERICA AND THE CARIBBEAN

In the rest of Central America Evangelical churches have a lesser relevance when compared to the Northern Triangle and Nicaragua, but they are still clearly growing. Figures show that already 20.8% of the population in Costa Rica are Evangelical, 16.4% in Panama and 22.3% in the Dominican Republic.

Evangelical churches have had a significant growth in the Dominican Republic and now around 25% of the population are Evangelicals. They have grown around the Christian Congregation of Santiago, headed by Bishop Yasser Rivas, the International Baptist Church, pastored by Miguel Núñez and Catedral de la Fe, led by Fernando Belliard. Likewise, Iglesia Mahanaím, led by Bishop Ezequiel Molina Rosario, Ministerios Elim, pastored by Fernando Ortiz and Iglesia Cristiana Palabras de Vida,

led by Raffy Paz, the latter three located in the capital, have played an important role.

In Panama, Evangelism is the second largest religion, as it accounts for 16.4% of the population. According to the estimation of the Contraloría General de la República, over three million people live in Panama. This means that 2.7 million are Catholic while 613,000 are Evangelical. Costa Rica has also experienced a significant change in the religious domain. In 1996, 81% of the population were Catholic and 9% Evangelical. In 2013, 63% were Catholic, while Evangelism already accounted for 21% of the total population. Evangelicals have more than doubled, while Catholicism has fallen 21 percentage points.

#### 9. THE CHARACTERISTICS OF THE MEXICAN CASE

In Mexico, contrary to the situation in Brazil, the different Evangelical churches are not as extended at a national level, even though its importance cannot be ignored in specific states. Evangelical population has grown in 20 years, while Catholicism has fallen by 4.40% when compared to the situation in 1980. A survey carried out by the National Institute of Statistics and Geography (Instituto Nacional de Estadística Geografía e Informática, INEGI) in 1970, showed that 96.2% were Catholic, but by 2000, that percentage declined to 87.8%. In 2012, 83.9% of the Mexican population stated being Catholic, while Evangelical and Protestants accounted for 7.6%, almost two and a half percentage points more than in 2000. Between 2000 and 2010 there was an



**“In Mexico, contrary to the situation in Brazil, the different Evangelical churches are not as extended at a national level, even though its importance cannot be ignored in specific states”**

increase of 3 million worshippers, overcoming the 8 million mark.

Protestantism has expanded all over the country, but has been most successful in the two edges of the national territory: the northern border, characterized by intense migration and urban development in the last decades, and the southeastern part, where most of the indigenous population live and which has been on constant decline and impoverishment. Evangelical churches are present throughout the country, but especially in the southeastern states: Oaxaca, Chiapas, Campeche, Tabasco and Quintana Roo and northern ones: Baja California, Tamaulipas and Chihuahua. The national average shows extremely different values. In Central Mexico and Bajío Catholicism is close or even over 90%. While 94% of the population is Catholic in Guanajuato, this figure drops to a mere 58% in Chiapas.

Evangelical churches in Mexico have developed in two quite different zones: while the northern territory of Mexico is a developed urban area (most of its population lives in large conurbations and it is defined by low unemployment rates and high indicators of welfare), the southeastern part represents the opposite: a rural, underdeveloped zone. The religious shift has been different for them, as Alberto Hernández points out: “different causes have the same effect (the north is urban and the south rural, but both regions have a high Protestantism rate) and similar causes have different consequences (growth of Protestantism entails intolerance,

but only in the southeast territory and not in the northern border). Whatever promotes change in the northern border is irrelevant to the southeastern border and vice versa. But the northern border and the southeast are not absolute opposites, they do share some similarities. Both regions have a few important linking points: the importance of the migratory phenomena and its alienation from the national economic power center, meaning both zones share the status of periphery”.

The profile of the Mexican Evangelical is a city woman, although contrary to popular belief, the great Evangelical growth takes place in rural areas, breeding grounds for Evangelical and Protestant churches. This does not mean that the urban areas are not suited for religious change. Most of the Mexican Protestants are Pentecostal.

## 10. PENTECOSTALISM IN THE ANDES

Apart from the aforementioned cases (Brazil, Guatemala, Honduras, Nicaragua and Mexico) the presence of Evangelical churches is lower in the rest of Latin America. Although the figures are quite modest compared to those of Central America and Brazil (they do not exceed 20% of the population), they are growing at a fast pace and quite significantly in the Andean region (Venezuela, Colombia, Ecuador, Peru and Bolivia).

The Pew Research Center of the U.S. states in its website



**“The first theories considered that the Evangelical growth was related to political exogenous causes”**

that Venezuela has 25,890,000 Christians, of which 22,500,000 are Catholic. Evangelicals amount to 5 million people. In Colombia the development has accelerated rapidly in the last years after decades of stagnation or slow growth: with over 43 million population, Evangelicals already account for five million people, while Catholicism has dropped to 82%. Peru and Ecuador are the countries where Evangelical churches have been the least successful. The total population of Peru is 28,220,764 people and, according to the 2007 Census, 81.3% (16,960,443 people) are Catholic. The second most important movement is Evangelism, with over two and a half million worshippers (12.5%). In Ecuador, most of the population are Catholic, according to a recent survey carried out by the National Statistics and Censuses Institute (Instituto Nacional de Estadísticas y Censo, INEC). 91.9% of the population claims to have a religion, of which 80.4% are Catholic, followed by Evangelism, with 13% (over 1.8 million people). Its growth has taken place in the biggest cities of the country, particularly in Quito and Guayaquil, as well as in indigenous areas such as Chimborazo. Indigenous Evangelical churches have grown and awakened political consciousness to such an extent that in 1980 the Ecuadorian Federation of Evangelical Indigenous (Federación Ecuatoriana de Indígenas Evangélicos, FEINE), known as the Council of Evangelical Indigenous Peoples and Organizations of Ecuador, was founded.

## 11. CAUSES OF THE GROWTH OF THE EVANGELICAL MOVEMENT

After analyzing the context in which Evangelical churches have expanded in Latin America the question to be asked is what are the causes for this impressive increase of Pentecostalism?

The first theories considered that the Evangelical growth was related to political exogenous causes, linked to “counterinsurgency” efforts from the United States towards the Latin American region and, more specifically, Central America. The Rockefeller Report of 1969 and the Santa Fe Papers I and II of the eighties are quoted, since the use of these fundamentalist religious groups was suggested in both documents as part of a counterinsurgency strategy of the USA and the CIA in order to stop the emergence of the Liberation Theology. A good example of how these theories have permeated is the text written by Franco Martínez Mont in the newspaper Prensa Libre de Guatemala in 2011, in which he stated that “the Neo-Pentecostal churches emerge in the late fifties as a controlling tool for the United States Government (counterinsurgency in Latin America) with the consent of the fascist factions and oligarchies that modified the religious map, altering the status quo of the Catholic Church and “christianizing” subaltern segments of society and influencing politics”.

However, since the sixties, social researchers have been launching a series of new ideas in order to

“Evangelical churches showed better capacity for adaptation and innovation with the development of sermons and modern proselytism techniques”

understand the Evangelical boom, focusing on endogenous causes rather than exogenous. Among them, the following protrude:

- **The weakness and internal divisions in the Catholic Church:** The internal factors include the existence, since the sixties, of a politicized Catholic Church; divided, fragmented, segmented and uncoordinated, that clearly lost moral authority among the population and power to reach every corner of the Latin American countries. It was a politically involved Catholic Church, influenced by Marxism, as evidenced by the growth the Liberation Theology among its ranks.
- **More flexibility and adaptation capability by the Evangelical movement:** Evangelical churches showed better capacity for adaptation and innovation with the development of sermons and modern proselytism techniques (radio and TV), use of improved marketing strategies in which celebrities played an important role (singers, actors and, especially, athletes) and better links with key sectors (focusing on elements related to orality, music and indigenous languages).

Anthropology professor of Universidad de Sevilla, Manuela Cantón Delgado, thinks that “Catholicism has been losing ground with Evangelical churches, which are much more flexible”. According to

the expert, these churches are more participatory and the worship centers smaller, which enhances relationships and support between members. On the other hand, the Catholic Church is still a “more vertical (hierarchical) organization”. In the same vein, Monsignor Gregorio Rosa Chávez, Archbishop of San Salvador, states that “the Catholic Church lacks human warmth. People do not know who is sitting next to them. Evangelicals are filling a gap that we created. It poses a real pastoral challenge in which the renewal of the Catholic Church is the only answer to this need of change”.

Just like any other Protestantism movement, Pentecostalism is dynamic, meaning it possesses great adaptation and change capabilities, which explains the distinctive features and potentialities of Latin American Pentecostalism. However, according to David Martin, Pentecostalism is more flexible than any other Protestant movement, which eases its adaptation to local and indigenous cultures. Even though this possibility allows some of the structures of authority and social organization founded by the hacienda system to be reproduced, also enables the management participation of laity. Moreover, Evangelical churches had the ability to reach out to ethnic minorities (indigenous peoples) and women, not only giving them



“Pentecostal groups emerge as solidarity networks and restore community ties”

a bigger role in the liturgy, but also gaining their support by strengthening the family balance, boosting patriarchal values and encouraging women’s participation within the public sphere.

- **Socioeconomic changes intensify Evangelical growth:** Evangelical movement was enhanced by important changes and transformations that affected Latin America after WWII: rural-urban migration during the fifties, intensified during the sixties, seventies and eighties and still takes place. The uprooting experienced by a transitional society moving to a new urban culture is still one of the most quoted reasons for the Neo-Pentecostal boom: “When arriving at strange cities for them, these sister churches gave them a fictitious kinship and served as a reference for them. Aided by a strict moral code and fervent appeals to improve, many poor members and their kids managed to move up in the social structure”, states Stoll.

Lalive D’Epinay, an important theorist and expert in Neo-Pentecostal boom, considers that “urban migration took place in a context of structural poverty and underdevelopment, in which insecurity was accompanied by family breakdowns and loss of social values, which had a traumatic effect in these populations. In this social context, Pentecostal groups emerge as solidarity

networks and restore community ties, a dynamic in which Pentecostalism enables continuity between rural social structures and the social organization of excluded urban areas. Thus, it becomes a social alternative to fight off instability, or as our author defines, the exile of people.

## 12. CONCLUSIONS

After analyzing the Evangelical phenomena in Latin American in general, and in particular the Pentecostal and Neo-Pentecostal movements, we can conclude that:

- **Latin America is no longer a hegemonic Catholic region:** In other words, colonial heritage of a religiously homogenous Latin American definitely shattered 50 years ago with the rapid increase of different branches of Evangelical churches, which represent between a third and a fourth of most of the countries’ population.
- **Catholicism is still predominant:** Without denying the aforementioned growth, Catholicism is still predominant, even in the countries where Evangelism has been adopted by close to 50% of the population (Honduras and Guatemala). As stated by the survey carried out by Latinobarómetro, 60% of the population of ten of the eighteen countries are Catholic. In nine of cases,



“All signs suggest that Evangelism will keep growing, as it has been doing until now, where social and economic crisis strike”

more than 70% declared being Catholic, in three the figure was close to 60% and in two 50% was Catholic.

- **The causes for this change have been endogenous:** There is no conspiracy during the “Cold War” by the United States behind the growth of Evangelical churches. Evangelical huge growth only responds to internal causes and particular conditions of each of the Latin American countries, not homogeneous circumstances that equally affected all countries. The rise of Evangelism is based on several internal factors that can hardly be generalized.
- **It no longer grows exclusively in urban zones:** During the last decade, the fastest growth of Protestantism in Latin American is taking place in rural areas and zones with high indigenous populations. While it is true that these rural areas register the highest Protestant expansion rates, Evangelical movements keep growing in urban areas as well. Therefore, Protestantism is currently expanding both in urban and rural zones.
- **The future of Evangelism:** “Taking into account both conversions and desertions, one may wonder whether Evangelism will continue as a small, but vibrant minority or if they will be able to convert enough Latin Americans to transform the Latin American society”. This thought about the progression of Evangelical

churches made by priest Edward Louis Clearly (1929-2011) is still valid.

All signs suggest that Evangelism will keep growing, as it has been doing until now, wherever social and economic crisis strike (rapid rural-urban migration, fast urban development, increased insecurity, precarious employment, crisis of values and lack of opportunities). However, as middle classes grow and the number of university-educated people increases, Latin American societies will be secularized or, at least, Neo-Pentecostal churches will lose its mobilization capabilities, in particular fundamentalist or populist movements. This situation might ease the expansion of less radical Pentecostal churches.

Political traumas (wars of the seventies), financial crisis (eighties) and major natural disasters, coupled with a time of change and socioeconomic transformation explain the boom of Evangelism since the fifties. But that revolutionary, accelerated urban development, already took place and now we are witnessing a period of consolidation, in which younger, fully urban, generations (they were born in cities) are not product of emigration and uprooting, even though the latter is still present due to the lack of employment prospects and an education system that does not promote equal opportunities for everyone.

In the years to come, it appears that we will witness a slower growth of Evangelical churches, as they have showed great adaptability, but also encountered strong resistances:



**“Evangelical churches, with their huge adaptability and flexibility will continue playing an important role in the region”**

certain zones with a particularly firm Catholic past or roots (Jalisco in Mexico) or urban, significantly secular areas such as Argentina, and more specifically, Uruguay. An exodus of Evangelicals that return to Catholicism or adopt new movements seems unlikely, even though may happen in small numbers. In general, it is not expected for the Evangelical growth to continue growing at the current pace.

In the next years, it is quite likely that we will experience three important parallel processes:

- A reaction of the Catholic Church itself, following the changes and proposals carried out by the new Pope, Francis, whose message seeks to provide a new boost to Catholicism, especially in the region in which he was born, Latin America. There is no doubt that the changes he is proposing (which, at the same time, will create internal tensions) seek to bring Church and worshippers together, trying to recover lost ground in Latin America and make Catholicism more dynamic and flexible.
- The Argentine and Uruguayan examples, characterized by high rates of secularism in a middle class, educated, urban society, will be extending throughout the region with increasing strength, although this cannot be extrapolated to Europe, as the weight of tradition and belief is very strong in Latin America and its scope comprises all classes and educational levels.
- Evangelical churches, with their huge adaptability and flexibility will continue playing an important role in the region, assuming new challenges and roles, as demanded by the society and new times. Growth might not be exponential anymore, but it will go hand in hand with social change. In a more educated and urban middle class society, this implies the proliferation of a more moderate Evangelical church, both in substance and form.



## The challenges of taxation in Latin America

**d+i** LLORENTE & CUENCA

1. INTRODUCTION
2. FEATURES AND CHANGES IN TAXATION IN LATIN AMERICA (1990-2014)
3. CONCLUSIONS

## 1. INTRODUCTION

Since colonial times, fiscal policy has historically been one of the key areas that need to be addressed by Latin America and, in general, this issue was not well resolved, not even after independence or in the 20th century. As we're reminded by the Economic Commission for Latin America and the Caribbean (ECLAC), fiscal and tax reform was already considered to be one of the great transformations yet to be implemented by the Latin American economies in the 1960s: "The Charter of Punta del Este, through which the Alliance for Progress was created half a century ago, included on its agenda for the region the promotion of tax reforms with the aim of increasing the levels of taxation and making the systems more progressive, broadening revenue from direct taxes. As is well-known, these aims have not been perfectly achieved and therefore the challenge still remains".

More recently, since the 1990s, Latin American countries have attempted to reduce their traditional fiscal deficits by mobilising resources. These democracies since the 1980s have not found a definitive solution and, in the current decade, fiscal reforms have actually been the main focus of several governments, both centre-right and centre-left: in El Salvador in 2012, the President of the Republic, Mauricio Funes, sanctioned the decree passed by the Legislative Assembly containing a series of reforms to the country's law on Income Tax (ISR) to allow the treasury to collect around 150 million dollars more each year by raising the tax on income and profits for some companies from 25% to 30%. This route taken by El Salvador was also followed by Costa Rica and Guatemala, albeit without much success in these cases and by Mexico in 2013, whose government, led by Enrique Peña Nieto, managed to pass fiscal reforms in 2013. In Brazil, fiscal reform has been a problem for the last twenty years and a risk that no President is willing to take on. Twelve years ago, Constitution Amendment Proposal (PEC) number 474/01 went through National Congress, whose aim was to create a single tax on financial movements. Its collection method would be more efficient than other proposals and the most effective in combating tax evasion. It also simplifies the structure, reduces public and private costs, relieves the individual tax burden on current taxpayers and causes fewer geographical distortions than those claimed by its critics. But this was put to one side by the government of Luiz Inácio Lula da Silva in 2003. In Chile, in

**“When we talk of taxation in Latin America we're actually talking about a long history of frustrated tax reforms that have not managed to achieve their goals”**

2014, part of Michelle Bachelet's proposed fiscal reform contained the fundamental pillar supporting the great goal of her presidency: educational reform. As pointed out by Ascanio Cavallo, political analyst of the Chilean newspaper *La Tercera*, “none of the other presidential promises is more important than this [the educational reform]. Tax reform has been justified by the need to increase fiscal resources for education and the reform of the Constitution aims to provide institutional recognition for the proposed changes it contains; above all, the transformation of education”.

All this merely demonstrates that the issue of taxation in the region has yet to be resolved, although it still occupies and preoccupies the various regional administrations. All these tax reform initiatives attempt to follow the same path, albeit with more or less success, namely the one recommended by ECLAC, in the words of its Executive Secretary, Alicia Bárcena: “Tax reforms with a vision of sustainable development are needed in Latin America and the Caribbean. Tax collection and public expenditure structures must be revised so that they are fairer and have the necessary resources to face the challenges of development and climate change”.

Latin America's relationship with fiscal policy is actually a constant quest to achieve the objectives highlighted by Alicia Bárcena: governments present each fiscal reform as the definitive one, although ultimately

this is very far from being the case as they are usually, in most cases, patches aimed at sorting out specific problems (such as the current fiscal imbalances) rather than comprehensive solutions for the medium and long term. When we talk of taxation in Latin America we're actually talking about a long history of frustrated tax reforms that have not managed to achieve their goals.

In fact, already in 2007, in the San José Consensus organised by the Inter-American Development Bank (IADB), the conclusion reached was that improving fiscal institutions and policies was not only one of the greatest challenges facing the region but also one of its greatest opportunities to boost its chances of economic and social development in the future. And Luis Alberto Moreno, President of the IADB, has stressed on several occasions that no reform is more important for the sustainable, inclusive growth of Latin America and the Caribbean than that related to the region's fiscal and tax systems.

What seems clear is that tax revenue in Latin America is still relatively low, hindered by the countries' own degree of development (lower than that of the OECD nations), by fiscal authorities with few resources, by large informal economies that dramatically reduce the tax base and lead to extensive sectors of society having no tax burden at all. This lack of tax revenue has social and economic consequences for those countries

**“There’s a markedly imbalanced tax structure biased towards indirect taxes and very high levels of tax evasion”**

with greater macroeconomic volatility and whose states do not have the necessary financial capacity to promote investment in physical and human capital which, in turn, exposes lower-income sectors to increased instability as they cannot access effective mechanisms of social protection against abrupt economic changes.

The next few pages analyse the characteristics of the fiscal systems in Latin America (which are highly heterogeneous), the key transformations occurring over the last few years (increased revenue thanks to the greater weight of certain types of tax, particularly VAT) and the main challenges still facing the region in the fiscal area over the coming years.

## 2. FEATURES AND CHANGES IN TAXATION IN LATIN AMERICA (1990-2014)

There are several stereotypes and common points regarding taxation in Latin America that are worth examining as some are clearly outdated, although still alive and kicking in the collective subconscious. In general, Latin American taxation is usually considered to be low, there’s a markedly imbalanced tax structure biased towards indirect taxes and very high levels of tax evasion. This view, only partly true, ignores some of the most important changes that have taken place in the region since the 1980s, extensively changing the fiscal panorama:

**Taxation has increased although it’s still low (with few exceptions) and volatile**

The first thing we should note is that, as stated by ECLAC, **there have been very substantial structural changes to the fiscal system in Latin America** since the start of the new millennium: “Over the past decade (in particular since 2002), most countries in the region witnessed a substantial increase in their tax burden as a percentage of GDP, together with far-reaching structural changes, including consolidation of the value added tax (VAT), a significant improvement in the share of direct taxes in total tax receipts and a decline in tariffs on international trade”.

In the last two decades, the countries of Latin America have gradually reduced their traditional and historical gap between fiscal revenue and expenditure via an increase in the tax burden and structural changes in tax collection: a reduction in the share of taxes on international trade, a sharp rise in revenue from VAT and an albeit lower increase in the share of tax on income and assets, particularly personal income tax.

As ECLAC points out, a new phase in Latin American taxation has been unfolding since the mid-1990s and especially in the last decade. As can be seen in Table 1, the level of tax revenue as a percentage of GDP has trended upwards both as a regional average and also in the vast majority of Latin American

and Caribbean countries. Between 2000 and 2011, the average tax burden in Latin American countries rose from 15.4% to 19.1% of GDP while in the Caribbean it rose from 19.3% to 23% of GDP. In fact, the tax burden has increased more in Latin American and Caribbean countries than in any other region in the world: 2.7 points of GDP from the beginning of the 1990s to the second half of the first decade of the new millennium. More tax is currently

paid in Latin America and the Caribbean (as a proportion of income) than in Asian or African countries because Latin American countries have carried out substantial tax reforms over the last two decades: VAT reforms in the 1990s and promoting income tax in the last decade.

As can be seen in Table 1 produced by ECLAC, and as noted by the IADB, “the tax burden has grown in almost all Latin American and Caribbean countries, whether relatively rich economies, such as Argentina, Chile and Uruguay; or lower-income countries such as Guatemala and Bolivia; in countries rich in oil and minerals, such as Colombia, Ecuador and Peru, in economies with fewer natural resources, such as the Dominican Republic and El Salvador; or in tourism-dependent countries, such as Barbados; as well as in those dependent on external transfers, such as Nicaragua. The tax burden fell in only three countries (Mexico, Trinidad and Tobago, and Venezuela), all oil exporters, in the three-year periods from 1991 to 93 and 2008 to 2010”.

This increased revenue has been boosted by various factors and it's impossible to provide a single cause. The consensus of analysts points to the following as factors contributing to this rise in revenue: (1) the favourable, high prices of key exports, (2) improvements in the respective national tax administrations and (3) the good economic situation after a six-year boom (2003-2008) and growth (of around 5% annually) over the period 2010-2013 leading to high levels of financial and fiscal solvency.

**TABLE 1: LATIN AMERICA AND THE CARIBBEAN (33 COUNTRIES): TAX REVENUE 2000 AND 2011 (as a percentage of GDP)**

| COUNTRY                      | Tax revenue with Social Security |      | Tax revenue without Social Security |      | Total revenue |      |
|------------------------------|----------------------------------|------|-------------------------------------|------|---------------|------|
|                              | 2000                             | 2011 | 2000                                | 2011 | 2000          | 2011 |
| <b>GROUP 1</b>               |                                  |      |                                     |      |               |      |
| Argentina                    | 18.1                             | 27.4 | 21.5                                | 34.9 | 25.0          | 38.0 |
| Brazil                       | 23.0                             | 26.0 | 30.1                                | 34.8 | 32.5          | 38.3 |
| Uruguay                      | 14.6                             | 18.6 | 22.5                                | 26.5 | 27.4          | 29.0 |
| <b>GROUP 2</b>               |                                  |      |                                     |      |               |      |
| Bolivia                      | 16.3                             | 20.4 | 17.9                                | 22.1 | 26.7          | 34.5 |
| Costa Rica                   | 12.6                             | 14.4 | 18.9                                | 22.0 | 21.3          | 24.1 |
| Chile                        | 16.9                             | 18.9 | 18.2                                | 20.2 | 21.3          | 24.1 |
| Ecuador                      | 16.9                             | 18.9 | 18.2                                | 20.2 | 21.9          | 24.6 |
| Nicaragua                    | 11.2                             | 15.2 | 13.5                                | 19.0 | 16.8          | 21.8 |
| Colombia                     | 11.6                             | 16.2 | 14.0                                | 18.1 | 17.7          | 22.4 |
| Panama                       | 9.6                              | 11.3 | 16.0                                | 17.8 | 24.6          | 24.3 |
| Peru                         | 12.4                             | 15.3 | 14.1                                | 17.0 | 17.0          | 19.4 |
| Paraguay                     | 9.3                              | 12.1 | 12.5                                | 16.1 | 18.1          | 21.7 |
| Honduras                     | 13.8                             | 15.0 | 14.3                                | 15.8 | 16.2          | 18.3 |
| El Salvador                  | 10.2                             | 13.9 | 12.4                                | 15.5 | 14.2          | 17.1 |
| <b>GROUP 3</b>               |                                  |      |                                     |      |               |      |
| Haiti                        | 7.9                              | 13.1 | 7.9                                 | 13.1 | 8.2           | 14.3 |
| Guatemala                    | 10.5                             | 10.9 | 12.4                                | 12.8 | 14.1          | 13.6 |
| Dominican Republic           | 11.2                             | 12.7 | 11.3                                | 12.8 | 14.1          | 13.6 |
| Venezuela                    | 12.9                             | 11.9 | 13.6                                | 12.5 | 20.9          | 23.0 |
| Mexico                       | 10.1                             | 9.7  | 11.9                                | 11.4 | 17.4          | 19.5 |
| Lat. America (19 countries)  | 12.7                             | 15.7 | 15.4                                | 19.1 | 19.6          | 23.6 |
| The Caribbean (13 countries) | 19.3                             | 23.0 | ...                                 | ...  | 24.5          | 28.3 |
| Cuba                         | 33.3                             | 34.5 | 37.2                                | 38.8 | 48.8          | 65.7 |
| OECD (34 countries)          | 26.3                             | 24.7 | 35.2                                | 33.8 | 41.4          | 40.5 |

Source: ECLAC <http://www.eclac.cl/publicaciones/xml/6/49276/PanoramaFiscaldeALC.pdf>

**“In addition to VAT, in the last decade there has already been a significant increase in revenue from corporate income tax and, at the same time, new taxes have emerged”**

Over these years, **value added tax (VAT) has become the main source of tax revenue in Latin America and the Caribbean**, now totalling 6.3% of GDP. This strength in VAT revenue (due to it being extended to intermediate and end services and a progressive rise in the general tax rate) has also been helped, according to ECLAC, by stronger world economic growth, a rise in international commodity prices exported by Latin American countries and a favourable macroeconomic context, all helping to reduce fiscal and trade deficits. General taxes on consumption (mainly VAT and sales taxes) accounted for 33.8% of the tax revenue of the countries of Latin America and the Caribbean in 2011 compared with 20.3% of the countries of the OECD. From a historical point of view, **at the end of the 1980s and early 1990s (after neo-liberal reforms opened up economies to international trade), VAT replaced the taxes on international trade.**

In addition to VAT, in the last decade there has already been a significant increase in revenue from corporate income tax and, at the same time, new taxes have emerged (on bank debits, credits and financial operations). As can be seen in Table 2, in Latin American countries taxes on income and utilities accounted on average for 25.4% of tax revenues in 2011, while Social Security contributions totalled 16.9% (in the OECD these percentages are 33.5% and 26.2%, respectively). With regard to tax on consumption (such as selective

taxes and taxes on international trade), this has fallen to 17.7% (in the OECD it is 10.7%).

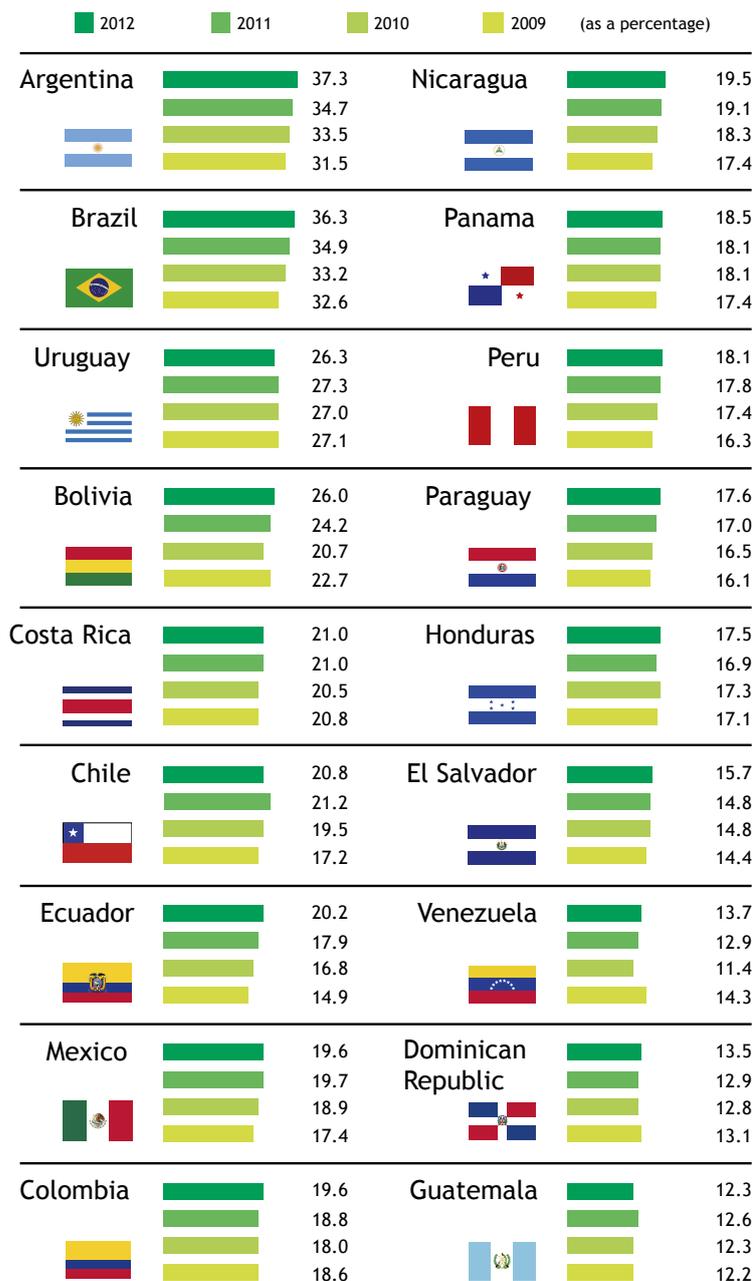
This higher tax revenue has also come from growth in formal employment and the consequent increase in private consumption and taxes levied on the goods and services consumed. Lastly, the reduction and abolition of numerous tax exemptions, deductions and benefits has also had a significant effect, as well as improvements in the administration of VAT and income tax.

However, in spite of these undeniable increases in the tax burden, tax revenues in Latin America are still low (20.7%), lower than in the other 32 non-Latin American countries of the Organization for Economic Cooperation and Development (OECD) (34.6%). Osvaldo Kacef, Head of the Economic Development Division at ECLAC in Buenos Aires, states that “only four Latin American countries (Argentina, the Plurinational State of Bolivia, Brazil and Nicaragua), out of the 19 contained in the sample are above the regression line, indicating that their tax pressure is high compared with their level of GDP per capita. Uruguay and Costa Rica are very close to the regression line; i.e. their tax burden seems to be in line with their degree of development, while the remaining 13 countries have a clearly lower tax burden than they should have according to their levels of development”.

**This low revenue is due to many different factors that can be grouped into two broad areas: economic-social factors and institutional limitations.**

One of the key economic-social factors is the low level of devel-

TABLE 2: TAX REVENUE AS A PERCENTAGE OF GDP



Graphics: FMG/Source: Tax statistics in Latin America (OECD-ECLAC-CIAT)

opment, which ends up limiting the capacity of tax administrations to collect taxes and enforce the rules and compliance on a national scale. These are also countries with a substantial informal economy, directly affecting the tax structure as these informal sectors evade any kind of tax burden, especially personal income tax. The tax base is therefore ultimately reduced by social issues (great inequalities in income) and economic issues (extensive informal economy). Revenue is also hampered by high levels of informality and tax evasion (according to ECLAC, tax evasion rates in Latin American countries are between 40% and 65%, approximately).

However, there is another group of limitations that go beyond the strictly economic, namely factors of an institutional and also political nature. As pointed out by ECLAC and IADB, in the processes of public policymaking and implementation, institutional quality is as important as the policy content. One important institutional deficiency is the state's limited capacity to collect taxes due to lacks of an administrative nature and also in resources, making it impossible to control tax fraud, as well as the inability to control and reduce high levels of tax evasion in the informal economy, the low level of fiscal awareness and education among the population and high fiscal expenditure due to the existence of a large number of different exemptions or preferential tax treatment in economic sectors with a high tax capacity.

**“The region's countries have increased their tax revenue but this is still collected little and poorly, weakening the redistributive capacity of fiscal policy”**

**As has already been shown, revenue has increased but this is still low and highly volatile.**

The region's tax revenue tends to be very volatile, especially in those countries specialising in exporting non-renewable natural resources and those whose income is related to international commodity prices. This low and volatile tax revenue can have serious consequences, not only at times of crisis but also during slowdowns with a risk of stagnation, as at present; especially because, in the last five years, states have taken on a greater role in social policies and have increased public expenditure on social spending in general and particularly on programmes to reduce poverty (conditioned transfers). This government spending depends on exports and not on the country's own internal resources, hence the model's volatility. At the same time, automatic stabilisers (insurance for unemployment, retirement, etc.) are not only limited but also highly ineffective, accentuating the vulnerability of lower-income sectors which suffer more directly from any substantial reduction in their income at times of crisis or recession.

In short, beyond the improvements observed recently in the fiscal conditions and tax revenue of most of the countries of Latin America, it can be concluded, as does ECLAC, that “the region's countries have increased their tax revenue but this is still collected little and poorly, weakening the redistributive capacity of fiscal policy”.

### Regional heterogeneity

The increase in tax revenues occurring in Latin America since the 1990s has been highly heterogeneous in the region's countries, depending on the different tax policies implemented from country to country. As can be seen in Table 3, intra-regional differences with regard to tax burden levels can be observed in examples such as Argentina and Brazil, which exceed the average tax burden of members of the Organization for Economic Cooperation and Development (OECD), while others (Guatemala) do not even reach one third of such levels. In the area of tax, as in other economic and political areas, the region is diverse and contains countries with relatively high levels of tax revenue in relation to their gross domestic product (GDP), countries with very low rates and others with intermediate rates.

On the one hand there's a group of countries whose tax burden falls below 15% of GDP. Guatemala, Mexico, Panama and Trinidad and Tobago have the lowest tax burdens, around 10% of GDP: Guatemala, 12.2%; the Dominican Republic, 13.1% and El Salvador and Venezuela, both with 14.4%, while in Haiti it's barely 11.7% of its GDP. Mexico is around 11.8%, if we exclude its oil revenue.

The second group is made up of countries with an average tax burden (above 15% and below 25%): Chile (18.4%), Colombia (17.4%) and Peru (15.9%).

**“The tax burden in Brazil reached a record 36.27% of GDP after increasing by 3.63 percentage points over the last ten years”**

Lastly, there's a group of countries with very high tax burdens. Brazil and Argentina head this list. In fact, Argentina has reached the top of the international ranking because, in 2013, it had the highest tax burden in Latin America, even larger than most developed countries. This has been revealed by a study by the Organization for Economic Cooperation and Development (OECD), the Economic Commission for Latin America and the Caribbean (ECLAC) and the Inter American Center of Tax Administrations (CIAT), which states that, at the end of 2012, Argentina had a tax burden of 37.3%, compared with

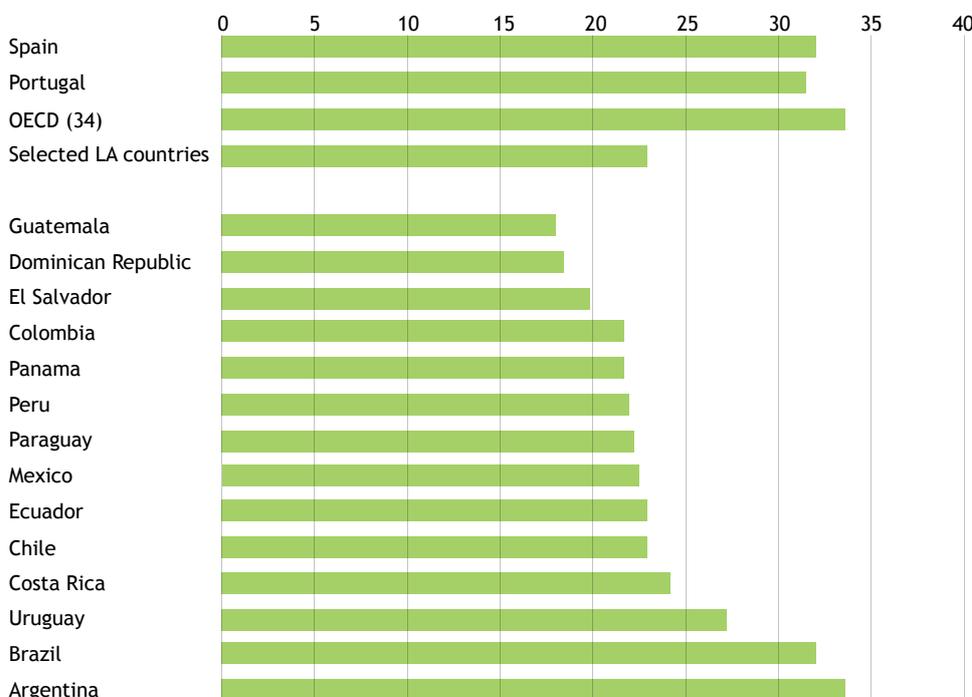
the average of 20.7% for Latin America and 34.1% for OECD countries, indicating considerable historical development: in 1990 the tax burden in the country was 16.1% of GDP and 20.1% after the crisis of 2001.

Second in the ranking was Brazil, with 36.3%, a country which has traditionally occupied the highest position in this classification. The tax burden in Brazil reached a record 36.27% of GDP after increasing by 3.63 percentage points over the last ten years. According to the OECD, Brazil has the highest tax burden among the emerging countries (China 17%, India 18%, Indonesia 12% and South Africa 27%). According to the study carried out in 2013 by the Brazilian Institute of Planning and Taxes (IBPT), Brazil posted the highest tax burden of all the BRICS countries (Brazil, Russia, India, China and South Africa), ending the year with a tax burden of 36.42% while the BRICS average is 22%.

With regard to how tax revenue has grown over the last decade or two, it can be established that, in the fiscal area, there is also marked heterogeneity and three groups of countries:

- A first group has seen a larger increase in the tax burden over this time, around 10%. Argentina and Ecuador are the ones recording the highest increase since 2001. In Argentina this new revenue has come through export duties since 2002 and through increased revenue from Social Security

**TABLE 3: TOTAL TAX REVENUE AS PERCENTAGE OF GDP**



Source OCDE

contributions after the pension system was nationalised in 2008. In Ecuador the largest increase has occurred thanks to successive tax reforms which have increased revenue from income tax, as well as in the negotiation of new contracts with oil exporters.

- A second group of countries has experienced an average increase in tax burden, around 5%. Brazil, Colombia, Bolivia, Haiti, Nicaragua, Cuba and Uruguay managed to increase their tax burden by between 4 and 5.5 percentage points of GDP in the period 2000-2011.

**TABLE 4: TABLE OF TAX REVENUE AS A PERCENTAGE OF GDP**

|                               | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |                        |
|-------------------------------|------|------|------|------|------|------|------|------|------|------|------------------------|
| Argentina                     | 23.4 | 26.4 | 26.9 | 27.4 | 29.1 | 30.8 | 31.5 | 33.5 | 34.7 | 37.3 | Argentina              |
| Bolivia                       | 13.3 | 15.5 | 19.1 | 21.8 | 22.6 | 20.5 | 22.7 | 20.7 | 24.2 | 26.0 | Bolivia <sup>2</sup>   |
| Brazil                        | 31.2 | 32.1 | 33.1 | 33.1 | 33.8 | 34.0 | 32.6 | 33.2 | 34.9 | 36.3 | Brazil                 |
| Chile                         | 18.7 | 19.1 | 20.7 | 22.0 | 22.8 | 21.4 | 17.2 | 19.5 | 21.2 | 20.8 | Chile                  |
| Colombia                      | 16.7 | 17.5 | 18.1 | 19.1 | 19.1 | 18.8 | 18.6 | 18.0 | 18.8 | 19.6 | Colombia               |
| Costa Rica                    | 19.4 | 19.3 | 19.8 | 20.3 | 21.7 | 22.4 | 20.8 | 20.5 | 21.0 | 21.0 | Costa Rica             |
| Dominican Rep.                | 12.0 | 12.9 | 14.7 | 15.0 | 16.0 | 15.0 | 13.1 | 12.8 | 12.9 | 13.5 | Dominican Rep.         |
| Ecuador                       | 11.4 | 11.4 | 11.7 | 12.4 | 12.8 | 14.0 | 14.9 | 16.8 | 17.9 | 20.2 | Ecuador                |
| El Salvador                   | 13.3 | 13.2 | 14.1 | 15.1 | 15.2 | 15.1 | 14.4 | 14.8 | 14.8 | 15.7 | El Salvador            |
| Guatemala                     | 13.5 | 13.4 | 13.1 | 13.8 | 13.9 | 12.9 | 12.2 | 12.3 | 12.6 | 12.3 | Guatemala              |
| Honduras                      | 16.2 | 17.0 | 16.9 | 17.6 | 19.0 | 18.9 | 17.1 | 17.3 | 16.9 | 17.5 | Honduras               |
| Mexico                        | 17.4 | 17.1 | 18.1 | 18.2 | 17.7 | 20.9 | 17.4 | 18.9 | 19.7 | 19.6 | Mexico                 |
| Nicaragua                     | 19.1 | 19.8 | 20.9 | 17.1 | 17.4 | 17.3 | 17.4 | 18.3 | 19.1 | 19.5 | Nicaragua              |
| Panama                        | 15.0 | 14.7 | 14.6 | 16.0 | 16.7 | 16.9 | 17.4 | 18.1 | 18.1 | 18.5 | Panama                 |
| Paraguay                      | 11.6 | 13.1 | 13.8 | 14.2 | 13.9 | 14.6 | 16.1 | 16.5 | 17.0 | 17.6 | Paraguay               |
| Peru                          | 14.5 | 14.7 | 15.8 | 17.2 | 17.8 | 18.2 | 16.3 | 17.4 | 17.8 | 18.1 | Peru                   |
| Uruguay                       | 21.5 | 22.7 | 23.8 | 25.4 | 25.0 | 26.1 | 27.1 | 27.0 | 27.3 | 26.3 | Uruguay                |
| Venezuela                     | 11.9 | 13.3 | 15.9 | 16.3 | 16.8 | 14.1 | 14.3 | 11.4 | 12.9 | 13.7 | Venezuela              |
| Non-weighted average          |      |      |      |      |      |      |      |      |      |      | Non-weighted average   |
| LAC (18) <sup>5</sup>         | 16.7 | 17.4 | 18.4 | 19.0 | 19.5 | 19.5 | 18.9 | 19.3 | 20.1 | 20.7 | LAC (18) <sup>5</sup>  |
| OECD (34) <sup>6</sup>        | 34.3 | 34.3 | 34.8 | 35.0 | 35.0 | 34.5 | 33.6 | 33.8 | 34.1 | na   | OECD (34) <sup>6</sup> |
| n.a: Indicators not available |      |      |      |      |      |      |      |      |      |      |                        |

1. The figures exclude local government revenues for Argentina (but include provincial revenues), Bolivia, Costa Rica (up to 1997), Dominican Republic, Ecuador, El Salvador, Honduras, Nicaragua, Panama (up to 2004, 2011 and 2012), Peru (up to 2004), Uruguay (2012), and Venezuela as the data are not available.

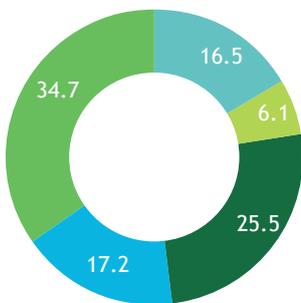
2. Estimated figures for 2011 and 2012.

Data from ECLAC published in Revista Summa: <http://www.revistasumma.com/economia/45510-ingresos-tributarios-aumentan-en-america-latina-pero-aun-son-bajos.html>

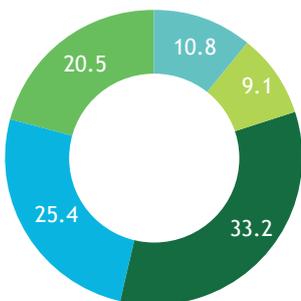
**TABLE 5:  
TAX STRUCTURES IN MEXICO,  
LATIN AMERICA AND THE OECD  
(2010)**

- Taxes on income and utilities
- General consumption taxes
- Other taxes
- Social security contributions
- Specific consumption taxes
- Specific taxes on hydrocarbon production

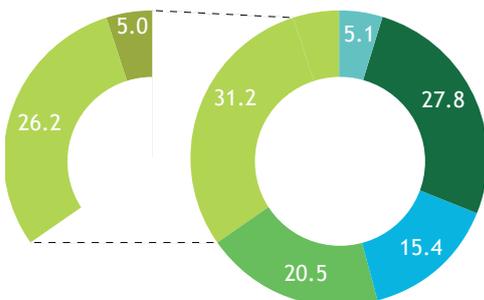
**SELECTED LA COUNTRIES (15)**



**OECD (34)**



**MEXICO**



- And, lastly, there's a third group of countries with a lower rise in their tax burden. Mexico and Venezuela particularly stand out, the only countries with a reduction in tax burden as a percentage of GDP.

Analysing the fiscal situation country by country, it can be concluded that revenue has grown in all of them (except for Venezuela and Mexico), that indirect taxes and especially VAT predominates within the tax structure, that the tax collected from income has grown although it's still relatively insignificant within the overall tax structure, and that, since the 1990s, the relative weight of taxes on international trade has diminished substantially.

**In Mexico**, according to the OECD, the tax burden has increased slightly over the last two decades due to a substantial rise in special taxes on the production of hydrocarbons (mainly oil). In fact, Mexico's tax burden was higher than the average for Latin America from 1990 to 2008, this last year reaching its highest level, namely 19.6%. But if we deduct the duties levied on hydrocarbon production, this country's tax burden only reaches 13.9% in 2010, below the region's average.

Mexico typically has narrow tax bases, a large informal economy and weak tax administration. Mexico's tax revenue depends on indirect taxes which account for more than 50% compared with 33% in the OECD. At the same time taxes on international trade

have diminished in importance as a consequence of liberalising trade, carried out by Carlos Salinas de Gortari's government in the 1990s. VAT revenue accounted for just 3.9% of GDP in 2010, the second lowest in Latin America (6% of GDP) and the OECD (6.6% of GDP) while in 2010 revenue from corporate income tax accounted for little more than 2% of GDP in Mexico, in comparison with 3% in the OECD. The contribution of personal income tax in Mexico is low, less than 15% of all tax revenues compared with 24% in the OECD.

**The tax systems of Central American countries** tend to be highly sensitive to changes in the international situation and have weak, relatively outdated tax administrations. The main tax-related change occurring in the last 25 years has been the gradual reduction in revenue from customs tariffs, making it necessary to maintain macroeconomic stability by increasing taxes on consumption, sales or added value (VAT), as is the case in Honduras and Costa Rica. VAT has been an improvement in tax terms although the informal economy is still significant. Between 1990 and 2004 the tax burden (proportion of each country's GDP allocated to paying taxes) increased in Central American countries, especially Nicaragua. In spite of the fluctuations and diversity of the tax burden, countries can generally be divided into two groups: those with a tax burden close to 15% (Honduras, Nicaragua and Costa Rica) and those whose tax burden tends towards 10% (Gua-

Source OCDE, [http://www.oecd.org/ctp/tax-global/Mexico%20country%20note\\_final.pdf](http://www.oecd.org/ctp/tax-global/Mexico%20country%20note_final.pdf)

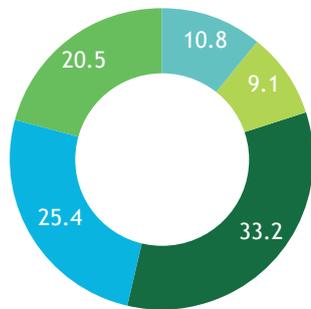
**TABLE 6:**  
**TAX STRUCTURE IN THE DOMINICAN REPUBLIC, LATIN AMERICA AND THE OECD (2010)**

- Taxes on income and utilities
- General consumption taxes
- Other taxes
- Social security contributions
- Specific consumption taxes

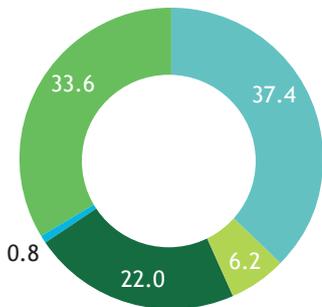
**SELECTED LA COUNTRIES (15)**



**OECD (34)**



**DOMINICAN REPUBLIC**



Source OCDE, [http://www.oecd.org/ctp/tax-global/RepublicaDominicana%20country%20note\\_final.pdf](http://www.oecd.org/ctp/tax-global/RepublicaDominicana%20country%20note_final.pdf)

temala, El Salvador and Panama). Guatemala has Latin America's lowest average tax burden for the period 1990-2010, starting from below 9% in 1990 and reaching 12.3% in 2012.

There is one very special case among the Central American tax systems, namely Panama and the "territorial principle" on which its tax revenue system is based. Panama's tax Code establishes a territorial income tax regime according to which each natural or legal person, national or foreign, does not pay tax on income produced from any source outside the Republic of Panama. Article 694 of the Fiscal Code establishes the following with regard to income tax: "The object of this tax is taxable income produced, from any source, within the territory of the Republic of Panama, whatever the location where it is received". Consequently, any individual or company, national or foreign, receiving any taxable income within or outside Panama does not have to pay tax "whatever the location where it is received". Taxable income is that from any source within or outside the national borders.

So Panama's tax system (imposed on a "territorial basis", so that taxes only apply to income or earnings derived from business undertaken within Panama's borders) differs from the worldwide income tax regime where resident individuals and companies domiciled in a country pay tax on all their income or earnings obtained both within and out-

side the country in which they are domiciled for tax purposes. A taxpayer's taxable income consists of income from foreign sources and any taxpayers obtaining income from a foreign source, either individuals or companies, would have to pay income tax.

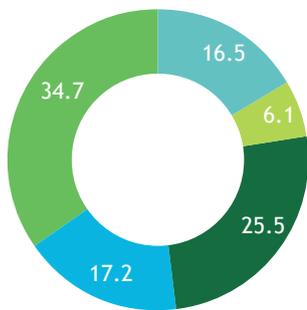
In Panama, however, this fiscal principle establishes that a taxpayer only has to pay tax on income or earnings received within Panama. Consequently, income will not be considered as produced within the Republic of Panama from activities "such as invoicing, from an office established in Panama, the sale of goods or products when these goods only move abroad; or directing, from an office established in Panama, transactions that are concluded, carried out or with effect abroad. This fiscal principle extends to limited companies (sociedades anónimas) which are not liable for income tax when they receive payments from abroad or carry out business outside Panama; international trade ships sailing under a Panamanian flag, when all their earnings come from global maritime operations to which Panamanian income tax does not apply, come under this principle".

This tax collection system has been in force in Panama for more than 100 years and has made it an attractive financial haven in the world. It is calculated that the services arising as a result of this regime account for more than 15% of the country's GDP. The territorial principle enshrined in article 694 of Panama's Fiscal Code has

**TABLE 7:**  
**TAX STRUCTURES IN VENEZUELA, LATIN AMERICA AND THE OECD (2010)**

- Taxes on income and utilities
- General consumption taxes
- Other taxes
- Social security contributions
- Specific consumption taxes

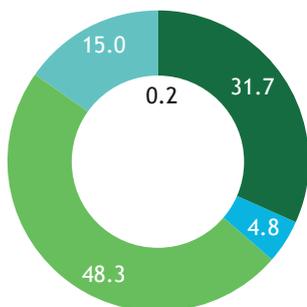
**SELECTED LA COUNTRIES (15)**



**OECD (34)**



**VENEZUELA**



Source OCDE, [http://www.oecd.org/ctp/tax-global/Venezuela%20country%20note\\_final.pdf](http://www.oecd.org/ctp/tax-global/Venezuela%20country%20note_final.pdf)

allowed businesses to be developed such as the registration of shipping, international banking and limited companies domiciled in Panama to take advantage of the fact that offshore business is not subject to income tax.

In the Dominican Republic, the tax burden as a percentage of GDP (13.5%) is the third lowest of the region's countries, after Venezuela (13.7%) and Guatemala (12.3%). There have been changes in the tax structure over the last few years: an increased importance of VAT and decreased importance of taxes on international trade. The World Bank has concluded that the fiscal system is limited by the low revenue collected and stresses that the average tax burden in Latin America and the Caribbean is 20% of GDP while, on average, in the last decade tax revenue in the Dominican Republic has represented just 13.7% of GDP.

Regarding the case of Venezuela, this tends to have a low tax burden (13.7% of GDP in 2012), weak direct taxation that represents 2.29% of the total tax revenues and a preponderance of indirect taxes, around 4.94%. VAT has become the most important tax, accounting on average for 28% of all tax revenues. In contrast to the slight importance of VAT and income tax, a substantial amount of tax is collected from the exploitation of commodities (39% of the total). The two main features of Venezuela's tax structure are therefore the importance of indirect taxes, accounting for 63.3% of the total in 2010, and the reduction in relative

weight of income tax, which fell from 83.7% of all tax revenues in 1990 to just 31.7% in 2010.

In Colombia the tax burden has increased markedly over the last two decades, by more than 10.6 percentage points since 1990 and now reaching 19.5%. In fact it is the country with the fifth largest growth in tax revenue after Argentina (21.4%), Bolivia (18.8%), Ecuador (13.1%) and Paraguay (12.2%). This increase is linked to the growing weight of general consumption taxes (VAT) that have offset the reduced use of taxes on international trade.

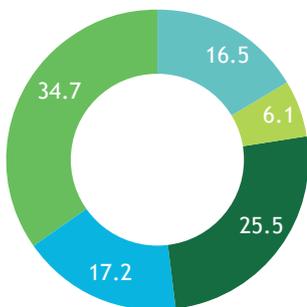
In Ecuador tax revenue has seen a huge expansion, especially since Rafael Correa came to power and with the implementation of a series of tax reforms (VAT and income tax) as from 2008, going from levels of 9.7% in 1990 to 20.2% in 2010. It has therefore reached the levels of Latin America, although it's still below the OECD average. Total tax revenues still depend largely on indirect taxes (54.2% of the total) and the relatively large proportion of general consumption taxes. Principally, VAT rose by about 6 percentage points between 1990 and 2010. On the other hand, the relative weight of direct taxation increased substantially, with taxes on income and utilities rising from 12.8% in 1990 to 20.7%, although their relative weight in 2010 is still below the average both for the region and for the OECD.

Peru, as pointed out by the OECD, is one of the countries that has seen the highest increase in tax revenue as a percentage of GDP,

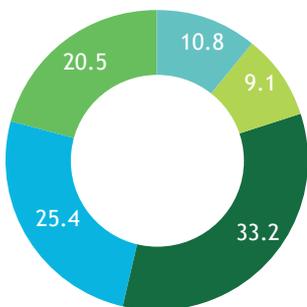
**TABLE 8:**  
**TAX STRUCTURES IN COLOMBIA,**  
**LATIN AMERICA AND THE OECD**  
**(2010)**

- Taxes on income and utilities
- General consumption taxes
- Other taxes
- Social security contributions
- Specific consumption taxes

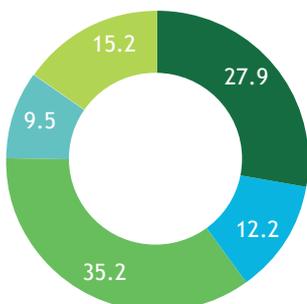
**SELECTED LA COUNTRIES (15)**



**OECD (34)**



**COLOMBIA**



Source OCDE, [http://www.oecd.org/ctp/tax-global/Colombia%20country%20note\\_final.pdf](http://www.oecd.org/ctp/tax-global/Colombia%20country%20note_final.pdf)

growing by more than 4 percentage points (from 14.5% in 2003 to 18.1% in 2012). However, its tax structure has also changed: in 1990 most of the revenue came from taxes on goods and services (53.5%) while VAT has now taken over (38% of total tax revenue) with just 8% for specific taxes. Taxes on income and utilities have also become more important (around 32 percentage points).

**Bolivia is one of the countries with the largest increase in tax revenue over the last few years.** Out of 18 countries in Latin America, Bolivia ranks third in tax revenue in relation to its Gross Domestic Product (GDP), according to the report “Revenue statistics in Latin America 1990-2012”. This document, produced by the Economic Commission for Latin America and the Caribbean (ECLAC), the Organization for Economic Cooperation and Development (OECD) and the Inter American Center of Tax Administrations (CIAT), states that, in 2012, the largest increases in the rate of tax revenue related to GDP occurred in Argentina (2.6%), Ecuador (2.3%) and Bolivia (1.8%).

From 2005 to 2013, Bolivia's tax revenue grew by 200% (from 13.3% to 26% of GDP from 2003 to 2012) as, according to its National Tax Service (SIN), eight years ago revenue barely reached 2.2 billion dollars while in 2013 State revenue totalled almost 6.7 billion dollars. During the eight years of Evo Morales's presidency, tax revenue reached record figures, supported by Value Added Tax (VAT) and new tax legislation such as the Gambling Act and Specific Consump-

tion Tax (ICE). According to data from the Ministry of Finance, in 2006 VAT accounted for 38% of all tax collected while in 2013 it totalled 43% of the revenue.

**In Paraguay,** tax revenue grew substantially in the period 1993-2010, reaching the average level for Latin America although still far from the average for OECD countries, going from 10.2% in 1993 to 17.6% in 2012. The mainstay and principle source of tax revenue during this period changed with the introduction of VAT in 1995, with the increase in the tax burden as from 2004 and the reduction in the relative weight of specific taxes. Paraguay's tax system has been limited by the lack of tax on the income of individuals and greater dependency of revenue on indirect taxes and Social security contributions.

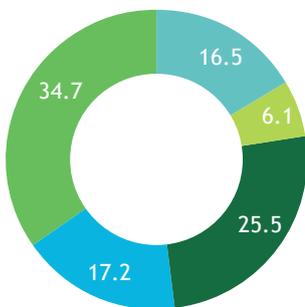
**In Chile,** the tax burden grew from 17% in 1990 to 20.8% in 2012. During the period 2003-2007 the tax burden increased mainly due to the rise in international copper prices. Tax revenue as a percentage of GDP went from 18.7% in 2003 to 22.8% in 2007. Historically, most of Chile's tax revenue has relied on indirect taxes, whose relative weight decreased during the period 1990-2010 although it is still high (more than half Chile's tax revenue in 2010, compared with levels of 33% in the OECD).

**Uruguay's tax revenue** has grown steadily since 2002, becoming the third highest in Latin America. In comparison with the other Latin America countries, **Uruguay has a relatively high tax burden (from 21.5% in 2003 to 26.3% in 2012),**

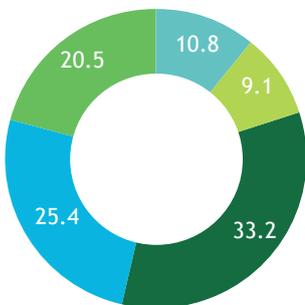
**TABLE 9:**  
**TAX STRUCTURES IN ECUADOR,**  
**LATIN AMERICA AND THE OECD**  
**(2010)**

- Taxes on income and utilities
- General consumption taxes
- Other taxes
- Social security contributions
- Specific consumption taxes

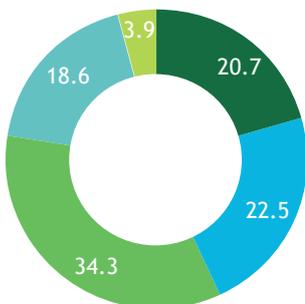
**SELECTED LA COUNTRIES (15)**



**OECD (34)**



**ECUADOR**



Source OCDE, [http://www.oecd.org/ctp/tax-global/Ecuador%20country%20note\\_final.pdf](http://www.oecd.org/ctp/tax-global/Ecuador%20country%20note_final.pdf)

only below that of Argentina (37.3%) and Brazil (36.3%). Moreover, Uruguay's tax structure has substantially changed since 1990. Unlike in the rest of the region, Uruguay has seen a reduction in the contribution made by indirect taxes. In 1990, more than 57% of all tax revenue in Uruguay came from indirect taxes, compared with 53% in Latin America and 33% in the OECD countries.

In 2010, the importance of indirect taxes (in particular special taxes and those on imports) decreased by 10 percentage points. At the same time, income tax went from 5% in 1990 to 22% of the total tax revenue in 2010. This trend can largely be explained by the introduction of personal income tax.

As can be seen, Argentina and Brazil are the obvious leaders in the region's tax revenues. Argentina has seen huge growth over the last two decades in tax revenue terms (from 23% to 37.3, almost 14 percentage points). This is Latin America's largest growth in tax revenue as a percentage GDP, as highlighted by the OECD. In 2010 Argentina had the highest level of tax revenue related to GDP in Latin America, far above the region's average, standing at 20.7%. This extraordinary increase in Argentina's tax burden occurred as from 2002 after the crisis in 2001-2003. This trend is due to the reintroduction of tax on export income as from 2002 and the renewed importance of VAT, increasing by around 10 points between 1990 and 2010.

Until 2013 Brazil was the country with the largest tax revenue in Latin America. Up to 2012, Brazil ranked first in Latin America with 34.3%, followed by Argentina (31.6%) and Uruguay (25.1%); however, it currently ranks second in terms of VAT with 20.5%, only being surpassed by Argentina (21%) and above Chile (19%), Peru (18%) and Uruguay (22%). And it's the third-ranking country with regard to income tax, exceeded by Chile with 8.3% of GDP. Following behind are Peru (7.7%) and Brazil (7.6%).

**The Fiscal Reform required in Brazil**

Since 1994, Brazil's National Congress has been working on the Constitution Amendment Proposal (PEC) with the aim of reforming the fiscal chapter of the Constitution, changing its form to adapt it to the current tax system (as it's unanimously considered to be obsolete), as well as to the structural changes verified both in Brazil's and the world's economy.

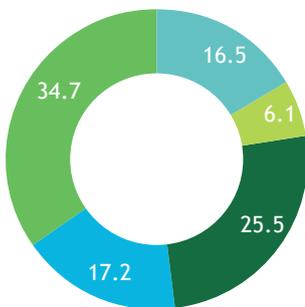
Brazil's current tax system still has the same format provided in the 1966 reform, which innovated and introduced the Tax on the Movement of Goods and IPI (Tax on Industrialised Products) and, in spite of the changes introduced by the 1988 Constitution, the tax system has not essentially changed; i.e. the format of this tax has basically remained the same for the last 36 years.

Among the 54 different taxes in Brazil, the most important

**TABLE 10:**  
**TAX STRUCTURES IN PERU,**  
**LATIN AMERICA AND THE OECD**  
**(2010)**

- Taxes on income and utilities
- General consumption taxes
- Other taxes
- Social security contributions
- Specific consumption taxes

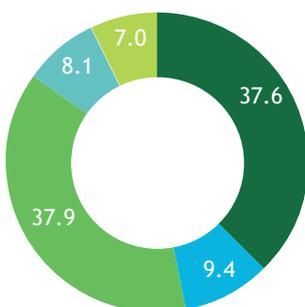
**SELECTED LA COUNTRIES (15)**



**OECD (34)**



**PERU**



Source OCDE, [http://www.oecd.org/ctp/tax-global/Peru%20country%20note\\_final.pdf](http://www.oecd.org/ctp/tax-global/Peru%20country%20note_final.pdf)

for regional governments is the ICMS (tax on operations related to the movement of goods and on services provided for inter-state and intermunicipal transport and communication), as it is the most significant from the point of view of tax revenue, being a financial support for state (regional) governments. The friction regarding Fiscal Reform is mainly related to the interest of federal governments in this tax and, given that it's almost impossible to change the tax system without altering the distribution of income collected through the ICMS, some regions gain and others lose out.

**The creation of VAT**

The discussion regarding Brazil's tax reform includes the proposal to create a value added tax (VAT) that would replace the ICMS (regional), IPI (national) and part of the ISS (municipal) and would be exclusively collected in the region where the goods or services are consumed; i.e. a kind of tax.

VAT, adopted in most of the world, is applied in the European Union and affects the expenditure or consumption of a product or service, charged on and therefore increasing the value of transactions carried out by taxpayers. In Brazil, this tax is divided into three IPI taxes (tax on industrialised products) for which the Union is responsible, the ICMS for which the member states and the DF (federal district) are responsible and the IS-SQN, a municipal tax.

The loss of tax revenue is evident since, due to this division of VAT into three parts, conflict arises among the entities levying taxes which, in many cases, resort to special taxes to attract new investment to their regions. This interaction, which affects revenue, is being tackled by CONFAZ (the Tax Council).

Given this situation, one positive and encouraging proposal is the one whereby a single tax would be used for goods and services without harming the constitutional precept of autonomy of the regional entities.

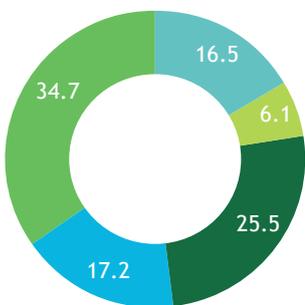
In addition to helping taxpayers, a single tax on goods and services in Brazil could also establish clearer rules for the collection of taxes on goods and services. It could be argued that, with a single tax, although the regions and municipalities would lose a lot of political power, clear rules resulting in higher tax quality and improved distribution could boost the country's growth, mainly in those areas lacking development.

Brazil's current tax model has created huge obstacles to economic growth as high taxation hinders new investment, as well as overloading taxpayers. Consequently, many regions and municipalities resort to lowering taxes to attract more companies to their regions. This strategy sounds extremely advantageous for investors because it relieves them of some of their tax burden but it also entails a loss of income for the administration.

**TABLE 11:**  
**TAX STRUCTURES IN PARAGUAY,**  
**LATIN AMERICA AND THE OECD**  
**(2010)**

■ Taxes on income and utilities  
■ General consumption taxes  
■ Other taxes  
■ Social security contributions  
■ Specific consumption taxes

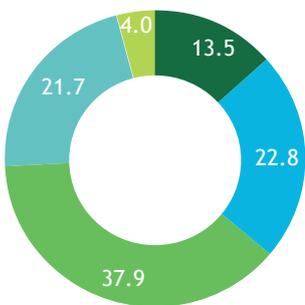
**SELECTED LA COUNTRIES (15)**



**OECD (34)**



**PARAGUAY**



Source OCDE, [http://www.oecd.org/ctp/tax-global/Paraguay%20country%20note\\_final.pdf](http://www.oecd.org/ctp/tax-global/Paraguay%20country%20note_final.pdf)

The so-called "fiscal war" is causing significant conflict not only from a fiscal point of view but also legal, resulting in the Higher Courts of Justice being overloaded.

One of the first introductory lessons in law is the fact that legislators do not have the function of formulating concepts or definitions (in this case clearly motivated by the area of revenue collection). In fact, these are constructed by doctrine and jurisprudence based on a systematic interpretation of the law, its institutions, rules and principles. The recently proposed fiscal reform will not change this situation.

**The weakness of subnational tax revenue**

Tax revenue is low in Latin America not only because the central government does not collect enough taxes but also because the subnational levels (regional and municipal) aren't capable of collecting enough revenue either since they lack resources and autonomous management. The local authorities in Latin America are not only weak but also have few resources and those they do receive come mostly from central government transfers, significantly reducing their administrative, decisive and political independence.

In most Latin American countries, fiscal decentralisation has been brief and limited. Except for two countries, both with a traditional and historic federal struc-

ture, namely Argentina and Brazil (whose subnational governments collect 5.9% and 9.8% of GDP, respectively), local tax revenue is very limited; for example, in Colombia, a highly decentralised country politically, the subnational tax revenues represent barely 2.9% of GDP. Excluding Argentina and Brazil, the tax burden of subnational governments is around 1% of GDP.

Consequently, the subnational governments of Latin American and the Caribbean need to take on more responsibility in generating their own revenue in order to promote local development and meet the growing demand for infrastructures and local services to respond to their growing populations and the need to become part of globalised trade. This local revenue tends to be inefficient and regional governments currently have a very narrow tax base on which they can exert pressure.

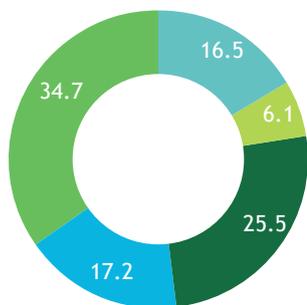
As pointed out by ECLAC, greater fiscal responsibility of local governments is recommended for several reasons:

- Firstly, it would lead to local authorities having more autonomy to take and implement their own public policy decisions.
- Secondly, it would reduce dependence on central government transfers.
- And thirdly, it would improve efficiency and transparency in expenditure given that, on

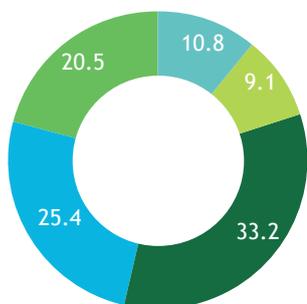
**TABLE 12:**  
**TAX STRUCTURES IN CHILE,**  
**LATIN AMERICA AND THE OECD**  
**(2010)**

- Taxes on income and utilities
- General consumption taxes
- Other taxes
- Social security contributions
- Specific consumption taxes

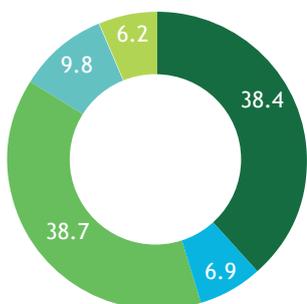
**SELECTED LA COUNTRIES (15)**



**OECD (34)**



**CHILE**



Source OCDE, [http://www.oecd.org/ctp/tax-global/Chile%20country%20note\\_final.pdf](http://www.oecd.org/ctp/tax-global/Chile%20country%20note_final.pdf)

paying tax, citizens tend to demand more accountability from their governments.

An increase in subnational tax revenue is necessary not only to reduce local government deficits but also to stop them depending on highly volatile central government transfers (which are also sometimes politicised and not very institutionalised). In most countries with a medium or high degree of fiscal decentralisation, subnational governments are strongly dependent on the transfer system from each central government. Brazil is an exception as its subnational governments (states and municipalities) contribute close to 28% of total tax revenues (around 9.1 points of GDP). A second group of countries is made up of Argentina and Colombia, where the subnational levels account for about 15% of total revenues. The governments of the rest of the countries have not made significant progress in this respect and subnational taxes represent between 1.5% and 6.2% of total tax revenues.

In principle, according to ECLAC, subnational taxes should meet certain characteristics which the region's countries do not tend to have: a stable tax base, a reduction in subsidies and subventions and easy compliance and collection. The proposal made by various international bodies consists of focusing on regional personal income tax, regional or local taxes on retail sales, the

implementation of subnational VAT (or a subnational surcharge on national VAT) and subnational tax reforms that should be complemented by reforms in the intergovernmental transfer systems (to make them less discretionary and politicised) as well as greater controls on subnational debt.

**Taxes are not very progressive**

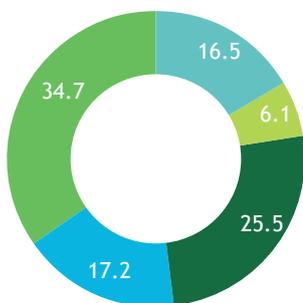
The predominant idea is that tax revenue in Latin America is not very progressive, especially compared with European countries. Latin America's tax revenue is closely related to regressive type taxes, such as VAT, or those applied fundamentally to employees (Social Security contributions). However, the IADB has revised this belief and points out that "more serious than the lack of progressiveness is the fact that individuals or firms (within the same country) with similar income levels or earnings effectively pay very different tax rates, leading to horizontal inequality. The exemptions to income tax for firms, which benefit numerous industries, are granted based on highly diverse arguments and lack proved effectiveness".

Not only is Latin America's tax system not progressive at a horizontal level but it's actually ultimately regressive. In OECD countries, the estimated Gini coefficient, before tax and transfers, is 0.45 but this falls to 0.31 after direct redistributive action carried out by the central government through

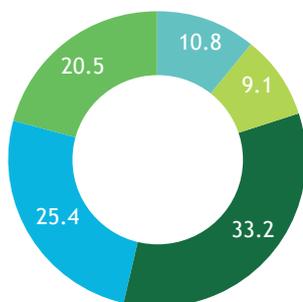
**TABLE 13:**  
**TAX STRUCTURES IN URUGUAY,**  
**LATIN AMERICA AND THE OECD**  
**(2010)**

- Taxes on income and utilities
- General consumption taxes
- Other taxes
- Social security contributions
- Specific consumption taxes

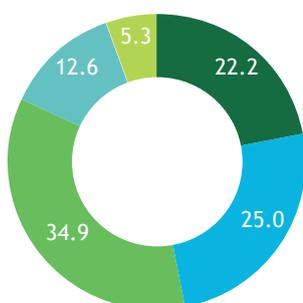
**SELECTED LA COUNTRIES (15)**



**OECD (34)**



**URUGUAY**



Source OCDE, [http://www.oecd.org/ctp/tax-global/Uruguay%20country%20note\\_final.pdf](http://www.oecd.org/ctp/tax-global/Uruguay%20country%20note_final.pdf)

levying taxes and the public policies implemented thanks to this revenue. However, in Latin America the variation in the Gini coefficient is, at most, between half and a third of that in developed countries.

The conclusion is that the region's countries are facing the challenge not only of increasing their revenues but also of improving revenue distribution. However, while the obstacles to fiscal policy remain (such as low tax revenues, a regressive tax structure and relatively inefficient social public spending), the distributive impact of both expenditure and revenue will not be very significant in the region.

**High tax evasion and very weak tax administrations**

The countries of Latin America lack a fiscal culture that encourages the population to perceive the fulfilment of their fiscal duties as part of their identity as a citizen. Moreover, most states also lack the necessary tools for enforcement. All this leads to high levels of evasion, resulting from structural deficiencies in the economies, deficiencies in the legal framework and even these kinds of cultural issues. Tax evasion harms social cohesion as it helps to weaken society's confidence in the state and limits the resources available to the different administrations to implement public policies.

However, the tax administrations in Latin America and the Carib-

bean have become stronger and more effective since the 1990s. They've achieved significant gains in the last two decades and, in fact, tax revenue as a percentage of gross domestic product (GDP) has increased by about 30% on average. One notable part of this increase is due to improvements in the tax authorities, which have become more independent in terms of expertise and budget, have taken on better qualified and trained professionals and have been modernised thanks to the widespread use of technology. One example of this is Chile's Internal Tax Service, considered to be highly professional and efficient.

Over the last fifteen years, Latin American tax authorities have become stronger although it has been calculated that only 3 out of every 100 tax returns made by taxpayers are inspected (in Mexico barely 1 out of every 200 and in Chile 1 in 7). Additionally, more than half the workers in Latin America are within the informal economy, thereby avoiding the tax burden.

**Highly volatile tax revenue**

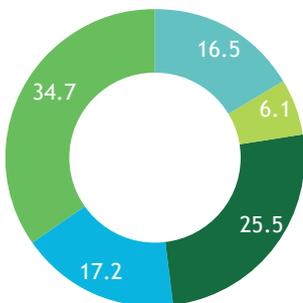
Tax revenue is volatile in Latin America as it is estimated that this can increase or decrease by around 8%, almost two points of GDP, every year. This volatility is much higher than in the OECD countries, where it fluctuates by around 1% from year to year.

The tax burden is more volatile in countries such as Bolivia, Dominican Republic, Trinidad and

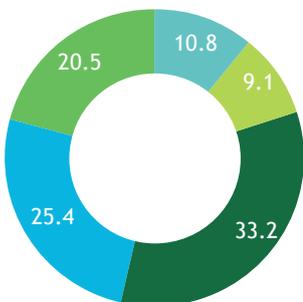
**TABLE 14:**  
**TAX STRUCTURES IN ARGENTINA, LATIN AMERICA AND THE OECD (2010)**

- Taxes on income and utilities
- General consumption taxes
- Other taxes
- Social security contributions
- Specific consumption taxes

**SELECTED LA COUNTRIES (15)**



**OECD (34)**



**ARGENTINA**



Source OCDE, [http://www.oecd.org/ctp/tax-global/Argentina%20country%20note\\_final.pdf](http://www.oecd.org/ctp/tax-global/Argentina%20country%20note_final.pdf)

Tobago and Venezuela, where fiscal resources tend to be highly concentrated in a few sectors, particularly exports, and is usually less volatile in more diversified economies with more firmly established tax systems, such as Brazil and Uruguay.

**Features of the tax structure**

In terms of the tax structure, in Latin America and the Caribbean VAT and income tax constitute the two main cores of the fiscal and tax system although their relative weight differs. Most of the burden falls on indirect consumption taxes while direct taxes account for just a third of total revenues. Moreover, some countries base their fiscal revenue on sources of financing other than taxes, so they don't need to improve their tax revenue.

- **Income tax:** Taxes on income, especially on individuals (together with value added tax and Social security contributions), constitute one of the three mainstays of the tax system in modern democracies. In developed countries the revenue from personal income tax represents 8.4% of GDP, around 35% of the tax burden.

Over the last decade, income tax has gained in relative weight and importance in Latin America and has established itself as the second mainstay of the region's tax system. Revenue from this tax grew by 60% between the end of the 20th

century and 2008, going from 3 points of GDP in the 1990s to 4.9 points in the current decade. This is significant growth, although the revenue from this tax is still very low compared with OECD levels and is not effective in redistributing income. Latin America's income tax is also heterogeneous: Brazil, Chile and Uruguay have high figures as revenue from personal income tax has increased significantly since the 1990s. In some Latin American countries, such as Uruguay, it has grown by more than two points of GDP.

The redistributive capacity of income tax is lost and not maximised in Latin American countries, largely due to the greater amount of revenue from payroll income tax with only a small number of individuals paying tax to the authorities (in OECD countries this represents around 50% of the population while in Nicaragua or Bolivia it's barely 1%, in Argentina 4%, in Chile 9%, in Brazil 10% and in Uruguay 14%). If we add the fact that there are many exemptions, deductions and special treatments for earnings from capital as well as very high levels of evasion, we can see why income tax is far from fulfilling the role it has in Europe.

Another distinctive trait of personal income tax in Latin America is that it's theoretically very progressive but,

**“The increase in VAT revenue over the last few decades is due to this tax being more widely applied”**

in practice, is not capable of redistributing income. As has been pointed out by the OECD over the last decade, “The potential of fiscal policy ... is still substantially unrealised in the region. While taxes and transfers reduce inequality by 19 Gini points in Europe, the reduction is only 2 Gini points in Latin America”.

In summary, the fact that the redistributive capacity of income tax is lower in Latin America and that the level of revenue from income tax is half that of the OECD, would have great impact on the redistribution of income if it were not for the obstacles in place (low rates, narrow bases, high evasion). Its design is progressive but with little impact on inequality, mainly applying income tax on payrolls and with little effect on earnings from capital.

- **VAT: VAT is the most important source of tax revenue in Latin American countries.** Although the general tax rate is three points lower than in OECD countries (15.1% vs. 18.1%), as shown by ECLAC, tax revenues are similar (around 6.6% of GDP in Latin America and 6.9% in OECD countries). With regard to the relative share of VAT in all tax revenue, this is much higher in Latin America by almost a third compared with the average of 19% in OECD countries. The increase in VAT revenue over the last few decades is due to this tax be-

ing more widely applied. In the 1980s it was almost exclusively applied to physical goods while it's currently also levied on intermediate and end services. Moreover, there has also been a gradual rise in the general tax rate over this period.

The secret of VAT's success lies in that it is easier to collect and its tax administration has improved substantially as there is greater control over sales and transactions. All this has resulted in its contribution to total tax revenues increasing by more than 40% since the 1990s. In spite of this, VAT revenue has some deficiencies and problems that should be noted as, above all, it still has some regressive components and not all the revenue potential it might have. A significant part of the potential revenue is lost and not collected due to reduced rates and exemptions that aim to relieve the regressive nature of VAT. ECLAC points out that, on average, in Latin American societies, the poorest 20% of the population allocates 13.7% of their declared income in household surveys to paying VAT, while the wealthiest 20% only allocate 5.8% of their income to this tax. For ECLAC this means that, in spite of exemptions and low rates aimed at reducing the burden for lower-income groups, the poorest have a tax burden that is 2.4 times greater in relation to their income than that for the most advantaged segment of society.

**“Why did Latin American countries choose VAT as part of the core of their respective tax systems as from the 1980s and 1990s?”**

- Alberto Barreix, Martín Bès from the Inter-American Development Bank and Jerónimo Roca from the Planning and Budget Office of Uruguay note that “In particular, VAT is often mentioned due to the regressive nature which characterises indirect taxes. Although we dismiss this as an over-simplification, we believe that tax design could be improved in order to deal with the challenge posed by inequality in the region, which leads the global ranking in this area. Moreover, we consider that this improvement can be carried out by asserting the core role which VAT performs in a modern tax system by adopting instruments used to target and deliver benefits which have already been successfully applied for 15 years in the new generation of Latin American social programs, such as the conditioned cash transfers”.

Why did Latin American countries choose VAT as part of the core of their respective tax systems as from the 1980s and 1990s?

The reason can be found in the liberalisation of markets that started during this time and led to lower customs duties and taxes on imports. Such transformations made it necessary to replace revenue from taxes on international trade, with VAT becoming stronger and spreading quickly throughout the region. This became the main source of financing and the

tax burden grew from 12% in 1990 to 17% in 2005.

### 3. CONCLUSIONS

Looking to the future, we must conclude that the tax systems in Latin America are facing a three-fold challenge: (1) they must undergo even more extensive and far-reaching changes and transformations, (2) some kind of agreement must be implemented between the state and the citizens of these countries in order to increase the tax burden while ensuring this measure is legitimate in political and social terms, and (3) the tax systems themselves must play an important role in the next few years given the likely slowdown in the region's economy.

#### The fiscal reform still pending

From what has been seen in the preceding pages, Latin America's fiscal and tax systems have undergone a transformation in terms of quality (regarding their tax structure) and quantity (increased revenue: according to the OECD, the average rate of tax as a proportion of GDP rose from 18.9% in 2009 to 20.7% in 2012).

Although the region is markedly heterogeneous, its countries have managed to increase the tax burden as a percentage of GDP, have introduced far-reaching structural changes with VAT being established as the main tax and gaining relative weight in the share of indirect taxes, both on income and capital, at the same time as

**“The fiscal reforms of the future must attempt to reduce the more regressive features of the region's tax systems”**

reducing duties on international trade. In spite of these undeniable improvements in revenue, the main fiscal challenge facing Latin American countries is still to achieve a tax burden that is comparable to that of OECD countries, is higher (except in some specific cases, such as Brazil and Argentina), less volatile and less regressive, as well as capable of encouraging the informal economy to become formal.

This fiscal reform required by Latin America must be comprehensive and not, as has happened to date, partial, mere patches to resolve specific problems due to liquidity shortages. This comprehensive nature would be assured by attacking the main problems and deficiencies of Latin American fiscal policy. Institutions such as ECLAC and the World Bank have indicated that these problems are, among others: the lack of equity between similar taxpayers (so-called horizontal equity); the widespread use of fiscal incentives (taking large sectors out of the fiscal system's population); and an over-dependence on payroll taxes to finance Social Security programmes. The fiscal reforms of the future must attempt to reduce the more regressive features of the region's tax systems: especially the large proportion of consumption taxes within total revenues, the relative insignificance of personal income tax, the widespread violation of tax rules and high evasion rates.

To achieve more revenue, Latin American countries also need to find other sources of financing,

for example by using new taxes such as those on urban and rural property, or improving the fight against fraud. This greater revenue potential must be accompanied by stronger, modernised tax administrations with greater financial and technical autonomy and better human resources. The own-source resources of local governments must be strengthened as much of the great potential of local revenue is still wasted.

#### **The need for a fiscal covenant**

**The great challenge of this renewed tax burden is that it is only viable if it has the political and social legitimacy required to be implemented.** The different governments of the region must respond to growing expectations of improved standards of living and get ready to govern changing societies and an ageing population (by way of example, Brazil's model shares out and collects resources from employers but, as its demographic pyramid is inverting, the relationship between taxpayers and beneficiaries is altering and it will be increasingly difficult to narrow the deficit). Meeting such expectations means having enough new revenue via the tax burden, as well as knowing how to administer this revenue with transparency, efficiency and effectiveness. Not collecting enough revenue, resorting to preferential treatment, wasting resources or administering them inefficiently would break the virtuous circle that must sustain the fiscal system and political legitimacy. As Alicia Bárcena, Executive Secretary of ECLAC reminds us, “In countries

**“Latin American citizens realise they must pay tax but the problem lies in the fact that they don't trust the state”**

such as Brazil, people are in the streets because the middle and lower classes have had more access to goods and services. But, when they go out, there are no public goods, or transport or citizen security, and that's worrying. This year the region stands at a crucial crossroads because the model or models followed must change in order to boost growth based on extra-regional exports”.

For this reason, there must be mutual agreement between the state and citizens, a “fiscal covenant” ECLAC calls it, via which citizens accept and do not try to avoid the need to contribute to the public treasury so that they can feel that, after paying taxes, they receive direct or indirect benefits. The weak tax administration must also legitimise its actions by having the necessary technical and human resources to ensure its presence throughout the territory and have sufficient persuasive powers to ensure fiscal legislation is complied with. This fiscal covenant is vital to construct a modern state in Latin America where, on the other hand, there is consensus in considering taxation an essential component of public policy.

As noted by ECLAC, collecting taxes is one of the most complex and conflictive public actions facing states: “It's based on a tacit agreement between society and the state and constitutes the core of the relationship between them. The state's relationship with society obviously becomes less legitimate due to the inefficiency of political and economic institutions

that weaken the implicit contract between citizens and state underpinning the fiscal system. They also state that this institutional weakness is rooted in the social and economic structure of the region's countries and has created a vicious circle that prevents the tax system from being reformed effectively”.

In general, it can be said that the bare bones of this fiscal covenant already exist. Latin American citizens realise they must pay tax but the problem lies in the fact that they don't trust the state, in terms of neutrality or professionalism, to administer the revenue well (a survey carried out by Latinobarómetro showed that 79% of the population do not believe that money from taxes is going to be spent properly). The strategy of the fiscal covenant depends on breaking this vicious circle of not paying taxes because the services provided by the state are inefficient and the administration is incapable of controlling fraud. If citizens perceive that they benefit from the provision of public goods and services by the state “governments will become more legitimate and political and state institutions will gain in prestige as, ultimately, the way in which the government spends public resources will largely determine its degree of legitimacy and its right to demand more taxes from taxpayers”.

The negative beliefs and perceptions of citizens do not only lead to high levels of evasion but also generate resistance in society to possible tax increases. This vicious circle must be broken by encouraging the willingness

**“The aim is merely that the tax burden be perceived by the population as fair, necessary and with direct, positive effects on the life of every citizen”**

(which is statistically significant ) of most Latin American citizens to pay more taxes provided this leads to better quality public services in health, education and security, and to less corruption and better control of evasion. ECLAC notes that these “social contracts need to be renewed to bring them in line with today's reality. The fiscal covenant can particularly be interpreted as an agreement regarding the amount, origin and destination of resources required by the state, accompanied by transparency and accountability to ensure it is monitored and complied with”.

Ultimately, the aim is merely that the tax burden be perceived by the population as fair, necessary and with direct, positive effects on the life of every citizen. As shown by Carlos Peña, Dean of Universidad Diego Portales in Chile, “Taxes are coercive extractions of income not only because, as economics states, they are destined for goods that no one would be willing to finance voluntarily (because, once they exist, those who pay and those who don't can both take advantage of them) but because they are required by a sense of fairness. Saint Thomas Aquinas (whom the Catholic Church calls the Angelic Doctor, perhaps fully justified given the notable intelligence revealed by his work) teaches that only a fair tax generates the moral obligation to pay it, from which it follows that the only thing that needs to be discussed is whether it is fair or not. If not, then there's

no obligation to pay it. If it is, then it's no longer voluntary; it's strictly due and does not require the willingness of the taxpayer to exist”.

Moreover, this fiscal covenant must be aimed at cracking down on the ways a considerable part of the fiscal efforts made by Latin American countries is wasted: corruption. The high levels of evasion, as we have already seen, and of corruption neutralise fiscal and modernisation efforts and the extension of revenue in the region's countries. Corruption is still an important obstacle that limits not only the development of Latin America and erodes confidence in institutions but also reduces the amount of resources reaching the state via taxes. The population does not pay tax for two reasons related to corruption:

- Because there are corrupt networks made up of business people, civil servants and advisors who make it easier to evade taxes; networks sometimes connected to the world of drug dealing and organised crime. These networks also use tax havens to launder money, hide profits from illegal activities and also to evade the law and not pay taxes.

A modern tax administration will be of no use if society is complacent and even collaborates with corruption. As pointed out by Jerónimo Roca in the ECLAC report “Evasion and equity in Latin

**“Fiscal policy is going to move even more centre stage in the coming years as the region is facing a change in cycle”**

America”: “If the functioning of the economy is affected by irregular conduct (corruption and legal insecurity, such as weak property rights, violation of contracts) there will surely be a climate that encourages evasion and not social censure, even though the Tax Administration may work well”.

- Because there's no tax culture or education among citizens so that, traditionally and historically, it has been more convenient and easier to commit fraud, legitimising this position by the fact that an inefficient and also corrupt state should not be given any money.

#### Tax policies during a slowdown

Fiscal policy is going to move even more centre stage in the coming years as the region is facing a change in cycle. After a decade (2003-2013) of high and constant growth (with the exception of 2009), a period is now starting of slow, volatile growth caused by lower growth in China, the change in economic policy in the USA (tapering) and the slow exit of the crisis by the EU.

If world economic growth slows up and demand for commodities does not grow or even falls, commodity prices will drop and continue to weaken over the coming years. That's why the countries of Latin America should, as advised by the IMF, avoid the depression associated with commodity cycles and at-

tempt to reduce the link between commodity prices and economic activity. The aim is to avoid procyclical policies in Latin America (expansionary during booms and restrictive during crises). This was already achieved during the crisis of 2008-2009 when most of the region's countries launched reactivation plans in the midst of the global crisis but the economic policies of Latin American countries still depend on the economic situation and commodity prices for export.

As noted by the IADB, “for many of the region's economies, one of the most important outstanding tasks is to reduce dependence on fiscal revenue from non-renewable, volatile natural resources. Among these outstanding tasks is the reform of personal income tax, which should improve its revenue, redistributive capacity and stabilising potential and also reduce its anti-labour bias; reducing the personal exemption threshold to a level that's below (or at least the same as) the country's average income per capita; setting a ceiling for deductions whose value tends to be greater for higher wealth individuals (such as the deduction on mortgage interest payments); extending the tax base to include income that is currently exempt (such as interest, dividends or pensions) and earnings from capital”.

With less revenue due to a less dynamic economy, Latin American countries must find new sources of financing through new taxes but

**“With less revenue due to a less dynamic economy, Latin American countries must find new sources of financing through new taxes but also by cutting spending”**

also by cutting spending. Especially, given that primary surpluses are lower but the growth in spending has not diminished, subsidies will have to be reduced, many of which are not well focused. There is a huge "proliferation of tax incentives" the IADB continues, "which erode the tax base of societies without generating a benefit

in terms of additional investment and job creation. Such incentives complicate tax administration, encourage corruption and can give rise to a "race to zero", a situation where countries use increasingly more tax breaks in response to the actions of neighbouring countries, complicating the tax system even further and eroding the tax base".



**“Without infrastructure  
there is no development”  
General state of infrastructure  
in Latin America**

**d+i** LLORENTE & CUENCA

1. INTRODUCTION
2. INFRASTRUCTURE DEFICITS IN LATIN AMERICA
3. INFRASTRUCTURE INVESTMENT IN EACH COUNTRY
4. CONCLUSIONS

*“Infrastructure is a basic and urgent requirement for the development of Latin America. The perfect location of the region on the global competitiveness map calls for a more efficient and proper infrastructure that enhances competitiveness and the quality of life of the population. This challenge demands considerable investments, advanced and diverse technology and huge institutional and management capabilities.”*

*(L. Enrique García. CEO of CAF-Bank)*

## 1. INTRODUCTION

One of the most important challenges to be faced by Latin American countries is to stop being mere commodity exporters and to be able to bring added value to their exports and modernize their economies in order to gain competitiveness and productivity. In this sense, **the commitment to invest in infrastructure has become a key point in achieving that qualitative leap required by the countries of the region in an increasingly competitive world.** Actually, guaranteeing current and future economic growth of the region depends, to a great extent, on the decisions taken in the field of infrastructure.<sup>1</sup>

As the Andean Development Corporation points out, usually, **a better infrastructure improves the quality of life of the population, increases economic growth, facilitates regional integration and diversifies the production system:**

*“While it is true that investments in transport infrastructure do not guarantee economic and regional development by themselves, the fact is that these investments are required for development to flourish. Infrastructure is a valuable economic and social cohesion tool, connecting the region, enhancing spatial integration and improving accessibility. Furthermore, it is essential not only to absorb current passengers and goods traffic, but also the strong traffic growth, consequence of the liberalization of the markets and economic globalization. Similarly, the “snowball” effect it can have on national economy, through its multiplier*

<sup>1</sup> In this report infrastructure is used as defined by IDB, meaning: “a set of long-life engineering structures and facilities, which form the basis for the provision of services considered basic for the development of productive, political, social and personal purposes”. This concept includes roads, rails, ports, airports, land irrigation, drinking water, sanitation, electricity and gas, information, communication and telecommunications infrastructures: Internet, mobile phones, software, hardware, etc.”

“The World Economic Forum (WEF) pointed out that a dollar invested in infrastructure generates an economic return of 5%-25%”

*effect, turns infrastructure into a counter-cyclical political tool during crisis, as it can be very useful to speed up the process of economic recovery.”*

Therefore, access to high quality infrastructure becomes key for the competitiveness of a country in order to meet future demand in fields such as agriculture, mining (irrigation works, roads and ports) and industrial, tourism and services sectors.

Infrastructure, whether it is productive (roads, rails, ports) or linked to social and environmental welfare of the population (drinking water, sanitation, electricity and residential gas) is a **public good, that produces significant externalities** for the economic system, since its provision, when efficient, translates into benefits for the society as a whole, and not just for the economy of a country. The World Economic Forum (WEF) pointed out that a dollar invested in infrastructure generates an economic return of 5%-25%.

Thus, investments in infrastructure become a factor in economic development and social inclusion, as supported by the director of the World Bank for Latin America and the Caribbean Region, Danny Leipziger: “There is a clear connection between investment in infrastructure and poverty reduction”. According to Miriam Belchior, Ex Minister of Planning, Budget and Management of Brazil, “the reason for this is that investments speed up the pace at which the economy

grows, increase employment and income levels and help diminish social and regional inequalities”.

## 2. INFRASTRUCTURE DEFICITS IN LATIN AMERICA

It has been clearly demonstrated that investing in infrastructure has positive effects in relation to competitiveness, economic growth and poverty reduction since it allows to seize opportunities offered by economic growth and international trade. But these externalities do not take place when deficits in infrastructure are present. And that is precisely what has been happening historically in Latin America.

The Organization for Economic Cooperation and Development (OECD) has noted that “**infrastructures are an important bottleneck for sustainable growth, competitiveness and even equity in Latin America**. The region has deep gaps when compared not only to OECD countries, but also emerging economies in Asia and other regions of the world”.

This is also evidenced by the World Bank which states that there is a high dependence on road transport, but half of the roads remain unpaved. Meanwhile, rail transport shows serious flaws as shown in the study carried out by Solchaga Recio & Asociados, which establishes that the volume of this transport means has halved since 1990.

**“The public sector has moved from investing, on average, 3% of GDP during the nineties to just over 1% nowadays”**

Additionally, air transport has grown in recent times by more than 200% regarding number of passengers and tons of cargo, but airports show serious flaws concerning logistics systems, inappropriate regulations and poor services development. The same occurs with ports, with the exception of Chile, since they are neither prepared to absorb the increased traffic nor the new means of transport.

Therefore, as the Inter-American Development Bank maintains, **rapid economic growth of the region and development of foreign trade in the past two decades have evidenced the serious defects of the region with respect to electrical and transport (roads, rails and ports) infrastructure.**

**This deficit reflects the fact that investment has clearly been insufficient both from the public and the private sector.**

In the eighties, the region invested over 3% of GDP in infrastructures. This amount was mainly financed by the State (during the days of interventional states and Import Substitution Industrialization). This trend shifted in the nineties, after a wave of neoliberal reforms, and dropped to 2% with the private sector leading these investments. During the first decade of the 21st century investment dropped to 1% and since 2007 it rose to over 2% and currently sits close to 3% with equal involvement from the State and the private sector.

According to the World Bank, the public sector has moved from investing, on average, 3% of GDP during the nineties to just over 1% nowadays. The private sector has increased its contributions and now also invests around 1% of GDP to infrastructure, especially in countries like Mexico and Colombia.

As stated by the Executive President of the Andean Development Corporation, CAF-Bank, Enrique García, **two different types of actions are required to reduce the gap in the field of infrastructures** (both regarding new investments and maintenance costs of infrastructure):

- **The current investment, 3% GDP (on average in Latin America) has to be doubled to a minimum of 6%, following the example of Asian countries, whose current average infrastructure investment is 10% GDP. India, for example, invests 6% of its annual GDP, while China allocates 10%. This represents a 50% increase in investment, which amounts to USD 200 - 250 billion.**

A report of the World Economic Forum graded the Latin American infrastructure with a score of 3.6 out of 10 points, compared to the average of 5.4 for OECD countries, with roads and rails being the most serious weaknesses along with the electrical sector.

“The challenge for the State is not only to plan, facilitate and coordinate public policies, but to attract private investment”

- The private sector is essential since States lack the resources and sometimes the required knowledge. Therefore, promoting “strategic alliances” between the private and public sector seems key.

In this sense, as expressed by CAF-Bank, the State must increase its investments and implement a set of public policies in order to improve subsidies targeting, allocate more resources to the maintenance of infrastructures, promote sustainable and integrated development policies in the aforementioned field and strengthen public institutions.

**In summary, the challenge for the State is not only to plan, facilitate and coordinate public policies, but to attract private investment by centralizing projects and investment needs as well as ensuring legal certainty.**

In this regard, CAF-Bank presented the diagnosis of infrastructure, titled IDeAL, during the Summit of Heads of State and Government held in Panama City in 2013. The “Infrastructure in Latin America’s Integral Development” is an analysis of the current state of infrastructure and proposes a strategic agenda for its development in Latin America.

The final results of this study lead to the conclusion that **while countries in Latin America**

**are making a huge effort in infrastructure investment, it is not enough to increase potential GDP in the medium term** “through reforms that tackle the bottlenecks that restrict growth and productivity, domestic savings and investment. The gap between the region and richer and more dynamic countries is not only not diminishing, but increases every year in regard to the enhancement of roads, ports and airports and logistics services that raise the transaction costs and make production less competitive”.

### 3. INFRASTRUCTURE INVESTMENT IN EACH COUNTRY

Latin America is a very heterogeneous region and the field of infrastructures is no exception, as there are important differences regarding infrastructure quality from country to country and the investments made by each country vary greatly.

Between 2010 and 2015, Latin America plans to allocate USD 450 billion on new infrastructure projects, and while this is a very high figure, it hardly represents an average investment of over 2% GDP. **Even Brazil and Colombia, the two leading investors, do not reach the average of emerging regions.**

The 2012-2013 edition of the Infrastructure Global Competitiveness Index (WEF) assesses 144 nations by a weighted

“This report reveals the fact that some countries are clearly betting on infrastructure development”

average of seven basic aspects of infrastructure (1. General quality of the infrastructure, 2. Quality of the roads, 3. Quality of the rail infrastructure, 4. Quality of the port infrastructure, 5. Quality of the air infrastructure, 6. Quality of the provision of electricity, 7. Quality of telecommunications).

The report concludes that **only three countries in the region are above the world average (4.3) in relation to infrastructure quality and none come close to the highest scores (6-7).**

And as a region, Latin America (3.6) clearly shows its underdevelopment as it only outperforms Africa (2.7).

| RANK | COUNTRY            | SCORE |
|------|--------------------|-------|
| 37   | Panama             | 4.82  |
| 45   | Chile              | 4.62  |
| 49   | Uruguay            | 4.40  |
| 68   | Mexico             | 4.03  |
| 70   | Brazil             | 4     |
| 72   | El Salvador        | 3.93  |
| 74   | Costa Rica         | 3.80  |
| 75   | Guatemala          | 3.79  |
| 86   | Argentina          | 3.58  |
| 89   | Peru               | 3.54  |
| 90   | Ecuador            | 3.51  |
| 93   | Colombia           | 3.44  |
| 101  | Honduras           | 3.12  |
| 105  | Dominican Republic | 3     |
| 106  | Nicaragua          | 2.97  |
| 108  | Bolivia            | 2.95  |
| 120  | Venezuela          | 2.64  |
| 123  | Paraguay           | 2.54  |

Source: Global Competitiveness Report 2012-2013, World Economic Forum and The World Factbook-CIA. [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2012-13.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf)

In addition, Latin American infrastructure projects which took place in 2013 and 2014 showed a **high level of concentration: they were led by Mexico and Brazil in terms of money invested**, according to the report “Evolution of economies of member states of the Inter-American Federation of Construction Industry (ISEF) 2012-2013”. Moreover, Mexico and Brazil account for approximately 50% of the 100 works on the list made by CG/LA Infrastructure, world leader in the promotion of infrastructure projects.

This report reveals the fact that some countries are clearly betting on infrastructure development: Ecuador, Panama and Uruguay are the nations with the highest increases in infrastructure development. The case Ecuador, governed by Rafael Correa, is the most striking one. Thanks to the increase in central government revenues via oil royalties and the enhancement of tax collection coverage and enforcement, the budget has been doubled, up from 11 annual billion to 21.11 billion in 2012. These resources have been mainly invested in infrastructure and education, apart from the Human Development Voucher (BDH).

**Among the projects for 2014, the most prominent works took place in Brazil, Mexico and Colombia.**

**In Brazil, the Salvador-Recife rail (USD 5.315 billion) and Galeao Airport (USD 3.5 billion) stand out.**

In Mexico, the Bicentennial Refinery in Tula is the most outstanding project (USD 11.6

billion), followed by an airport in Mexico City (USD 4.5 billion).

Colombia is investing USD 28.5 billion in six projects covering power generation (Bicentennial Pipeline, with a length of 970 kilometers, and an investment of USD 5.88 billion), transport (1,200 kilometers of roads for the connection between Antioch and the coffee belt, the center of the country, Magdalena Medio and the Atlantic and Pacific coasts; as well as Ruta del Sol, a two-way roadway of 1,070 kilometers with a cost of USD 2.6 billion to connect the center with northern Colombia) and oil refining (Ituango hydroelectric plant, the largest hydroelectric plant in the country and whose costs amount to USD 5.5 billion: Cartagena Refinery considered the most modern refinery in Latin America) and river infrastructure (the objective is to restore navigability in the river Magdalena between Puerto Salgar and Bocas de Ceniza, a distance of 908 kilometers).

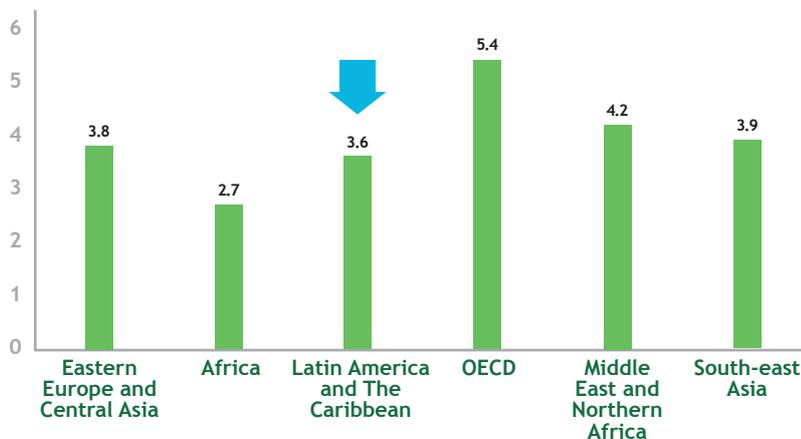
As described below, Latin American countries share a common characteristic: they have increased infrastructure investment significantly, but are still far from perfect.

### Chile

Chile is one of the leading countries in the region, as it already prioritized infrastructure investment during the nineties due to a very open economy since the eighties linked to

## COMPARED OVERALL PERFORMANCE OF INFRASTRUCTURE

Infrastructure Quality Indicator Average score



Source: Data obtained from: <http://segib.org/actividades/files/2012/05/ideal2011.pdf>

## LATIN AMERICAN INFRASTRUCTURE LEVELS\*

The scale of the projects attracts global building companies

| Ranking            | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2013/2016 | Positions gained or |
|--------------------|------|------|------|------|------|------|------|------|-----------|---------------------|
| Ecuador            | 94   | 97   | 108  | 100  | 96   | 94   | 90   | 79   | Gained    | 15                  |
| Panama             | 46   | 50   | 58   | 65   | 44   | 38   | 37   | 37   | Gained    | 9                   |
| Uruguay            | 58   | 64   | 69   | 66   | 53   | 49   | 49   | 55   | Gained    | 3                   |
| Brasil             | 71   | 78   | 78   | 74   | 62   | 64   | 70   | 71   | Same      | 0                   |
| Mexico             | 64   | 61   | 68   | 69   | 75   | 66   | 68   | 64   | Same      | 0                   |
| Peru               | 91   | 101  | 110  | 97   | 88   | 88   | 89   | 91   | Same      | 0                   |
| Costa Rica         | 73   | 95   | 94   | 82   | 78   | 83   | 74   | 76   | Dropped   | -3                  |
| Bolivia            | 107  | 118  | 126  | 122  | 100  | 104  | 108  | 11   | Dropped   | -4                  |
| Guatemala          | 74   | 70   | 71   | 68   | 66   | 70   | 75   | 78   | Dropped   | -4                  |
| Nicaragua          | 101  | 116  | 128  | 120  | 111  | 116  | 106  | 105  | Dropped   | -4                  |
| Chile              | 35   | 31   | 30   | 30   | 40   | 41   | 45   | 46   | Dropped   | -11                 |
| Paraguay           | 109  | 126  | 130  | 129  | 125  | 125  | 123  | 123  | Dropped   | -14                 |
| Argentina          | 72   | 81   | 87   | 88   | 77   | 81   | 86   | 89   | Dropped   | -17                 |
| Colombia           | 75   | 86   | 80   | 83   | 79   | 85   | 93   | 92   | Dropped   | -17                 |
| El Salvador        | 54   | 51   | 56   | 51   | 59   | 65   | 72   | 72   | Dropped   | -18                 |
| Dominican Republic | 80   | 79   | 81   | 85   | 107  | 106  | 105  | 110  | Dropped   | -30                 |
| Honduras           | 81   | 75   | 75   | 77   | 85   | 91   | 101  | 115  | Dropped   | -34                 |
| Venezuela          | 84   | 104  | 109  | 106  | 108  | 107  | 120  | 125  | Dropped   | -41                 |

Source: CG/LA Infrastructure Report

“Mexico confirms the Latin American trend: infrastructure investment has increased significantly but it still is far from meeting its needs”

Asian, European and American economies, which made clear the need to bet on infrastructure. Therefore, in the late nineties a concession law of the Ministry of Public Works was passed, which promoted public-private partnerships. In the last decade, Chile took a quantum and qualitative leap in relation to its infrastructure network, even though reports such as the one made by the Chilean Chamber of Construction (CCHC), (The Critical Infrastructure Development Report”) of 2013 show that USD 48 billion still need to be allocated during the next five years, which would mean increasing the current 2.5% annual GDP up to 6% annual GDP.

The final leap that Chile wants to make in order to become a developed country requires, among other things, doubling the investment in infrastructure. If we take a close look at each sector, electricity is the largest investment with USD 13.257 billion, followed by urban roads (public transport) with USD 11.721 billion, interurban roads with 11.581 billion, health and prison infrastructures with USD 5.031 billion, water (USD 3.276 billion), ports infrastructure with USD 1.754 billion and airports with approximately USD 1.070 billion.

In summary, as Chilean economist Jorge Marshall points out, “the growth of the last decade has been mainly marked by demand and not supply factors and it has been achieved despite the lag in investments and key reforms. However, this situation will be

difficult to sustain over time and sooner or later the country will have to face the consequences. The most serious bottleneck is the electricity sector; Chile already has higher prices than the developed countries and these prices double the ones of neighboring countries. This trend will only continue worsening; another key point to be considered when planning infrastructure development. The cost of transport and logistics in Chile account for 18% of the selling price of products, while in countries like Singapore and the United States these costs only amount to 9% or 10% of the final price. The current scenario of conflict in this sector will make it difficult to reduce the gap”.

### Mexico

Mexico confirms the Latin American trend: infrastructure investment has increased significantly but it still is far from meeting its needs. Both the administration of Felipe Calderón and the current of Enrique Peña Nieto have made great efforts in this field, although it remains insufficient. Mexico needs to increase infrastructure investment to 4.5% GDP according to Norman Anderson, President and CEO of CG/LA Infrastructure.

The National Infrastructure Plan 2007-2012 established the National Infrastructure Fund, which contributed to reaching the aforementioned 4.5% figure as average investment in 2011, more than a point higher than the annual average of 3.2% from 2001 to 2006.

“Among the major public initiatives to foster the expenditure on infrastructure, one of the most important ones is the Growth Acceleration Plan (PAC)”

In accordance with the Infrastructure Investment Plan, the current administration of Peña Nieto will allocate around USD 300 billion between 2013 and 2018 for infrastructure projects that are mostly public-private. “The size of this figures reflects the willingness of this Government of turning infrastructure into a strategic engine”, said Peña Nieto.

#### Brazil

Despite the macroeconomic growth of recent years, infrastructure investment in Brazil has remained low. During most of the last decade, the share of expenditure on infrastructure was around 2% GDP. More recently, this percentage has increased up to 3.3% GDP. This figure is below the rate considered necessary to keep an infrastructure stock and also compared to what other emerging countries, such as South Korea, have invested in development.

Ivan Tiago Machado Oliveira, from the Institute for Applied Economic Research, notes that “Brazil had not made any important investment in infrastructure for a long period of time and we are already feeling the effects of this lack of investment. This is an essential element as well as an obstacle for Brazil and for other Latin American countries, although the Brazilian case cannot be extrapolated to other countries given the size and complexity of Brazilian economy. When I think about the agenda Brazil will have to set in order to achieve sustainable growth, investment must be made in education. The

short and long-term effects will be very positive and I am very well disposed towards it. We have improved, although not at the desired speed, but in ten years’ time we might reach a more reasonable level of education that could even be translated in global productivity gains for the economy. In my opinion, these are the fundamental weaknesses Brazil and the other countries of the region, will have to overcome.”

The infrastructure deficit is one of the main obstacles that explain the issues that prevent the country from attaining a sustainable growth over 4%.

Among the major public initiatives to foster the expenditure on infrastructure, one of the most important ones is the Growth Acceleration Plan (PAC), which, from 2007 and 2010, represented an investment of R\$ 444 billion, around 3.5% GDP. Most of the resources were invested in social housing instead of physical infrastructure.

PAC was launched by Lula’s government on 28 January 2007 and investments for a value of 503.9 billion reais in 2010 were forecasted.

The capital employed in the PAC has its roots in the following major resources: Union resources (federal government’s budget), capital investments of state-owned companies (e.g. Petrobras) and private investments with incentives and public investment alliances.

“With the launch of the PAC, the federal government announced a number of measures with the aim of encouraging project implementation”

With the launch of the PAC, the federal government announced a number of measures with the aim of encouraging project implementation. These measures include tax-exemptions for some sectors, environmental measures stimulating the regulatory framework and encouraging financing and credit and long-term fiscal measures.

In February 2009, the federal government announced a capital injection amounting to 142 trillion reais for the PAC. These extra resources were spent with the purpose of creating more jobs in the country and thus reducing the impact of the global crisis on Brazilian economy.

#### PAC 2

In 2011, the second part of the program was launched by Dilma’s government. The PAC 2, with the same objectives as the previous one, had additional resources since the collaboration with states and municipalities was strengthened. These investments have been instrumental to increasing the country’s employment rate, enhancing the infrastructure and ensuring the economic development within all regions in Brazil.

In this respect, Dilma Rousseff’s government has launched the Logistics Investment Program (PIL), the implementation of which is linked to the two sports events that have taken place and will take place in the country: the 2014 football World Cup and the 2016 Olympic Games.

#### Colombia

Infrastructure turned out to be one of the priority sectors since Juan Manuel Santos became President. As President-elect, he described the sectors that should boost the country (infrastructure, agriculture, housing, mining and innovation) by creating 2.4 million new jobs by 2014.

This measure has been translated into tangible improvements in many areas such as the institutional strengthening through the creation of the Vice Ministry of Infrastructure and the National Agency for Infrastructure (Agencia Nacional de Infraestructura), the modernization of the procurement system and the enactment of Law No. 1508 of 2012 (regarding public-private partnerships, APPs).

Nevertheless, bottlenecks still exist in Colombia, since there should be an annual investment in infrastructure of at least 7.4% GDP in order to reduce poverty to similar levels to those of Southeast Asian countries. These are the conclusions drawn from the report about the “International Seminar on Infrastructure and Equity”, organized by the Development Bank of Latin America (CAF-Bank), which pointed out that this investment should be made for 12 years in order to close the vertical poverty gap. If the horizontal gap were to be closed, a higher percentage, 14.9% of GDP, should be allocated.

“Ollanta Humala’s government plans to invest USD 17 billion until 2016 in the construction and enhancement of all types of infrastructure”

In Colombia, along with the Infrastructure Development Plan (Plan de Desarrollo de Infraestructuras) and projects such as Highways for Prosperity, investments amounting more than USD 107 billion are expected by 2020 of which more than half are earmarked for transports and rail and road networks, as well as for infrastructures in cities and regions, mining, energy and housing.

#### Peru

The infrastructure deficit rate in Peru is one of the highest among the important countries of the region. The Peruvian Chamber of Construction (Capeco) claims that the mentioned deficit exceeds US\$ 40 billion and, should the planned projects be implemented, this gap would only be reduced by 50% in 2016.

Other studies, such as the one conducted by the National Association for the Promotion of Infrastructure (Asociación para el Fomento de la Infraestructura Nacional, AFIN), show that, around 2021, the current infrastructure gap would almost double (estimated US\$ 88 billion). The necessary annual investment would therefore amount to US\$ 8.8 billion, which approximately represents 5% of the current GDP.

In the words of Fidel Jaramillo, Representative of IDB in Peru, “the infrastructure gap is large throughout Latin America but, in the case of Peru and some other countries in the region, investments are even lower.

According to a study conducted by IDB, investments in infrastructure should reach at least 3% of GDP, while in Peru this figure is just 1.5%. In other words, only half of the investments needed are being made”.

For his part, Jorge Medina Méndez, economist in Ernst and Young, states that “the Peruvian economic growth forecasts at a rate of around 6% for the coming years can paradoxically change within a framework where global economy starts a recovery process. **“If we do not accelerate the closing of the infrastructure gap and we are not ready to accept an increased economic activity and further investments after a recovery of the global economy, we will not only lose the opportunity to make appropriate use of the resources and liquidity we currently have, but will also miss a historic train of economic development.** We would therefore have to wait until destiny gave us another chance, although the gap would be larger, in an unprecedented situation in which the only thing we need is leadership and determination, not financial resources.

At the moment, Ollanta Humala’s government plans to invest USD 17 billion until 2016 in the construction and enhancement of all types of infrastructure, mainly roads. The construction of Chinchero Cusco International Airport, which will cost USD 399 million and the construction, setting up and maintenance of metro line 2 in Lima, are among the most relevant works undertaken.

**“If anything has revealed limitations of the current infrastructure deficit situation in Argentina it is the energy crisis experienced in 2013 and the beginning of 2014”**

### Argentina

Argentina is another country that has a strong deficit in the area of infrastructure.

A study conducted by Daniel Perrotti and Ricardo Sánchez, economists at the Economic Commission for Latin America (ECLAC), states that the percentage of investment in infrastructure decreased from 3% of GDP between 1980 and 1985 to 2.3% between 2007 and 2008.

And according to a report from the National Regulatory Entity for Electricity (ENRE), between 2003 and 2010, power interruptions carried out by the electricity distributors reached up to 90% in terms of quantity and 175% in terms of duration. Edenor and Edesur's turnover raised by 62% since 2003, while their operational costs increased by 400%. As a result of the strong GDP growth during the last decade, the electricity consumption grew by 80% from 2002 to 2011, though the electricity supply did not grow at the same rate.

A report from the local newspaper La Nación states that, in 2012, for every peso earmarked for public investment, \$2.25 were spent in financial subsidies. This led to a rising infrastructure deficit: in 1997, 47% of households had a sewerage service supply; this percentage rose to 54.8% in 2002 and dropped to 53.8% in 2010.

Ariel Coremberg, Professor of Theory and Measurement of Economic Growth at Buenos Aires

University, highlights that, in 2010, half of the Argentinian population did not yet have neither a sewerage service supply nor gas system: “Argentina is far behind the main countries in Latin America: Brazil, Chile, Mexico and Uruguay, which substantially improved their social and economic infrastructure. In these countries, more than 85% of the total population has an adequate sanitation system, which is key to reducing structural poverty and improving the health status of the population.”

If anything has revealed limitations of the current infrastructure deficit situation in Argentina it is the energy crisis experienced in 2013 and the beginning of 2014. Jorge Lapeña, former Secretary of Energy, explains that this is the result of a dramatic fall in production and an increased demand due to the fact that demand was subsidized and improving and maintenance investments were not made:

*“During 2013, total gas production in Argentina dropped by 5.99% compared with 2012; the oil production was reduced by 3.12% in comparison with the previous year. The long-term declining tendency of our hydrocarbons production is increasing ever since it started, in 1998 the oil production (15 years of uninterrupted fall) and, in 2004, the gas production (for 9 years). Oil and natural gas represent approximately 86% of the main energy of our energy system.”*

### Paraguay

In Paraguay, as in the rest of the countries in the region, there is

**“According to the Development Bank of Latin America (CAF-Bank), Bolivia is the leading country in improvement and investment in infrastructure in Latin America”**

a significant difference between the growing increase of demand for infrastructures (mainly due to the high levels of economic growth experienced by the country) and the capability to meet that demand.

Thus, for instance, for 2014, it was forecasted that GDP would grow by nearly 14%, which generates a huge strain on infrastructure. The government notes that it is necessary to invest around US\$ 30 billion in the next 10 years, roughly half of which (US\$ 15 billion) could be covered by the State.

Regarding the government of Horacio Cartes, in his first 100 days in office, the Law 5102 “regarding Promotion of Investment in Public Infrastructure”, also known as the “Public-Private Partnership”, was passed. The aim of this law was to establish mechanisms to promote investments in public infrastructures and service supply, through public-private participation.

In any event, Ramón Jimenez Gaona himself, Minister for Public Works, admits that Paraguay starts with a significant delay: “our infrastructure underdevelopment is so great that we are among the 10 more backward countries in this field, with the worst infrastructure of the world in terms of quality.”

#### **Bolivia**

According to the Development Bank of Latin America (CAF-Bank), Bolivia is the leading country in

improvement and investment in infrastructure in Latin America; while Latin America is investing an average 3% of its GDP, Bolivia invested 4.5% last year.

The government approved in 2013 a historic public investment of USD 3.807 billion, 70% of which was earmarked for road construction and production development projects. This great public investment made by the government had the objective of enhancing infrastructures in many areas, such as road construction.

In any case, this great effort is yet far from meeting the necessities.

CAINCO, the Federation of Private Entrepreneurs of Santa Cruz and the Chamber of Construction of Santa Cruz have made pointed out the need of investing more than USD 4 billion (7% of GDP) yearly in order to meet the goals set out for 2025. The public and private investment must reach USD 45.7 billion in infrastructure projects which enable the promotion of development and the reduction of poverty rates.

## **4. CONCLUSIONS**

Infrastructures represent a structural challenge for the region, since they are an integral part of the productive system itself, which is a key element to reduce the existing productivity gap between Latin America and developed countries. Without

“Without the adequate logistics and infrastructure to reduce transport costs, the comparative advantages of Latin American economy disappear”

the adequate logistics and infrastructure to reduce transport costs, the comparative advantages of Latin American economy (its proximity to the American and Chinese markets) disappear.

Therefore, the future growth and economic development of Latin American countries is based on the investment in infrastructures. Investment in public work enhances competitiveness and has an impact on GDP (reports from BBVA Research state that the opportunity cost of not investing in this area is translated into an average loss of 66.5% of GDP in Chile, Peru, Mexico and Colombia).

Yet the investment in this area does not go hand-in-hand with the necessary social externalities unless it is accompanied by another series of elements:

- **Firstly, the region must spend more money in a better way on infrastructures (increase the level of expenditure up to 6% from the current 2-3%):** Spending money in a better way entails an enhancement of the management and procurement proceedings, based on transparency and on real competitiveness, a better-planned and developed investment. Infrastructure projects must be backed up by a long-term professional and strategic planning with previous feasibility studies.

Investing more and better in infrastructures contributes to economic and social development. According to

CAF-Bank, it promotes “a better quality of life, social inclusion and opportunities for marginalized communities”, supports “economic growth and business competitiveness”, facilitates “the integration of the national space as well as regional integration, decentralization and internal circulation” and contributes “to the diversification of the productive fabric through the promotion of development and the internationalization of national or regional companies in charge of the supply of engineering and construction equipment and associated professional services.”

- **Secondly, the investment must be focused on quite specific sectors:** Investment must be focused on the areas with greater deficits, especially waste water treatment, sanitation and transports, which are less-developed compared to sectors such as telecommunications, electric energy, mobile telephony and ports.

The most urgent matter is road transport since the export and import volume growth has generated strong pressures on road networks. Road transport is, according to CAF-Bank, the most dominant mode of internal transportation (70% of freight transport is made by road) although the Latin American road network is underused. Regarding the spatial coverage, its density is low: 156km of road for every

“The region must change its method of managing freight logistics with the aim of strengthening its integration with the rest of the world and continuing to grow still further”

1000 sq. km compared to the world average of 240 km.

Furthermore, it is poorly diversified, as it focuses on road transport and thus, railway transport does not exceed 5%, except for Brazil and Mexico, where this figure reaches 20%.

Urban transport also lags well behind other transports. Close attention should be paid to this matter, especially given the exponential urban growth and the emergence of new middle classes. Experts claim that a Latin American person can waste between three and four hours a day commuting, which can be translated into a loss of two hours' wage.

In addition to transport, the port sector is one of the sectors that require greater investment.

Ports are of great geostrategic importance mainly given that between 80% and 90% of the international trade is made through maritime transport. This contrasts with the necessity of modernization of Latin American port infrastructures. According to a report by ECLAC, annual investments amounting to US\$ 170 billion until 2020 are required in order to address the shortfall in the regional port infrastructures.

Alexandre Meira da Rosa, Infrastructure and Environment Sector Manager for IDB, states that “the region must change its method of managing

freight logistics with the aim of strengthening its integration with the rest of the world and continuing to grow still further. Companies can produce goods at low prices very efficiently but they lose their competitive advantages due to an inefficient load and transport of these goods within the country.”

- **The State must play an important role in the area of infrastructures:** The State has a planning role but it is also in charge of creating an enabling and sustainable environment to implement the long-term investment plans and to attract private investment. It is therefore necessary:

- » To establish more professional structures within the administration in order to manage the programs since international investors demand clear, transparent and well-managed projects in which to invest.

- » Likewise, it is necessary to diversify the sources of funding since the majority of the investment activity has so far been financed exclusively through national development banks or multilateral support banks.

- » Finally, infrastructure development plans should be kept outside the political vagaries. This can be achieved by creating cross-cutting programs in the

“The development of infrastructures will not only favor interconnection and regional trade but will also stop the excessive concentration of investors in the region”

different administrations in order to pursue the investments made.

- **Investment in infrastructure favors regional integration:** Regional integration is a long-sought goal pursued for more than half a century which has not yet found an adequate institutional integration framework. It can also be achieved if it is established and supported by an appropriate intercommunication among countries of the region.

Hence the importance of the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), the purpose of which is to foster the physical integration and the social and economic development of the region. The objective of this field of intergovernmental action coordination is to promote the development of transport, energy and communication infrastructures as a basis on which to consolidate regional integration.

Experts highlight the poor connectivity between countries in the region. Juan Antonio Vassallo, Professor at the Universidad Politécnica de Madrid and specialist in infrastructure says that “each country is similar to an island” and gives an example: “how is it possible that Brazil must send its products to China by sea having to go through Cape Horn instead of sending them by a rail or road track connected to the Pacific coast”.

The development of infrastructures will not only favor interconnection and regional trade (by diversifying markets) but will also stop the excessive concentration of investors in the region. It is estimated that in the next five years, investments in infrastructure and construction made in Brazil and Mexico will represent 60% of the total resources earmarked for this sector in Latin America, according to CG/LA Infrastructure’s forecasts. Colombia, Peru and Chile represent another 15%. The rest of the investment will be apportioned among the other 31 economies of the region.

- **Deficit in transport infrastructures causes a low logistic performance in Latin America:** The enhancement of the logistic performance is one of the most urgent challenges the region must overcome given the high concentration of road transport that coexist with a road network that is well below middle-income countries’ standards of infrastructure. This is translated into a lower competitiveness, a reduction of interconnection and decrease in the international insertion capacity of the region. As CAF-Bank states, it should specially be taken into consideration that Latin American exports require great use of natural resources for logistics (agricultural products and clothes, which deteriorate rapidly during transportation).

**“Latin America will have, in the next decades, the opportunity to consolidate its progress towards development”**

Latin American logistic performance is lower than other areas such as infrastructures, customs and regulatory elements and institutions. This poor logistic performance of the region results in increasing transaction costs compared to developed countries. These logistic costs represent between 18% (Chile) and 35% (Peru) of the value of the final product in comparison to 8% in OECD countries.

According to the “Latin American Economic Outlook for 2014”, a report by OECD, CAF-Bank and ECLAC’s, “the enhancement of the logistic performance is a fundamental issue to integrate Latin American economies into a world of global value chains. The reduction of logistic costs is also an essential component to encourage intra-regional trade. For this purpose, further enhancements are needed in the area of standardization of practices related to inland transport regulation and in the field of development of road corridors and logistic solutions to connect the Latin American cities and ports.”.

In fact, the World Bank 2012 Logistics Performance Index showed that no Latin American

country counts among the top 31 and that, within Latin America, the first country is Chile (39th), followed by Brazil (45th), Mexico (47th), Argentina (49th), Uruguay (56th), Peru (60th), Panama (61st), Colombia (64th) and Guatemala (74th). From that point onwards, the rest of the countries are in the bottom part of the list, with Cuba (144th) and Haiti (153rd) as the countries with the worst results.

In short, in relation to the words of the CAF-Bank, we ought to conclude that “Latin America will have, in the next decades, the opportunity to consolidate its progress towards development. This opportunity is the result of the world economy reconfiguration together with the provision of resources of the region. Progress towards development will be confirmed if countries manage to create fairer and more equitable societies that promote more opportunities, inclusion, a more diversified integration and greater added value. In order to face these challenges, substantial improvements must be made in many areas such as education, the capacity to innovate, the quality of institutions and the quality of infrastructures and its associated services”.



## 2014 Political Balance, towards a change in the electoral cycle of Latin America?

**d+i** LLORENTE & CUENCA

1. INTRODUCTION
2. HETEROGENEITY, CHANGE AND CONTINUITY IN THE 2014 ELECTIONS
3. CONCLUSIONS

## 1. INTRODUCTION

2014 has been a very intense year in Latin America. Seven electoral processes have taken place and they have brought important changes and developments to the regional political scene. The presidential elections held in Costa Rica, El Salvador, Panamá and Colombia during the first half of the year, and in Brazil, Bolivia and Uruguay during the second half of the year, have opened the door to a new political and electoral era. An era that emerges in a different economic context (the region has entered a phase of economic slowdown) and in a different social context (there was an increase in social unrest, protests and demonstrations).

This new political and electoral era is marked by heterogeneity, volatility and difficulty regarding certain political parties and their ability to keep their hegemony and leadership in the political scene. So far, these parties seemed unbeatable in the polls, because they won with relative ease and by a wide margin. Latin America is characterized by its heterogeneity and this has been reflected once again in 2014, thanks to the victories of right-wing candidates (Juan Carlos Varela in Panama), centrist candidates (Juan Manuel Santos in Colombia), center-left candidates (Luis Guillermo Solís in Costa Rica, Dilma Rousseff in Brazil and Tabaré Vázquez in Uruguay), and left candidates (Salvador Sánchez Cerén in El Salvador or Evo Morales in Bolivia).

In Latin America, in 2014, re-election and continuity have become the biggest challenge for the ruling governments, due to vote volatility. This is a major change and contrasts with what happened a few years ago in that region (re-election of Hugo Chávez and Dominican PLD in 2012, Rafael Correa and the "chavismo" with Nicolas Maduro in 2013). During the first half of 2014, the party of Ricardo Martinelli in Panama and the PLN in Costa Rica lost the power, whereas the candidate of the FMLN in El Salvador ensured his continuation in office. However, it was a close victory: he won with a difference of 6,000 votes against ARENA. In Colombia, Juan Manuel Santos could not win the first round (he was the second most voted candidate) and undergone untold suffering to win the re-election in the second round. In Brazil, the changes regarding electoral trends were very frequent. One week before the elections were held, the electoral surveys predicted a duel between Dilma Rousseff and Marina Silva in the second round, but in the end the duel was between Dilma Rousseff and Aécio Neves.

“The emerging middle-class has started to mobilize in order to demand better public services, a real commitment in the fight against corruption and more public safety”

Volatility and heterogeneity are a consequence, among other factors, of the current situation in Latin America. A situation marked by the economic slowdown (the region will have had a 2.5% growth in 2014 after having a 4% growth in previous years). This slowdown is a consequence of both the Chinese slower economic growth and the international economic difficulties. The slowdown raises the risk of social unrest in the region: the emerging middle-class has started to mobilize in order to demand better public services, a real commitment in the fight against corruption and more public safety. As the political scientist Daniel Zovatto points out, "victories of incumbent governments, especially in the context of consecutive re-elections, will no longer be as easy and infallible as in the recent past, even if they maintain their predominance. This is the reason why a second round and, even the risk of losing, have become more frequent, as happened with the re-election of Santos in Colombia and in the slim victory of government candidate Sánchez Cerén in El Salvador."

## 2. HETEROGENEITY, CHANGE AND CONTINUITY IN THE 2014 ELECTIONS

Heterogeneity, volatility and the duel between change and continuity have been the key factors of the 2014 elections in Latin America. These cornerstones have characterized the elections during the first and second half of the year.

### The Central American heterogeneous electoral processes

Central America started the 2014 election processes in Latin America. Costa Rica, El Salvador and Panama were the first countries that held elections, between February and May. The first round in Costa Rica and in El Salvador took place on February 2. A second round was needed in both cases, and it took place on March 9 in El Salvador and on April 6 in Costa Rica. A month later, on May 4, Panama conducted its elections.

The duel between change and continuity which characterized the 2014 electoral processes was very present in Costa Rica, El Salvador and Panama. So far, the electorate (especially the emerging middle-class) apparently preferred the ruling governments and preserving the social and economic progresses obtained during the golden decade (2003-2013). However, in this new context, the situation is now beginning to change, because social changes have had an impact on the political scene. As the expert Patricio Navia points out for the Chilean case (although his point of view can be applied to the whole of Latin America). *"In a country were the middle-class is now larger and more powerful than ever before, both the elites and the popular sectors have lost relative weight [...] elites feel threatened by the arrival of a middle-class that wants to better distribute the power. As former President*

|             |                                   |
|-------------|-----------------------------------|
| COSTA RICA  | February 2, 2014<br>(first round) |
| EL SALVADOR | March 9, 2014<br>(second round)   |
| COSTA RICA  | April 6, 2014<br>(second round)   |
| PANAMA      | May 4, 2014                       |

Source: Prepared by the authors

**“The electorate, with a middle-class profile, did not want the continuity of the Arias-Chinchilla governments (2006-2014)”**

*Piñera painfully discovered in 2011, if La Moneda alienates the growing middle-class, the political costs are much more important than if it ignores the popular sectors.”*

Be that as it may, it is exactly what happened in Costa Rica, where parties such as the Citizen's Action Party (PAC) and, to a lesser extent, the Broad Front, grew significantly. They presented their pro-change proposals as an alternative to the continuity agenda of the National Liberation Party (PLN), in power since 2006. The candidate Luis Guillermo Solís, from the center-left party PAC, with 30.64% of the votes, and the candidate of the ruling party Johnny Araya, from the PLN, with 29.71%, were the most voted candidates in the first round. The left candidate from the Broad Front, José María Villalta, came in third place with 17% of the votes. Otto Guevara, from the right-wing Libertarian Movement, won 11% of the votes. After the second round, Solís, a 53 years old teacher,

won the elections, ending the eight years' hegemony of the PLN (governments of Óscar Arias and Laura Chinchilla between 2006 and 2014). Solís won 77.88% of the votes while its opponent, the candidate of the PLN Jhonny Araya, won 22.12% of the votes, with an abstention of 43% (the highest in the last 60 years). The second round had unprecedented characteristics: Araya chose not to campaign (although he maintained his candidacy because the Constitution does not allow the withdrawal of a candidacy), after several electoral surveys predicted his limited possibilities of winning the elections.

Araya and his continuity agenda were superseded by the heterogeneous vote in favor of change, represented not only by the social democrat Solís (30%), but also by the left party Broad Front (17%) and the neoliberal Libertarian Movement (11%). They all had different ideological stances, but they all wanted to end the dominance of the PLN. The electorate, with a middle-class profile, did not want the continuity of the Arias-Chinchilla governments (2006-2014), as the governments of the PLN neither responded nor adapted to the new agenda put forth by this emerging electorate. An agenda which focuses on improving public services and creating an administration more agile and less corrupted.

Salvador Sánchez, the pro-continuity candidate from the left party FMLN in El Salvador, was the most voted candidate in the



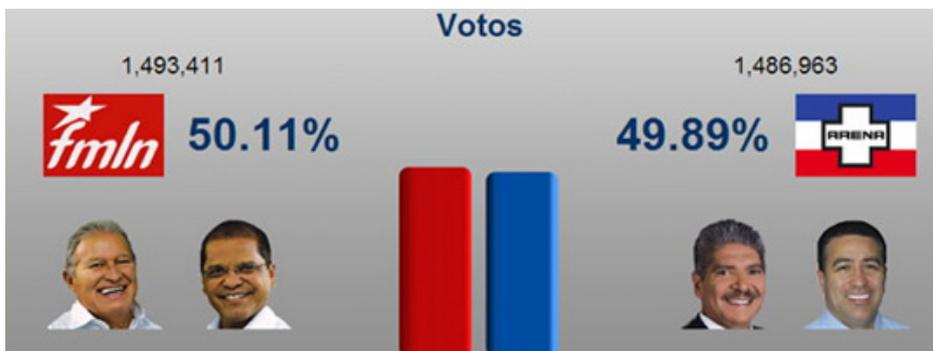
“In addition to heterogeneity, the region oscillates between change and continuity”

first round. However, a second round was needed because he did not win more than 50% of the votes (Sánchez Cerén won 48.9% of the votes and Norman Quijano, from the right-wing party ARENA, was 10 percentage points behind with 38.9% of the votes). The second round was held on March 9, and Sánchez Cerén won a very close race with a 0.22 points advantage (approximately 6,400 votes) over the candidate of ARENA. Quijano gathered the entire anti FMLN vote, such as the centre vote (they voted for the former President Tony Saca), and the right-wing vote –ARENA–. Both of them were against the continuity of the former guerrilla.

In this case, the historic political polarization existing in the country since the 80-90's (FMLN vs. ARENA) and the attrition of Mauricio Funes' government (caused mainly by the low economic growth of the country and the endless security problems) provoked this tight election victory. Another consequence was that the anti-communist vote supported the center-right candidacy of ARENA:

These elections, as well as the elections held in Panama on May 4 showed that Latin America and especially Central America are also extremely complex and very heterogeneous from a political point of view.

During the first five months of 2014, we have seen the victory of the left candidate (former guerrilla), Salvador Sánchez Cerén, in El Salvador; the victory of a candidate from the centre-left ("social-democrat") such as Luis Guillermo Solís in Costa Rica; and the rise of a right-wing party in Panama (Juan Carlos Varela was its presidential candidate). There were surprises in Panama, because according to the political surveys the favorite candidate was José Domingo Arias. He was supported by President Martinelli in a context of triple technical tie between Juan Carlos Varela from the Panamanian Party, Navarro (left-wing) and him. In the end, the victory was for Juan Carlos Varela, leader of the alliance between the opposition parties: the Panamanian Party (PPa) and the People's Party (PP). He won with a 7 percentage points' advantage (which was much more than expected) over the candidate of the government, José Domingo Arias (Democratic change and Nationalist Republican Democratic Movement) who won 31.39% of the votes, and with a 10 percentage points' advantage over Juan Carlos Navarro (Democratic Revolutionary Party), with 28.15% of the votes.



Source: El Diario de Hoy

In addition to heterogeneity, the region oscillates between change and continuity because there is an emerging middle-class that has

“The desire for a change was evident even where the continuity current has won”

grown in good times but now has a new agenda (it wants better public services, more safety and more substantial efforts in the fight against corruption).

El Salvador voted for continuity, and elected once again the FMLN (a party that reached power with Mauricio Funes in 2009). However, Costa Rica voted for a change and elected the PAC (a party with a little more of a decade of life that had never won the elections before). Panama also voted for a change. Nonetheless, in this case it was in order to return to power one of the most traditional and historic parties of the country

(the Panamanian or "arnulfista" party). A political party that came into power thanks to its legendary leader, Arnulfo Arias, in 1941, 1951 and 1968. After the return of democracy in 1989, it won the presidency in 1989, 1999 and now in 2014. Panama was a special case, as the Panamanian Party made an alliance with the party of Ricardo Martinelli, Democratic Change, for the 2009 elections (Varela was his Vice-President). However, the alliance only lasted until 2011.

Moreover, the desire for a change was evident even where the continuity current has won. A clear example of that was El Salvador: Sánchez Cerén only won with an advantage of 6,000 votes, and ARENA almost won against the FMLN. This was because in the second round against the FMLN, ARENA obtained 400,000 new votes, obtained from voters who voted for Tony Saca (Centre) in the first round. This explains why the right-wing party lost the elections with a difference of only 6,000 votes. During the first round, the difference between the two parties was 10 percentage points (48% vs. 38% in favor of Sánchez Cerén). However, in the second round, the results were much tighter (50.11% in favor of Sánchez Cerén and 49.89% in favor of Norman Quijano). The results showed a very divided and polarized country.

**The close election results in Colombia**

In a similar vein, volatility (uncertainty and unpredictability of the results) was one of the most important characteristics of the

| ELECTIONS  | RESULTS   |
|--|---|
| LEGISLATIVE ELECTIONS<br>(MARCH 9, 2014)                         | <p><b>Chamber:</b><br/>                     Party of the U 16.05%<br/>                     Liberal Party 14.13%<br/>                     Conservative Party 13.17%<br/>                     Democratic Center 9.47%<br/>                     Radical Change 7.74%<br/>                     Green Party 3.35%<br/>                     Democratic Pole 2.89%</p> <hr/> <p><b>Senate:</b><br/>                     Party of the U 15.58%<br/>                     Democratic Center 14.29%<br/>                     Conservative Party 13.58%<br/>                     Liberal Party 12.22%<br/>                     Radical Change 6.96%<br/>                     Green Party 3.94%<br/>                     Democratic Pole 3.78%</p> |
| FIRST ROUND OF THE<br>PRESIDENTIAL ELECTIONS<br>(MAY 27, 2014)   | Óscar Iván Zuluaga 29.25%<br>Juan Manuel Santos 25.69%<br>Marta Lucía Ramírez 15.52%<br>Clara López 15.23%<br>Enrique Peñalosa 8.3%<br>Blank vote 5.99%<br>Abstentionism 59.9%  |
| SECOND ROUND OF THE<br>PRESIDENTIAL ELECTIONS<br>(JUNE 15, 2014) | Juan Manuel Santos 7,839,342 (50.95%)<br>Óscar Iván Zuluaga 6,917,001 (45%)<br>Abstención 52.11%  |

Prepared by the authors on the basis of data supplied by the National Electoral Council



“In Brazil, the results were conditioned by an electoral campaign full of surprises and divided in three phases during the first round”

Conversely, the urban vote, which demanded changes and transformations, largely voted for Zuluaga. It is worth stressing out that the alliance between Santos and the Left for the second round made some urban voters vote for the President:

**The vicissitudes of the Brazilian elections**

The same characteristics of the Colombian elections marked the Brazilian electoral process a few months later: uncertainty regarding the results, the government's loss of support, protest voting and disenchantment of the middle-classes.

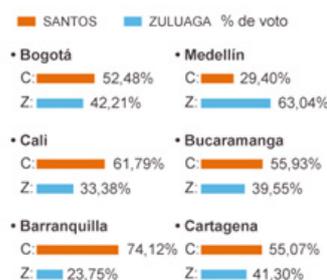
In Brazil, the results were conditioned by an electoral

campaign full of surprises and divided in three phases during the first round. The phases were marked by uncertainty and constant changes regarding voting intention. The electoral campaign only started after the Brazil World Cup ended on July 11. The World Cup was extremely well organized, the demonstrations had little impact and the "canarinha" national team failed categorically (although the failure of the Brazilian national team did not affect the electoral campaign at all).

As a result, the electoral campaign started in mid-July, ended in October and went through different phases which led to the results of the first round of the elections, held on Sunday, October 5, 2014.



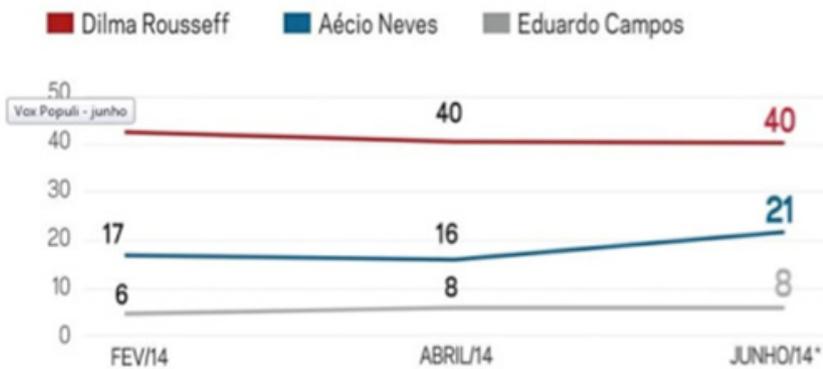
**El voto en las principales ciudades**



- **1º Phase (July-August 2014):** At the beginning of August, it seemed evident that Dilma Rousseff had an electoral ceiling of 40% and a wide advantage over the second presidential candidate Aécio Neves (approximately 20% of voting intention). The third presidential candidate, the socialist Eduardo Campos, who run for elections together with Marina Silva, had a stable voting intention of approximately 10%. Considering this scenario, it was probable that Dilma Rousseff would face Aécio in a second round. The clear favorite for this hypothetical second round would be Dilma Rousseff.

Source: EL PAÍS newspaper]

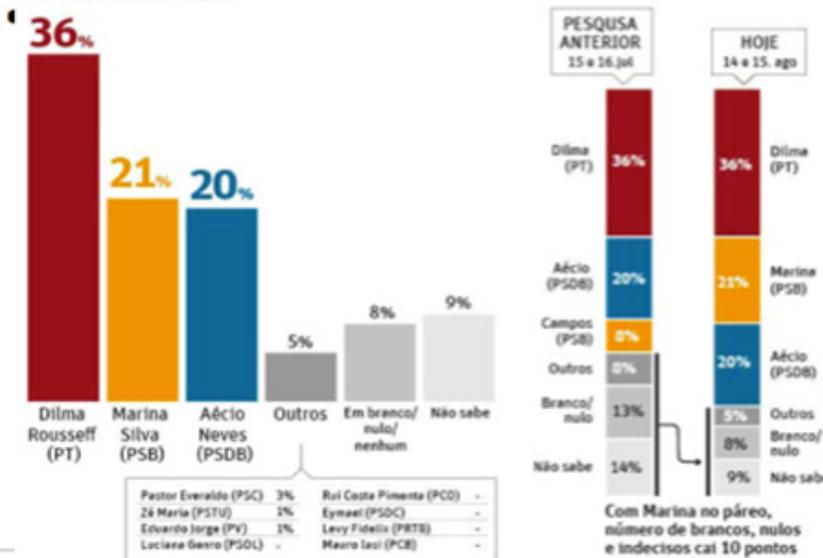
### Intenção de voto estimulada para presidente



\*Pesquisa realizada nos dias 30/05 e 1º/06 com 2,2 mil eleitores em 161 municípios e registrada na Justiça Eleitoral sob o número BR-00156/2014. Mais detalhes do levantamento estarão disponíveis na edição 804 de CartaCapital, que começa a circular nesta sexta-feira 13.

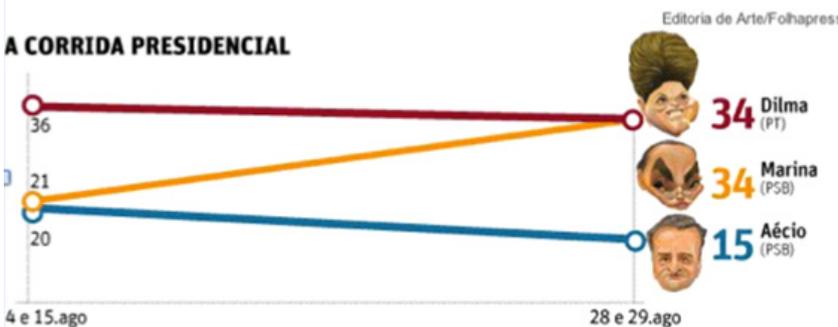
August 2014 survey. Infographics made by Folha de Sao Paulo.

### CENÁRIO COM MARINA



Survey of the second half of August 2014. Infographics made by Folha de Sao Paulo.

### A CORRIDA PRESIDENCIAL



Datafolha survey at the end of August. Infographics made by Folha de Sao Paulo.

However, everything changed when Campos died in a plane crash on August 13. A fortuitous event transformed the electoral campaign (in a more important way than the failure of the Brazilian national team, as some said) and caused uncertainty, which was a new factor in this campaign. Campos was replaced by his Vice-President, Marina Silva, who revolutionized the campaign. In two weeks, Marina relegated Aécio Neves, from the PSDB, to the third place (although initially the surveys showed that he will probably be Dilma's opponent in the second round of the elections) and spread like wildfire in a few weeks only: Campos had a voting intention of 10%, whereas Silva had a voting intention of 21% after being elected as a presidential candidate, and would even win against Dilma in the second round, 47 to 43.

- 2º Phase (August- first half of September 2014): At the end of August and according to the Datafolha's survey, Dilma would win 34% of the votes and would be technically tied with Marina. On the second round, the ecologist and candidate of PSB would win with a difference of 6 to 9 percentage points.

Marina Silva's upward progression ended when Aécio Neves and Dilma Rousseff made harsh attacks against the new candidate.

So far, they have ignored her, because they thought it was a temporary and structural phenomenon.

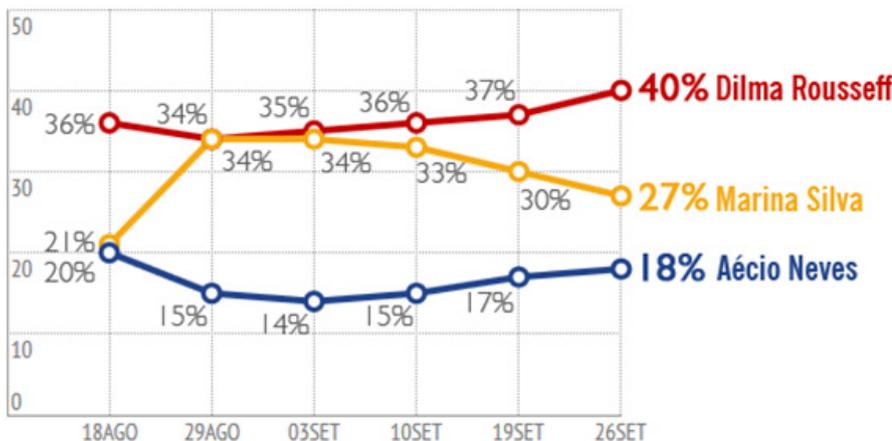
- **3° Phase (second half of September-October 2014):** Marina's progression ended two weeks before the elections took place and her voting intention was down to 25%, a difference of 15 percentage points compared to Dilma (40%). Aécio Neves regained an upward trend that started

after Campos' death and he was just behind Marina regarding voting intention. The machinery of the PT mobilized votes and attacked its rivals. In addition to this, the program of Marina Silva was inconsistent regarding issues such as abortion, she had a very conservative evangelical profile and she was a weak leader (she broke into tears a few times during the campaign). As a result, Marina Silva fell into discredit.

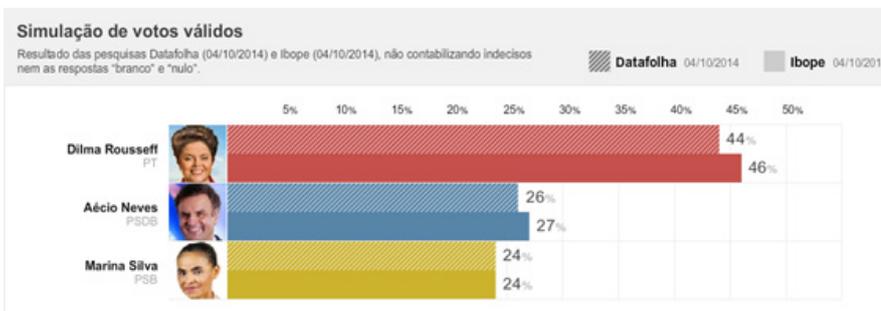
PT's machinery had efficiently destroyed Marina's phenomenon and, as the political expert Fernando Bizarro points out in *ConDistintosAcentos*: "When Marina had to face the difficulties of an electoral campaign, the lack of depth of her proposals and the heterogeneity of the interests she represented were harmful to her. She lost the support she had initially received."

It was true. On Sunday, October 5, on Election Day, Aécio was ahead of Marina. It was another clear example of how volatile the voting intention of the electoral campaign was:

Finally, Dilma Rousseff won the first round with 41% of the votes, Aécio Neves won 33% of the votes and Marina won 21% of the votes. However, 15 days ago surveys predicted that she will win 30% of the votes.



Datafolha survey at the end of August. Infographics made by Folha de Sao Paulo.



Source: Folha de Sao Paulo newspaper

“Brazil country is in the midst of a social, political and (soon) economic transition”

Brazil electoral campaign showed that the country is in the midst of a social, political and (soon) economic transition. Political loyalties to parties and to leaderships are more and more volatile and circumstantial.

- **4° Phase (October 2014):** The beginning of the electoral campaign for the second round was marked by the fact that Aécio won more votes and obtained the explicit support of Marina Silva from the PSB. He also obtained the support of the Popular Socialist Party (PPS), which

made a coalition with Silva. In addition to this, he also had the support of Eduardo Jorge, from the Green Party (PV), and Everaldo Dias, from the Christian Social Party (PSC). These two parties represented 1.36% of the votes. Moreover, the first surveys conducted predicted a technical tie between Dilma and Aécio on the second round and a slight advantage for the former governor of Minas Gerais.

According to Ibope, in mid-October, the PSDB candidate would win 46% of the votes in the second round and Rousseff

**BRASIL**

SEÇÕES TOTALIZADAS **100%**

CANDIDATO / PARTIDO

VOTOS VÁLIDOS



**1°** Dilma / PT



Matematicamente no 2° turno

Ver mapa do candidato

**41,59%**  
43.267.668



**2°** Aécio Neves / PSDB



Matematicamente no 2° turno

Ver mapa do candidato

**33,55%**  
34.897.211



**3°** Marina Silva / PSB



Ver mapa do candidato

**21,32%**  
22.176.619

4° Luciana Genro / PSOL 1,55% (1.612.186)

5° Pastor Everaldo / PSC 0,75% (780.513)

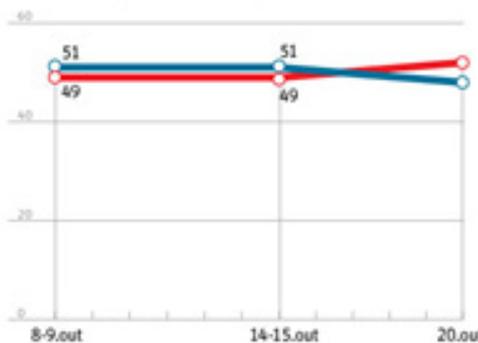
Source: Folha de Sao Paulo newspaper

**CORRIDA PRESIDENCIAL**

Dilma assume a liderança, mas ainda está empatada técnica com Aécio

**VOTOS VÁLIDOS\***

Exclui brancos, nulos e indecisos, em %

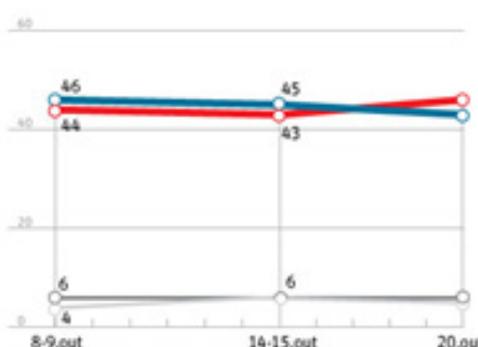


**52** Dilma (PT)  
**48** Aécio (PSDB)



**VOTOS TOTAIS**

Em %



**46** Dilma (PT)  
**43** Aécio (PSDB)



**6** Não sabe  
**5** Em branco/nulo/nenhum

Infographics made by Folha de Sao Paulo newspaper.

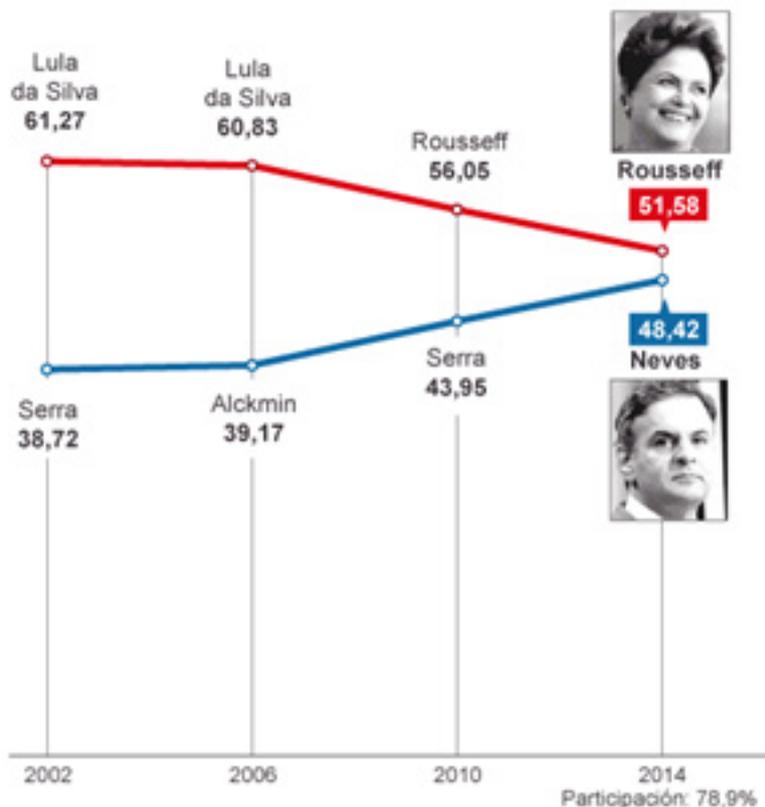
“In 2014, politics in Latin America have gone through a period of great volatility in the different electoral processes that have took place in the region”

would win 44% of the votes. According to Datafolha and considering the valid votes, Neves would win 51% of the votes, whereas PT's candidate would win 49% of the votes. However, this trend started to reverse during the first week of October, when Dilma Rousseff took the lead.

Finally, the second round of the elections was very similar to the first round. During the final stage of the electoral process, the PT's machinery made Dilma win over Aécio Neves, who won less than 50% of the votes. Once again, it was a clear example of the volatility of voting trends, but the Brazilian tendency to re-electing its leaders.

As Daniel Zovatto pointed out, "regarding Brazil and Uruguay, the voters feared to lose the important social progresses made in the last decade. It is true that people want change and voters have "flirted" with candidates that have proposed to end the status quo (Marina Silva, Aécio Neves and Luis Lacalle Pou). However, in the moment of truth, the voters were more "conservative" and did not choose a political alternative, because they feared that the social progresses obtained in the last years could be lost. Numerous and generous social programs are a powerful weapon that create political loyalty and electoral credit for the ruling governments."

Elecciones presidenciales. Sobre el total de votos válidos, en %



Infographics made by El País newspaper.

### The Bolivian exception

In 2014, politics in Latin America have gone through a period of great volatility in the different electoral processes that have took place in the region. As we have already explained before, this was the case for countries such as El Salvador and Colombia during the first half of the year, and for Brazil and Uruguay during the second half of the year. However, in Bolivia there was neither uncertainty nor volatility. Evo Morales was re-elected for the 2015-2020 period, winning 61% of the votes and with an advantage of more than 35% points over his main rival, Samuel Doria Medina, who won 24% of the votes. The clear electoral victory confirmed the hegemony of the political party of Morales,

“The results of 2014 confirmed the strong ‘masista’ and ‘evista’ hegemony in Bolivia, which does not seem to diminish over the years”

Movement for Socialism (MAS), from a geographic perspective: he was the most voted candidate in all departments with the exception of Beni: MAS won in 8 out of 9 departments. Even if Morales lost in Beni, he improved his results from 37.66% to 43%. The hegemony was also evident from a legislative point of view, where the “masismo” (the ruling party movement) won two-thirds of the legislative chamber in 2014. This would allow Morales to change the Constitution without negotiating with the opposition.

**The electoral results**

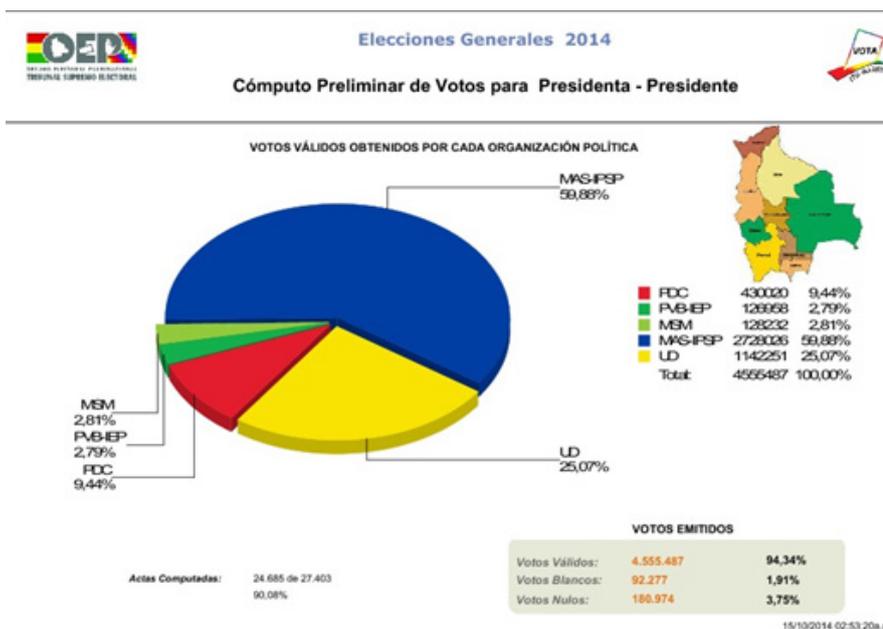
The results of the October 12 elections left no room for doubt: Morales won in eight out of nine departments, including Santa Cruz de la Sierra. Furthermore, even if he suffered major setbacks in the main Andean districts he almost always won more than 60% of the votes:

In addition to the clear victory of Morales, the Electoral Day was marked, after the closing of the polling stations, by the severe technical failures that delayed the publication of the official results for three days. During these days, the only reliable data were the predictions regarding voting intention made on Sunday night, which predicted Morales' victory: he would obtain more than 60% of the votes.

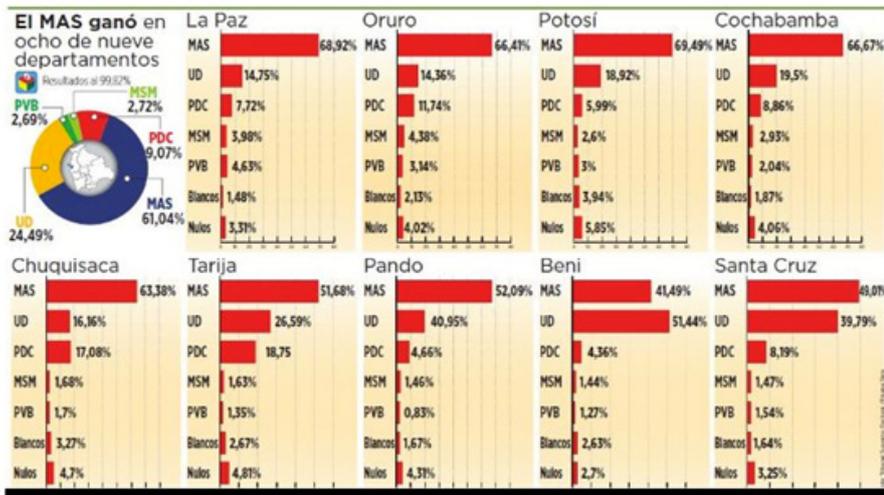
It was a very clear victory for Morales. After winning these elections, he will try to conquer all the local power in the 2015 departmental elections. In 2014 and despite elections in sub-national areas have a different dynamic, MAS won in all departments with more than 50% of the votes with the exception of Beni (where it only won 41% of the votes) and Santa Cruz, where it won 49.07% of the votes but was still the most voted political force.

Why is Bolivia the exception regarding the hegemony of the ruling government in comparison with other countries of the region, where the ruling governments are in distress?

The results of 2014, as well as the results of 2005 (when Evo Morales won 54% of the votes), and the results of 2009 (in this case he won 64% of the votes) confirmed the strong “masista” and “evista” hegemony in Bolivia, which does not seem to diminish over the years (Morales support only diminished by four points between 2009 and 2014 and is



Data and computer graphics made by Bolivia`s TSE



Infographics made by La Razón newspaper

still above 60%). The hegemony is a consequence of the collapse of the party system in place since 1982 and a result of the economic growth that has helped Morales to have the necessary income in order to develop an ambitious social policy.

After the nationalization of hydrocarbons in 2006, the state revenue reached 2,300 million dollars whereas in 2005 the state revenue was approximately 526 million dollars. This is an increase of 334.60%. Moreover, during the previous seven years, the nationalization of hydrocarbons generated revenues of 19,000 million dollars, whereas during the preceding five-year period, they generated revenues of 3,300 million. This new revenues explain the redistribution policies that have allowed almost one third of the Bolivian people to receive social assistance bonuses and direct economic aid from the state (the Juancito Pinto bonus for the students; the *Renta Dignidad* for older adults; or the Juana Azurduy de Padilla bonus for pregnant women and children younger than two years old).

The economic growth (the country GDP grows at a rate of 4% since 2010) and the surplus revenue explain how a regime that was on the edge of collapse and civil war between 2006 and 2009 is now fully consolidated.

Reinforced and reaffirmed thanks to the 2014 re-election, Evo Morales faces a five-year period which will be marked by three variables:

### Evolución del PIB boliviano entre 1985 y agosto de 2013

La expansión de la economía boliviana podría registrar este año un récord histórico si se mantiene el ritmo de crecimiento del Producto Interno Bruto (PIB).



INFOGRAFÍA: JULIO HUANCA, FUENTE: MINISTERIO DE ECONOMÍA Y FINANZAS PÚBLICAS E INE

p: Preliminar \*Dato a agosto con base al IGAE

Infographics made by La Razón newspaper

“Taking into account the ‘evodependence’ of his party, the future of Bolivia and its current regime depends on the final decision Evo Morales will take”

- From a political viewpoint, the main issue is to know if Morales will seek or not re-election in 2020. The 2009 Constitution does not allow him to do so, and the Bolivian President has stated that he does not wish to continue in power.

However, the “*masista*” and “*evista*” project has no clear heir and both MAS and the regime depend on the charismatic and symbolic figure of Evo Morales. Without his leadership, everything that has been built since 2006 can collapse and disappear. Moreover, other examples in the same region (the re-election of Hugo Chávez, Rafael Correa, Daniel Ortega...) make the possibility of Evo Morales leaving politics in 2020 to become manager of a restaurant (as he has claimed) hard to believe. Taking into account the “*evodependence*” of his party, the future of Bolivia and its current regime depends on the final decision Evo Morales will take.

- Regarding the economy, although Evo Morales maintains an anti-imperialist and anti-colonialist tone, he focuses on development and is very close to the business elite. He is particularly close to the department of Santa Cruz, which traditionally disapproves his management. However, he has obtained a clear victory in this department in the last elections winning almost 50% of the votes.

Thanks to this strategy, he maintains a “revolutionary” discourse (“*The dignity and sovereignty of the people of Bolivia has won, and this is dedicated to all the people of the world that fight against imperialism*”). However, during this five-year period he will focus even more on development because he wants to improve areas such as gas industrialization, lithium and steel. According to Morales, “*the objective is very clear, we will not continue to export raw materials in the same manner as in the past; we will rather export the raw material (industrialized) for construction*”

However, promoting industrialization requires investments that the Bolivian State cannot afford. In order to afford them, the State would have to find foreign allies such as Russia or China, or attract foreign capital. In that sense, the relationships with important companies such as Repsol YPF, after the 2006 nationalization, have ended up being excellent. In fact, the nationalizations that traditionally have taken place on the first of May might continue, but would have no effect on those big international consortiums. In 2013, Evo pointed out that “*To all those companies that invest in Bolivia, I want to assure them that their investments are guaranteed, that they have the right to*

**“The Uruguayan elections were the last elections held in Latin America in 2014. They are in themselves a clear example of all the dynamics that characterized the region this year”**

*recover those investments and to make a profit.”*

Be that as it may, there are still doubts regarding the viability of the economic model of the regime. The model has fueled the economic growth for the past years. However, the region enters now a period of economic slowdown. As a result, the monetary policy does not seem feasible anymore. The policy is based on freezing the exchange rate, increasing internal debt or substantially enlarging the number of workers in state-owned companies, among others.

- The third key factor that will mark the five-year period is the regime's own nature.

Thanks to the electoral victory, Evo Morales has accumulated a lot of power. He has two-thirds of the legislative chamber, where the opposition is very weak. This raise doubts regarding the opposition capacity to supervise and control the government. In that sense, everything seems to indicate that the creation of a regime highly patronage-based, self-oriented and not very institutionalized will continue after the five-year period.

As the former Bolivian President Carlos Mesa points out, *“the rule of law is extremely weak; a weakness that arises from a deep*

*deinstitutionalization at all levels, masked by the President's legitimacy of origin and his personal and convening power. It is time to ask him if he really thinks that the personality cult (reflected in the pictures all over the country) and his omnipresence in the public and semi-public media are good for his historic project and for his own connection with reality.”*

#### The Uruguayan elections

The Uruguayan elections were the last elections held in Latin America in 2014. They are in themselves a clear example of all the dynamics that characterized the region this year, especially in the South American region:

- The ruling party Broad Front (in power since 2005) won the elections. The ruling parties of Colombia, Brazil, Bolivia and El Salvador also won their respective elections.
- The left-wing party won. In this case, it was the moderate and reformist left party led by Tabaré Vázquez. The left also won in El Salvador and Bolivia, the center-left won in Costa Rica, Brazil and in Colombia, the center party (Santos), supported by the left, also won the elections.
- As in other countries such as Colombia, Brazil, Costa Rica and El Salvador, the candidate won the presidential elections in the second round.

- In addition to his, the Uruguayan opposition obtained the votes of the emerging middle-class (though less efficiently than Colombia and Brazil), which want better public services, is tired of the ruling party's hegemony and uncomfortable with the mounting fiscal pressure.

campaign between July and October, thanks to his fresh tone and new and appealing proposals.

However, the results of the October 26 elections revealed no big surprises: Tabaré Vázquez was left at the gates of re-election: he won 47.8% of the votes whereas the sum of the votes won by the so called whites (Lacalle Pou, 31%) and reds (Pedro Bordaberry, 13%) were not enough to win against the Broad Front.

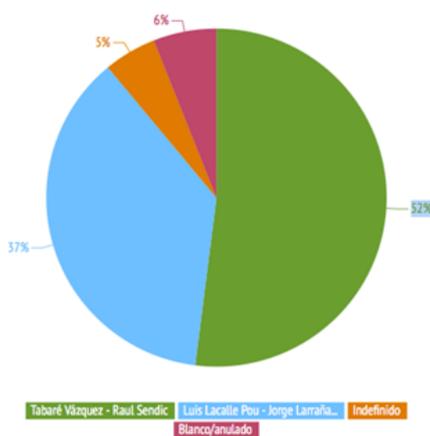
Moreover, the lack of emotion was confirmed when the first surveys for the second round were published: the former President Tabaré Vázquez (2005-2010) had a wide advantage over his opponents less than three weeks before the second round was held.

The final results after the November 30 elections confirmed the surveys: Tabaré Vázquez won with an advantage of 12% points over Lacalle Pou. With all the votes counted, Tabaré Vázquez and Raúl Sendic won 53.6% of the votes (1,226,105 votes) and Lacalle Pou and Jorge Larrañaga, from the National Party (the whites) won 41.1% of the votes (939,074).

### 3. CONCLUSIONS

2014 has been a very important year in Latin America from an electoral viewpoint. It has been important because of what happened and also due to what will probably happen in the next elections: it has been confirmed that the region may be at the gates

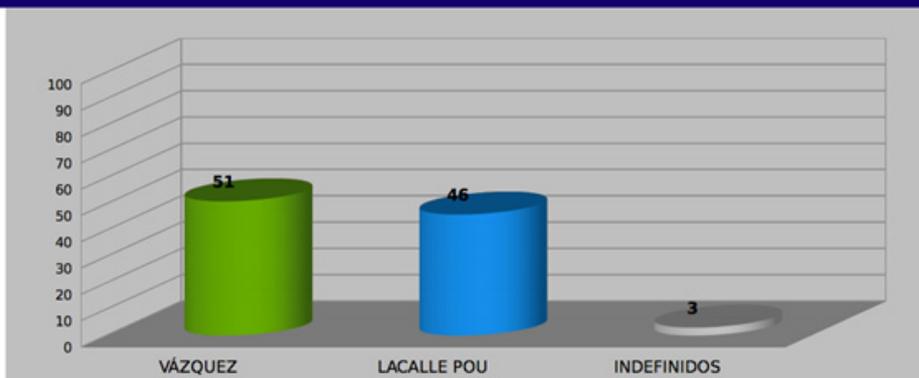
#### FACTUM: Intención de voto para el balotaje del 30 de noviembre



Source and infographics: El País newspaper

The electoral campaigns for the first and second round of the presidential elections of Uruguay were radically different. The first round was characterized by emotion and uncertainty whereas the second round was characterized by boredom and lack of tension. Luis Lacalle Pou, the candidate of the National Party turned the campaign for the elections of October 26 into a thrilling duel between him and the candidate of the ruling party (Broad Front), Tabaré Vázquez. His rise in popularity seemed to endanger Vázquez re-election and he became the most important figure of the electoral

#### LA FOTOGRAFÍA: PREFERENCIA PRESIDENCIA ACTUAL



Data and infographics Factum

**“It has been confirmed that the region may be at the gates of a change of its political cycle. This change is a consequence of the social and economic changes that have occurred during the last decade”**

of a change of its political cycle. This change is a consequence of the social and economic changes that have occurred during the last decade. As a result, the political hegemonies are no longer safe, and will probably be even less safe in the near future: Juan Manuel Santos won his re-election by a small margin and the hegemonies of the PT in Brazil, FMLN in El Salvador and Broad Front in Uruguay had been at stake. Furthermore, PLN's predominance in Costa Rica is over.

So, what is happening? Actually, in 2014 there were several seasonal and general characteristics that explain to a large degree the current situation and predict what may come next:

- First of all, it is evident that in many countries the political hegemonies are no longer as strong as before.

This is the case of the PLN in Costa Rica (2006-2014), of the "*lulismo*" in Brazil (in power since in 2003, it has obtained the worst electoral results since 2002) and the case of the Uruguayan Broad Front (in 2020 it will complete 20 years in power). In a similar way, this is also the case of the "*chavismo*" in Venezuela, the predominant political force since 1999, and of the "*kirchnerismo*" in Argentina, in power at the "*Casa Rosada*" since 2003.

- The ruling parties still win the elections. However, winning in

the future will be much more difficult for them.

In that sense, the clearest examples were the cases of Juan Manuel Santos, who lost the first round against Óscar Iván Zuluaga and then won re-election in the second round; and Salvador Sánchez Cerén, who won the second round with an advantage of only six thousand votes.

Brazil was a paradigmatic example. The candidate of the Workers' Party (PT) won the second round of the elections with an advantage of a little more than 3 percentage points: it is the worst result of the party founded by Lula da Silva since 2002, what means that the new Government of Dilma Rousseff will face one of the biggest competitions after the mandates of Lula.

The PT defeated the PSDB in 2002, 2006 and 2010: Lula won against José Serra in 2002 with an advantage of more than 22 percentage points and against Geraldo Alckmin in 2006 with an advantage of more than 20 percentage points. Dilma won against Serra in 2010 with an advantage of 12 percentage points, whereas in 2014 she won against Aécio Neves with an advantage of only 3 percentage points:

Be that as it may, consecutive re-elections (such as the re-elections in Colombia, Brazil and Bolivia), remain very

**“It is increasingly evident that it is difficult for the ruling parties to win elections easily”**

present: all South American Presidents who have sought immediate re-election between 1978 and 2014 have been re-elected. The only two Presidents who did not win re-election during that period were not from the South American region: Daniel Ortega in 1990 (Nicaragua) and Hipólito Mejía in 2004 (Dominican Republic).

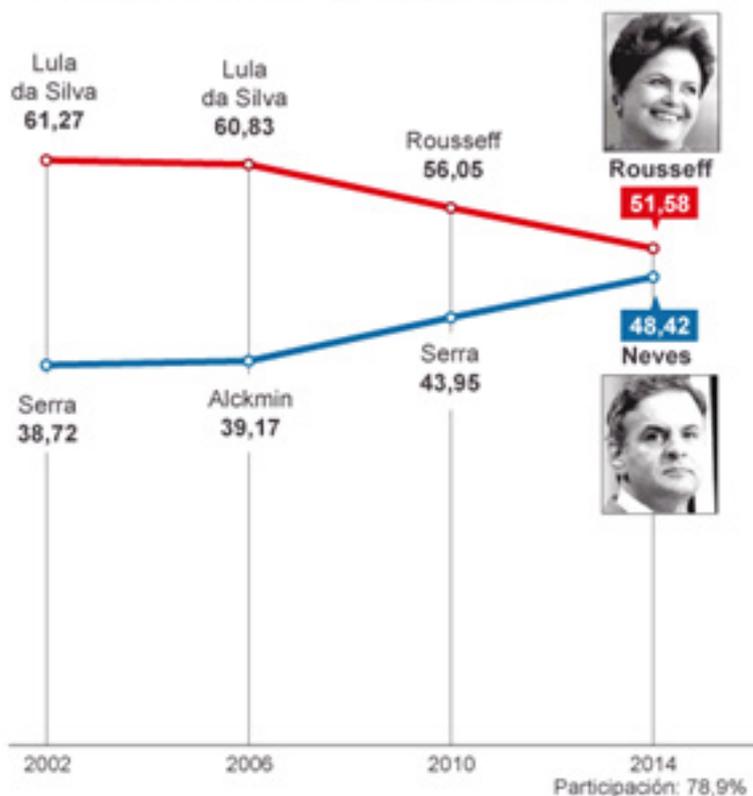
All the ruling governments have won the elections held in South America in 2014. Juan Manuel Santos in Colombia, Evo Morales in Bolivia, Dilma Rousseff in Brazil and Tabaré Vázquez in Uruguay: they all

have won. What is happening to the opposition parties that raise such high expectations and then are defeated time after time in all South American electoral processes? Interestingly, when everything suggested that the opposition parties could win against the ruling parties (at least in Colombia, Brazil and Uruguay), they ended up being defeated. It seemed that the opposition parties had understood the citizens' social dissatisfaction, especially among the middle-class. However, in the moment of truth, the electorate turned its back on them.

As Daniel Zovatto pointed out *“it is increasingly evident that it is difficult for the ruling parties to win elections easily (this happened in El Salvador, in Colombia, and again in Brazil). But it is also true that it has not been easy for the oppositions to defeat the parties in power (they failed this year in El Salvador, Colombia, Bolivia, Brazil, and probably in Uruguay as well). It seems that the electorate does not want a change, understood as alternation, but rather a “change in the context of continuity,” reelecting the parties in power yet at the same time sending them a message of dissatisfaction with the current situation.”*

Despite the defeats of opposition parties, it seems that nothing will be the same anymore. Clear hegemonies

Elecciones presidenciales. Sobre el total de votos válidos, en %



Source: El País newspaper

“The emerging middle-class who grew up in the economic boom years and in a stable political context has now other demands: an improvement of the public services (health, public transport and education), more safety and less corruption”

will be rare, with some exceptions such as the Evo Morales' case. The emergence of opposition parties in South America will continue (they have forced the second round of elections in three out of four cases). Furthermore, 2014 is the first phase of this emerging phenomenon. As the analyst Julio Burdman pointed out *"the re-election of Dilma Rousseff in Brazil and before that, the re-election of Evo Morales in Bolivia, conspire against the opposition "momentum" thesis... Vázquez, together with Bachelet and Lula, are all part of a generation of long-term South American Presidents who still are at the center of the political scene. As a result, in a few years, the generational demand will be a more powerful issue: it is still too early."*

- In addition to the attrition, these hegemonies have lost connection with society in two fronts:
  - » Firstly, they have lost connection with a younger generation that has only seen parties such as the PT in Brazil or the Broad Front in Uruguay in power. These young people have almost reached voting age. The director of the Uruguayan consultant, Cifra, Mariana Pomiés, stated this regarding the Uruguayan case: *"To put it in football terms, the youngsters were the reserve of young*

*players of the Broad Front. During the last year, we have changed the natural predisposition of the young people to vote for the Broad Front."*

- » Secondly, the emerging middle-class who grew up in the economic boom years and in a stable political context has now other demands: an improvement of the public services (health, public transport and education), more safety and less corruption. For now, the ruling parties have not been able to meet these demands.

The analyst Álvaro Vargas Llosa explains that *"the emerging middle-class, depicted in Brazilian statistics as "class C", is dissatisfied with the government... It is not hard to understand what is happening. This middle-class is beginning to understand that, as in Cinderella, magic could disappear at midnight and everything could return to the sad reality again. The Brazilian economy has not grown in four years and if things remain unchanged, the increase in unemployment after years of job creation could become a trend. Moreover, households – explains Vargas Llosa– are quite indebted and have to devote an important*

“2014 may actually be considered as the first year of a change of cycle. It would be the beginning of a new political cycle characterized by electoral volatility and weakness of the self-oriented and partisan hegemonies”

*amount of their revenues to repay credits. Finally, the expectations regarding public services have not been met. The state is in fact a third-world state very far from the brilliant BRIC dream of a few years ago.”*

- The region is still politically heterogeneous

From an economic, social and political point of view, the 2014 elections held in Costa Rica, El Salvador, Panama, Colombia, Brazil, Bolivia and Uruguay have shown a very heterogeneous region. The left parties have won four out of five South American elections held during the last 12 months, and five out of seven elections held in Latin America. The re-election of Juan Manuel Santos in Colombia was the only exception to this regional trend. This contrasts with the situation in Central America and Mexico, where there is more heterogeneity: victories of the left (the FMLN in El Salvador), the center-left (the PAC in Costa Rica), the center-right and the right (the Panamanian party of Juan Carlos Varela).

- Fifthly, the economy has not been an ally of the ruling governments in 2014. The economic slowdown of the region is beginning to be felt and it may be more intense in 2015, which is harmful to the progression and maintenance of the projects of the different ruling governments. The low economic growth, which might continue during the next years, will have a direct impact on both the increase of social dissatisfaction and the changes regarding voting intention.

Considering all this, 2014 may actually be considered as the first year of a change of cycle. It would be the beginning of a new political cycle characterized by electoral volatility and weakness of the self-oriented and partisan hegemonies. All of this in a context of a less dynamic economy and, sometimes, in a context of economic crisis (Venezuela and Argentina are good examples of that). The society is more heterogeneous and there will be several contradictions and an underlying and growing disquiet. Everything suggests that a period characterized by higher volatility could become a reality. It will be caused by social changes (an increase in demonstrations and a dissatisfied emerging middle-class) and by economic changes (worldwide economic slowdown). This volatility will have a direct consequence: the long-term political hegemonies will be much more difficult to maintain. For instance, in 2015,

|                                       |  |
|---------------------------------------|--|
| VICTORIES OF THE LEFT IN 2014         | Salvador Sánchez Cerén (El Salvador)<br>Evo Morales (Bolivia)<br>Dilma Rousseff (Brasil) |
| VICTORIES OF THE CENTER-LEFT IN 2014  | Luis Guillermo Solís (Costa Rica)<br>Tabaré Vázquez (Uruguay)                            |
| VICTORIES OF THE CENTER-RIGHT IN 2014 | Juan Manuel Santos (Colombia)<br>Juan Carlos Varela (Panama)                             |

Source: Prepared by the authors

“The public opinion wants changes, but there is no well-defined agenda regarding those changes”

the kirchnerista predominance will be harder to maintain, and it will be very difficult to sweep the polls as Cristina Kirchner did in 2007 and 2011.

Actually, the region is in a triple transition phase:

- » It is a social transition due to the emergence of the middle-classes, which have changed the political agendas, the public policies and even the social relations.
- » It is a political transition, caused by the changes and tensions of the party systems, and by the difficulties the governments have in order to meet the citizens' demands.
- » It is an economic transition, provoked by the end of a decade of strong economic growth that Latin America has experienced thanks to the high prices of commodities exports.

Moreover, in a context characterized by an economic slowdown, more expectations and social demands, loyalties to parties and to some leaders are more and more volatile. The public opinion wants changes, but there is no well-defined agenda regarding those changes. For instance, Juan Arias explains

the Brazilian situation in El País newspaper, "74% of Brazilians want a change, according to the Datafolha institute. However, their feelings are mixed on this issue: they want something that will improve their lives, because what they have achieved in the previous 12 years is no longer sufficient. At the same time, they fear they might lose what they already have if there is a change. This fear is especially strong among the poorest and among those who have benefited the most from the social measures of the PT governments. They represent the vast majority of Rousseff's voters."

To conclude: this is the beginning of a new Latin America, which will be more difficult to govern because the region is entering a new social and economic phase in its history (a more complex phase, with less economic growth, more tensions and more demands made by the emerging middle-class and by the working classes). All of this has a direct impact on the party systems and on the governance of the countries of the region. It tests the governments' capacity to deal with social pressures and their capacity to promote public policies that have a broad consensus among citizens.

LLORENTE & CUENCA | **Directory**

LLORENTE & CUENCA is the leading Reputation Management, Communication, and Public Affairs consultancy in Spain, Portugal, and Latin America. It has **17 partners** and **350 professionals** who provide strategic consultancy services to companies in all business sectors with operations aimed at the **Spanish and Portuguese speaking countries**.

It currently has offices in **Argentina, Brazil, Colombia, Chile, Ecuador, Spain, Mexico, Panama, Peru, Portugal** and the **Dominican Republic**. It also offers its services through affiliates in **the United States, Bolivia, Paraguay, Uruguay** and **Venezuela**.

Its international development has meant that in 2014 LLORENTE & CUENCA is 55th in the Global ranking of **the most important communication companies in the world**, as reflected in the annual Ranking published by The Holmes Report.

## CORPORATE MANAGEMENT

José Antonio Llorente  
Founding partner and Chairman  
jalloriente@llorenteycuenca.com

Enrique González  
Partner and CFO  
egonzalez@llorenteycuenca.com

Jorge Cachinero  
Corporate Director for Innovation  
jcachinero@llorenteycuenca.com

## SPAIN AND PORTUGAL

Arturo Pinedo  
Partner and Managing Director  
apinedo@llorenteycuenca.com

Adolfo Corujo  
Partner and Managing Director  
acorujo@llorenteycuenca.com

### Madrid

Joan Navarro  
Partner and Vice-President of Public Affairs  
jnavarro@llorenteycuenca.com

Amalio Moratalla  
Partner and Senior Director  
amoratalla@llorenteycuenca.com

Juan Castellero  
Financial Director  
jcastillero@llorenteycuenca.com

Lagasca, 88 – planta 3  
28001 Madrid (Spain)  
Tel. +34 91 563 77 22

### Barcelona

María Cura  
Partner and Managing Director  
mcura@llorenteycuenca.com

Muntaner, 240-242, 1º-1ª  
08021 Barcelona (Spain)  
Tel. +34 93 217 22 17

### Lisbon

Carlos Matos  
Founding Partner and Managing Director  
cmatos@llorenteycuenca.com

Madalena Martins  
Founding Partner  
mmartins@llorenteycuenca.com

Rua do Fetal, 18  
2714-504 S. Pedro de Sintra (Portugal)  
Tel. + 351 21 923 97 00

## LATIN AMERICA

Alejandro Romero  
Partner and Latin American CEO  
aromero@llorenteycuenca.com

José Luis Di Girolamo  
Partner and Latin American CFO  
jldgirolamo@llorenteycuenca.com

Antonio Lois  
Regional Director of Human Resources  
alois@llorenteycuenca.com

### Bogota

María Esteve  
Managing Director  
mesteve@llorenteycuenca.com

Germán Jaramillo  
Chief Executive  
gjaramillo@llorenteycuenca.com

Carrera 14, # 94-44. Torre B – of. 501  
Bogota (Colombia)  
Tel. +57 1 7438000

### Buenos Aires

Pablo Abiad  
Partner and Managing Director  
pabiad@llorenteycuenca.com

Enrique Morad  
Chief Executive for the Southern Cone  
emorad@llorenteycuenca.com

Av. Corrientes 222, piso 8. C1043AAP  
Ciudad de Buenos Aires (Argentina)  
Tel. +54 11 5556 0700

### Lima

Luisa García  
Partner and CEO of the Andean Region  
lgarcia@llorenteycuenca.com

Cayetana Aljovin  
General Manager  
caljovin@llorenteycuenca.com

Av. Andrés Reyes 420, piso 7  
San Isidro. Lima (Peru)  
Tel. +51 1 2229491

### Mexico

Juan Rivera  
Partner and Managing Director  
jrivera@llorenteycuenca.com

Bosque de Radiatas # 22 – PH7  
05120 Bosques las Lomas (México D.F.)  
Tel. +52 55 52571084

## Panama

Javier Rosado  
Partner and Managing Director  
jrosado@llorenteycuenca.com

Avda. Samuel Lewis. Edificio Omega, piso 6  
Panama City (Panama)  
Tel. +507 206 5200

## Quito

Catherine Buelvas  
Managing Director  
cbuelvas@llorenteycuenca.com

Av. 12 de Octubre 1830 y Cordero.  
Edificio World Trade Center, Torre B, piso 11  
Distrito Metropolitano de Quito (Ecuador)  
Tel. +593 2 2565820

## Rio de Janeiro

Yeray Carretero  
Director  
ycarretero@llorenteycuenca.com

Rua da Assembleia, 10 – sala 1801  
Rio de Janeiro – RJ (Brazil)  
Tel. +55 21 3797 6400

## São Paulo

Juan Carlos Gozzer  
Managing Director  
jcgozzer@llorenteycuenca.com

Rua Oscar Freire, 379, CJ 111, Cerqueira César  
CEP 01426-001 São Paulo SP (Brazil)  
Tel. +55 11 3060 3390

## Santiago de Chile

Claudio Ramírez  
Partner and General Manager  
cramirez@llorenteycuenca.com

Avenida Vitacura 2939 Piso 10. Las Condes  
Santiago de Chile (Chile)  
Tel. +56 2 24315441

## Santo Domingo

Alejandra Pellerano  
Managing Director  
apellerano@llorenteycuenca.com

Avda. Abraham Lincoln  
Torre Ejecutiva Sonora, planta 7  
Santo Domingo (Dominican Republic)  
Tel. +1 8096161975



AMO is the leading global network of strategic and financial communications consultancies, with over 940 professional consultants and offices in more than 20 countries.

The network brings together local market leaders with unrivalled knowledge of financial markets and cross-border transactions in the key financial centers of Europe, Asia and the Americas.

Providing sophisticated communications counsel for M&A and capital market transactions, media relations, investor relations and corporate crises, our member firms have established relationships with many S&P 500, FTSE 100, DAX 30, SMI, CAC 40 and IBEX 35 companies.

[www.amo-global.com](http://www.amo-global.com)



d+i is the LLORENTE & CUENCA Ideas, Analysis and Trends Centre.

Because we have a new macroeconomic and social script. And communication is not lagging behind. It is progressing.

d+i is a global combination of relations and exchange of knowledge that identifies, focuses and transmits new communication patterns from an independent position.

d+i is a constant flow of ideas moving ahead of new trends in information and business management.

d+i LLORENTE & CUENCA exists because reality is not black or white.

[www.dmasillorenteycuenca.com](http://www.dmasillorenteycuenca.com)

