



COUNTRY PRIVATE SECTOR DIAGNOSTIC

THE PLURINATIONAL STATE OF BOLIVIA

Unlocking Private Sector Potential to
Achieve a Sustainable and Inclusive Recovery

Executive Summary

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EXECUTIVE SUMMARY

In a period of consistent growth fueled by a commodity boom and expansionary government policies, Bolivia was able to significantly reduce poverty and inequality over the past couple of decades. Gross domestic product (GDP) averaged 4.6 percent between 2002 and 2014, and poverty declined from 63.3 percent to 39.1 percent over the same period. The drop in oil and gas prices from 2014 onward led to a strategic shift, and Bolivia made use of both the buffers that it had accumulated during the economic bonanza and expansionary policies to sustain growth and poverty reduction. During that time, economic growth averaged 4 percent between 2014 and 2019, and poverty declined to 34.6 percent in 2018, although at a slower pace than in the previous period.¹ The expansionary policies implemented after the commodity boom have, on the other hand, increased public debt and reduced fiscal savings and reserves and have exhausted their reach.

Public investment nearly doubled in Bolivia from 2005 to 2018, but the Bolivian economy has remained structurally static. During this period, the hydrocarbon sector accounted for most of its exports and foreign direct investment (FDI), and private investment remained low. At an average of 7.2 percent, this is about 60 percent lower than regional peers, putting Bolivia in the bottom 15 worldwide even during favorable economic times. At the same time, the average efficiency gap of public investment² in Bolivia is about 41 percent, well above the average gap of 27 percent for emerging market economies and 29 percent for Latin American and Caribbean countries. The fixed exchange rate system has also limited the tools useful for addressing macroeconomic imbalances, and at the same time, the high real exchange rate overvaluation—estimated between 26 and 33 percent³—has hindered the competitiveness of exports from non-extractive sectors and local products competing with imports. Combined with the sharp decline in commodity prices, the health and economic emergency caused by the COVID-19 pandemic is testing macroeconomic stability further because Bolivia entered the crisis with increasing fiscal deficits and declining international reserves.

The COVID-19 crisis affected Bolivia's private sector substantially, particularly among smaller enterprises and within hard-hit sectors. Economic output is estimated to have contracted by 7.8 percent (World Bank 2021) in 2020—Bolivia's first recession since 1986—while poverty increased because of significant job losses.⁴ Goods exports have plunged in the natural gas and minerals sectors, while agricultural exports have shown more resilience. The crisis has harmed smaller firms more significantly—91 percent of micro and small firms in the most affected sectors (57 percent in commerce alone)—and the job quality in these sectors is already low. These micro and small firms are largely informal and have few coping mechanisms to sustain the shock. Large firms are following in their tracks: assuming a fall of 25 percent in sales (three months of the year), the share of large firms undergoing losses is estimated to have increased from 15 to 38 percent (Apedo-Amah et al 2020). Importantly, the effects are having lasting consequences. Evidence for 51 countries shows that the fall in sales has persisted even four months after the peak of the crisis, and that the impact is much more severe among micro and small firms (Apedo-Amah et al 2020). Micro and small entrepreneurs do not have mechanisms or resources to reestablish their businesses

and tend to turn to even lower-quality fallback jobs. Without intervention, then, the COVID shock may alter the path forward for Bolivia's private sector significantly. As an example of this effect, employment data for urban areas in the third quarter of 2020 show an expansion in employment in the agricultural sector, likely from workers in hard-hit sectors such as restaurants and commerce.⁵

Promoting private investment in a more strategic way that accompanies public efforts is critical at this juncture, and it is an agenda that Bolivia cannot afford to postpone.

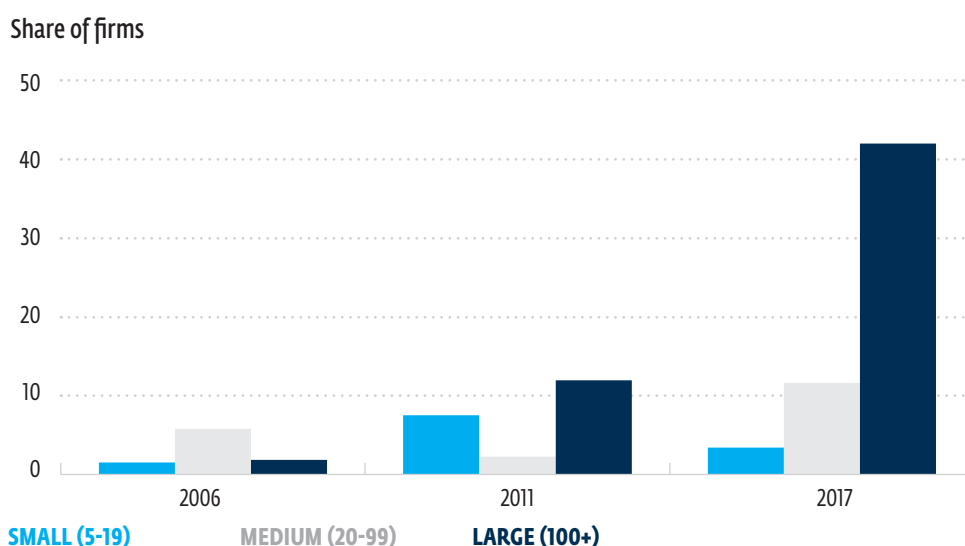
This may help cushion the potential effects of a significantly tighter macrofiscal situation while building a strong, more productive, and resilient private sector that can provide more, higher-quality jobs to resume the path toward poverty and inequality reduction, post pandemic. Poverty reduction gains accomplished between 2005 and 2014, the period of the highest strides in poverty reduction, were to a very large extent due to improvements at the household level.⁶ Tapping the potential role that the private sector could play moving forward requires addressing the barriers that have hindered private investment, and the gains could be substantial. It is estimated, for example, that a 0.2 percentage point increase in output linked to private sector investment in a sectors could lead to the creation of 10,000 to 15,000 jobs, depending on the sector. This would open opportunities particularly for lower-skilled groups that are likely to have suffered the greatest economic losses as a result of the pandemic and those groups that have been traditionally disadvantaged within the labor market: indigenous and rural populations, women, and youth.⁷ It is estimated, for instance, that women would take up more than 50 percent of new jobs created from private investments in the commerce or services sectors, while the rural population would take up close to 40 percent of new jobs created by investments in several agricultural subsectors (World Bank and IFC 2021).

The key to Bolivia's private sector transformation toward formality, higher-quality jobs, and the consequent rise in income levels is increasing productivity. The private sector landscape in Bolivia is dominated by small, informal firms that are concentrated in three geographic areas (La Paz, Santa Cruz, and Cochabamba) and in specific sectors. The private sector has consistently remained mostly composed of micro and small firms—83 percent of the total paid workers in the country were employed in firms with fewer than nine workers in 2018—and while the share of informal single-person firms accounted for 44 percent of all salaried workers, overall 84 percent of workers hold informal jobs. The average number of workers per firm is small (30.5) and falls below the regional average of 40 employees. Firm-level data for small and micro firms (2018) show that around three-quarters of urban firms are informal and are concentrated in a few sectors (57 percent, for instance, in commerce; see World Bank 2020a). Policies and reforms aimed at making the private sector more productive could deliver benefits to these smaller and informal firms in which a large share of the poor are concentrated (96 percent⁸). Estimations show that promoting private sector investment in the agricultural sector, a highly informal sector in Bolivia, would raise wages and reduce poverty, benefiting indigenous and rural workers. Even investments in higher-skilled and more formal sectors like the business services sector, though, could produce substantial, positive developmental effects by creating more well-paid jobs across the economy, by creating linkages across sectors, and by opening opportunities for lower-income workers to move to better jobs (World Bank and IFC 2021).

The Bolivia Country Private Sector Diagnostic (CPSD) aims to identify barriers and opportunities to promoting and developing a more dynamic private sector by increasing private investment in the Bolivian economy. It also examines two sectors that exemplify opportunities for private sector investment and show potential for achieving growth and poverty and inequality reduction targets. It identifies the main cross-cutting constraints that the private sector faces (categorized as input constraints, undue regulatory burdens, and implementation barriers). It also presents opportunities that would attract private investment—preferably FDI—if these constraints were addressed. Of the sectors analyzed, the first is the logistics sector, which hits at the main challenges Bolivia faces as a land-locked country that relies on its neighbors to help its export base grow. Focusing on this sector would also have economywide impacts as both an enabling sector for agribusiness and manufacturing and as a possible export-oriented services sector for neighboring countries. The second sector, agribusiness, could boost rural prosperity, generate export revenues through diversification, and create jobs across the country by building valuable linkages across the value chain and investing in much-needed innovation and research to boost the sector’s competitiveness. Consequently, the analysis focuses on the agricultural inputs and forestry subsectors, given the strong need for modernization, technology adoption, and sustainable practices. These investments could be prioritized and targeted toward private sector development that leads to inclusiveness (equitable access to quality job opportunities), diversification in exports, and an increase in FDI toward a more resilient, productive, and competitive economy.

MAIN CROSS-CUTTING CONSTRAINTS TO PRIVATE SECTOR DEVELOPMENT

FIGURE ES.1. FIRMS CITING LABOR REGULATIONS AS THE BIGGEST OBSTACLE



Source: World Bank (2020a), using data from the Enterprise Survey 2017.

Bolivian firms face significant barriers to growth because of burdensome labor regulations, tax compliance laws, and business administration processes. Firms in Bolivia struggle with overly restrictive labor regulations and high labor costs. Labor regulations help protect workers, yet when overly restrictive, they reduce the creation of formal jobs and leave many workers unprotected and vulnerable. This seems to be the case in Bolivia, where 86 percent of workers do not enjoy any contractual protection whatsoever and the share of workers earning below minimum wage has been on the rise. Thirty percent of businesses identify labor regulations as a major constraint, compared to 11 percent globally and 16 percent on average in Latin America and the Caribbean (figure E1),⁹ and this burden has been increasing over time. Similarly, the employment protection legislation index ranks Bolivia as one of the most restrictive countries in the region and among Organization for Economic Cooperation and Development (OECD) countries for individual dismissals. Cumbersome tax administration and business processes are two other stifling constraints. Firms comply with a higher number of payments and spend a significant amount of time on tax compliance each year. The World Enterprise Survey results confirm this: Bolivian firms that were required to meet tax officials had to do it more often than those in the rest of Latin America (4.3 versus 2.8), and senior management had to spend more time dealing with regulations than their other Latin American peers. Moreover, survey results show that Bolivian entrepreneurs spend 15 percent of their time dealing with regulations, while the average for Latin America is 10.8 percent. The global average is 8.8. The reported lead time for exporting from Bolivia is 4.5 days – as presented by the Logistics Performance Index*. This is higher compared to 3.5 in the average Latin America and the Caribbean country. The lead time for imports is also higher, taking 7 days compared to an average of 4.5 days in the rest of the region.

Firms and investors in Bolivia face high uncertainty, an unlevel playing field, and disproportionately high competition from public entities in certain sectors. Product market regulation is often anticompetitive; the regulatory framework in key sectors is less conducive to competition and productivity in Bolivia than in peer countries. In addition, the private sector in certain markets is crowded-out by state-owned enterprises (SOEs), which play a dominant role and benefit from concessions and perks that other firms do not. SOEs can play an important role in specific sectors when they provide public goods and services that are not profitable (such as rural connectivity services) or goods and services that are central to national security. When SOEs operate in sectors in which private entities typically invest and compete (contestable and commercial sectors such as the manufacturing sector), there is a risk of crowding-out competitors. This often entails poorer market outcomes in the form of higher prices and lower quality. In Bolivia, SOEs capture government financial support because the Central Bank of Bolivia (BCB) has increasingly granted direct loans to SOEs. The investment environment is also highly uncertain, hampered by weak institutions, property rights issues, and low policy predictability. International assessments such as the World Governance Indicators and the Global Competitiveness Report rank the country low in terms of protection of property and intellectual property rights. Key regulatory and supervisory institutions, such as the National Service of Agricultural Health and Food Safety (SENASAG) and the National Intellectual Property Service, moreover, struggle with low capacity that undermines their ability to regulate the private sector in an adequate and efficient way. Low policy predictability also diminishes investor appetite. The *doble aguinaldo* (a second

end-year bonus introduced in 2013 that is paid when GDP growth surpasses 4.5 percent) effectively raised the minimum wage floor higher. This, alongside the ad hoc increases in the minimum wage, illustrates the unpredictability in the introduction and implementation of rules and their impact on the planned labor costs of firms, which disincentivize investment and formal job creation.¹⁰

Investment in the private sector has also been hindered by limited access to two very critical productive inputs: transport infrastructure and access to credit for the smaller firms. Despite substantial investments and improvements in transport infrastructure, gaps remain. According to the 2019 Global Competitiveness Report, Bolivia ranks 100th out of 122 countries in quality of transport infrastructure because of poor road connectivity, difficult port usage conditions, and inefficient air transport and port services. Moreover, Bolivia's score in the 2018 Logistics Performance Index (LPI)¹¹ was 2.36, one of the lowest in the region because of the country's infrastructure and logistics competence scores. Beyond demonstrating the lack of connectivity resulting from transport infrastructure gaps, the COVID-19 crisis has revealed another connectivity challenge: access to digital technologies. The country lags the region and its neighbors regarding all digital economy dimensions, such as digital infrastructure, digital government and platforms, digital skills and entrepreneurship, and digital finance (ITU 2018; OECD et al. 2020; and WEF 2019). Access to credit has also been emerging as a constraint to smaller firms despite skyrocketing private sector credit in recent years due to expansionary policy efforts. This constraint on credit has primarily resulted from the skewed allocation of credit. Among other reasons, credit quotas and rate caps have altered the allocation and composition of credit flows because lending decisions do not reflect underlying risk. Calice et al. (2020) show that following the enforcement of interest rate caps, average lending interest rates for productive sectors and social housing dropped; however, lending rates increased, and credit growth slowed, for sectors like commerce, hotels and restaurants, and real estate services.¹² Pressure on banks to reach quotas furthermore caused misallocation of credit toward large borrowers (including SOEs) and away from micro, small, and medium enterprises (MSMEs), while concessionary conditions encouraged over indebtedness by certain sectors and borrowers. In addition, financing is more constrained for women-owned enterprises—more than 50 percent of women appear to have difficulties accessing credit—but only 26 percent of male-owned MSMEs face obstacles in borrowing funds.

Despite the challenges of the current economic environment, there are opportunities for change (some at a low fiscal cost) that could offer quick wins and advance the agenda toward private sector development and quality job creation. Table ES.1 summarizes the main cross-cutting constraints for private sector development and presents a range of policy options alongside an assessment of their impact on private sector development and implementation feasibility (a combination of technical and political feasibility) in the next three to five years (dark green stands for high feasibility, light green stands for feasibility in some aspects of the needed reforms, and white stands for low feasibility). Unlocking these constraints is expected to have a positive impact on the creation of quality jobs. A simulation of policy changes¹³ suggests that a set of labor regulation and tax reforms¹⁴ could lead to increases in formal sector jobs by 6.5 and 9.5 percent, respectively, particularly among low-skilled workers, leading to increases in labor income that would boost households' living standards (World Bank 2020a).

TABLE ES.1. POLICY OPTIONS FOR ADDRESSING MAIN CROSS-CUTTING CONSTRAINTS THAT AFFECT PRIVATE SECTOR DEVELOPMENT

CROSS-CUTTING CONSTRAINT	POLICY OPTIONS	IMPACT ON PRIVATE SECTOR DEVELOPMENT	
		FEASIBILITY	
Access to productive inputs: What are the main input barriers?			
Limited connectivity due to underdeveloped transport infrastructure	Revisit prioritization of infrastructure projects, reorienting goals and the allocation of public spending.		
	Develop a stronger regulatory framework for PPPs (compensating for declines in public investment while ensuring that they do not generate contingent liabilities for public finances).		
Misallocation of credit to private sector	Remove, even if only gradually, credit quotas and interest rate caps in the financial sector.		
Regulatory environment: What are the main undue regulation barriers?			
Unlevel playing field: lack of competition regulation plus crowding-out due to the prominent role of SOEs	Short-term option: alternatives of SOE reform without ownership transfer include regulatory reforms to expose SOEs to competition, the introduction of competitive neutrality principles, and the adoption of corporate governance principles to increase transparency and accountability. This may include reducing central bank credit to SOEs. Medium-term option: management arrangements (concession contracts) and PPPs that can engage the private sector without full ownership transformation if they are accompanied by a regulatory framework that mitigates rent-seeking behavior and includes close performance monitoring tools.		
	Establish independent sector regulators, antitrust agencies with powers and resources to prosecute and sanction anticompetitive practices, and a sound regulatory framework on competition.		
Extremely rigid labor regulations that leave many workers unprotected and labor costs high and uncertain	Eliminate the double Christmas bonus, fix minimum wage increases to objective criteria, and reduce the role of the state in setting salaries.		
	Revisit labor regulations to explore options for increasing the flexibility of labor markets and reducing non-wage labor costs while ensuring worker protections.		

CROSS-CUTTING CONSTRAINT	POLICY OPTIONS	IMPACT ON PRIVATE SECTOR DEVELOPMENT FEASIBILITY	
		(dark green: high; light green: medium; white: low)	
Cumbersome tax administration and business processes	Implement procedural changes and a digital process that facilitates tax procedures that are streamlined but that may also reduce discretion in the imposition of taxes.		
	Implement electronic and integrated systems to reduce compliance time for registration processes associated with operating a business (paying taxes, registering a property, requesting an electrical connection).		
	Remove the transaction tax.		
	Streamline the inspections process by eliminating redundancies at the national and local levels.		
	Publish clear and transparent process guides to reduce the discretion of public officers (both for economywide and sector regulations).		
Institutions, property rights, and policy predictability: What are the main implementation barriers?			
High uncertainty for investors: weak institutions and property rights and low policy predictability	Precondition: adopt a better, more formal regulation policy and assign an institution the responsibility and mandate to coordinate the policy implementation.		
	Along with simplifying procedures as described, create an electronic repository of administrative procedures relevant to business operations.		
	Implement advance notice of upcoming regulations ("forward regulatory plans").		
	Create a public consultation portal as a one-stop shop for fulfilling all regulations enacted by all regulating bodies so that relevant stakeholders (including the private sector) can (a) receive advanced notice and access to relevant information on proposed or revised regulations, (b) have an opportunity to comment on the content of those regulations before they are enacted or implemented in a transparent and interactive dialogue, and (c) have access to responses and comments received, explaining how they were used or not to improve the final content of the regulation in question.		
	Systematically carry out ex ante and ex post RIA.		
Limited PPD platforms to inform and support policy implementation	Establish structured and permanent PPD mechanisms, ensuring formal, transparent, and inclusive channels for dialogue.		

Note: PPD = public-private dialogue; PPP = public-private partnership; RIA = regulatory impact analysis; SOE = state-owned enterprise.

Agribusiness: Promoting Inclusive Growth and Prosperity through Agricultural Inputs and Forestry

Agribusiness is a foundational sector of the Bolivian economy: it provides one of the few avenues of growth in rural areas and has weathered the current economic crisis better than other sectors. The agricultural sector accounts for around 15 percent of GDP and 4 percent of exports, which amounts to 13 percent of goods exports and rises to 15 percent after adding some essential manufactured goods related to agriculture, namely soybean oil and sugarcane alcohol. Bolivia is a net exporter of agricultural products (it had an agricultural trade surplus from 2000 to 2018), and unlike mining and hydrocarbon exports, most agricultural exports have remained relatively stable throughout the COVID-19 economic crisis. The agricultural sector grew amid the pandemic at a pace of 2 percent, yet the sector suffers from low productivity and stagnation. The agricultural sector is also the most employment-intensive sector, employing nearly one-third of the total workforce,¹⁵ and it has played a critical role in reducing rural poverty in the country.

Despite growth in the sector, agricultural firms struggle with low productivity, export concentration, and vulnerability to climate change. Between 1950 and 2016, the total harvested area increased fivefold in Bolivia, rising from around 654,000 hectares to more than 3.5 million hectares. Most of this expansion (74 percent) occurred in the lowlands and the Amazon region, considerably surpassing the expansion of harvested area in the highlands (15 percent) and the sub-Andean region (12 percent). Santa Cruz Department in the lowland region had 9 percent of all harvested area in 1950 and 61 percent by 2013. In contrast, sustained gains in productivity—driven by technological change, technical efficiency, and managerial capacity—have been modest in Bolivia, although signs of improvement are emerging. The sector is affected by very low productivity overall, with some regions significantly lagging. Exports are also very concentrated: 95 percent of agricultural exports come from only six crops (77 percent from soybeans and soybean derivatives alone). Moreover, 97 percent of agricultural sector workers hold informal jobs, and 80 percent of farms have at most three employees and a surface area of less than 15 hectares. There are also important concerns regarding the unsustainability of the rapid agricultural expansion that the sector has relied on and its vulnerability to the increasing negative effects of climate change.

The Bolivian government's vision for the agricultural sector has centered around promoting food security and food sovereignty. Realizing the sector's potential will require that strategic priorities, both public and private, focus on productivity, diversification, and promotion of more sustainable and inclusive practices. The Bolivian constitution endorses food security as the foundation of human welfare. Social and economic public policy therefore aligns to achieve food sovereignty through a sustained (and sustainable) increase in the productivity of agriculture, livestock, manufacturing, agro-industry, and tourism. The Economic and Social Development National Plan (2016–20) included food sovereignty as the 8th of 13 pillars with specific goals.¹⁶ This calls for (a) increasing investments in research, development, and innovation for productivity growth; (b) improving connectivity, logistics, and value chain coordination for competitiveness; (c) building climate resilience through risk management and a reduction of the environmental footprint; and (d) strengthening

capacity for evidence-based policy making and investment planning through monitoring, policy analysis, and program evaluation. Both the public and the private sectors have important roles to play in these areas and thus also in materializing the gains from the sector.

The agricultural inputs subsector

The development of the agricultural sector could focus on increasing productivity through a more coordinated and efficient inputs market. The current strategy has been to rely on expanding the agricultural frontier, therefore investment has been limited to a few key areas. Access to fertilizers, herbicides, irrigation, and improved seeds is among the areas, with estimates showing that the use of insecticides could increase soybean yield production by 26 percent and the availability of seeds could increase quinoa production by 23 percent. There are several constraints, though, that hinder the agricultural inputs market. On the demand side, there is little awareness of the benefits of improving inputs such as fertilizer, and these inputs are often too costly. On the supply side, there are constraints that limit availability, including noncompetitive domestic fertilizer production, the high cost of productive inputs and significant contraband pesticide imports.

There are several opportunities for increasing agricultural productivity and eventually competitiveness through better access to inputs that are also affordable. Lowering import costs for pesticides and machinery and providing incentives for higher investments in seed and fertilizer development and production could address some of the barriers faced. More specifically, at the level of pesticides, it would help to simplify the registry and certification import process for agrochemicals and ensure adequate infrastructure and logistics services to allow pesticide imports through the Paraná-Paraguay river basin ports through public and private collaboration. For seeds, initial steps could include promoting public-private ventures to take advantage of resource pooling toward seed development and improvement and providing soft loans for investment in production and processing facilities of undersupplied seeds of important staple foods. For fertilizers, an assessment could be carried out to evaluate the technical-economic feasibility of the implementation of a processing industry (particularly for nitrate phosphorus potassium and diammonium phosphate) that takes advantage of the growing domestic provision of urea and other locally produced compounds.

The forestry subsector

The forestry subsector has the potential to quadruple its contribution to the economy. Tropical forests cover 58 percent of Bolivian territory (60 million hectares). Almost half of such land (28.2 million hectares) is classified as permanent forest production land and one-sixth (10.8 million hectares) is currently under management (ABT 2020). Moreover, 58 percent of the total area under management is in the hands of indigenous and rural communities. Timber exports have responded to well-managed firms with expertise in foreign trade, and exports of timber products were directed to markets with the highest dynamism in the past five years, including the Netherlands, France, and Uruguay. The industry has the ability increase its current contribution to GDP from 1 percent to 4 percent, scaling up exports from US\$60

million to US\$1.2 billion, increasing local consumption from US\$350 million to US\$450 million, and enhancing direct employment by 40 percent to 126,000 jobs. It is estimated that these dynamics could create 17,000 new productive units, a large share of which would be micro enterprises (CFB 2020).

These benefits can be achieved through more targeted government support and a strategy focused on inclusiveness and sustainability. Several constraints limit the sector's potential. There are for example, several legal conditions that prevent communities from having their legal status recognized by the commercial code – a requisite to access credit from the financial sector. In addition, the tax regime discourages forestry as an economic activity, and the sector presents institutional constraints, particularly with the Bolivian Authority for the Supervision and Social Control of Forests and Lands (ABT) that limit its supervision, control, and inspection capacity, as well as the lack of staff and updated technology that would allow ABT, for example, to accelerate the approval of log harvesting permits. Access to productive inputs is constrained by financing gaps for forestry activities and for replacement of obsolete capital equipment. The sector is also disconnected from global value chains because of insufficient production capacity, as well as weak links with both the manufacturing industry and with international markets. The private sector can play a key role in addressing these constraints and increasing the forest subsector's competitiveness. It can provide financing, promote training programs, and support institutional reforms. To promote access to finance, policy options include building dialogue with the financial sector to deploy a financing strategy with funds and instruments to facilitate investments and technological conversion along the forestry productive chain. The strategy could include trust funds (*fideicomisos de crédito*) to allocate financing through the financial sector. The financing mechanisms would need to be directed toward community-managed forestry operations, given their significant presence in the managed forest area. To promote exports, there is an additional need to increase efficiency, quality, and sustainability standards along the supply chain.

Policy options to boost the agribusiness sector, including the agricultural inputs and forestry subsectors, are multidimensional. Table ES.2 presents selected priority areas that could be addressed, covering aspects that range from strengthening the legal framework, the development of financing mechanisms, and institutional development recommendations, to training programs, among others, and their feasibility of implementation.

TABLE ES.2. RECOMMENDATIONS TO PROMOTE THE DEVELOPMENT OF THE AGRIBUSINESS SECTOR, WITH A FOCUS ON AGRICULTURAL INPUTS AND FORESTRY

RECOMMENDATION	OBJECTIVE	FEASIBILITY (dark green: high; light green: medium; white: low)
Provide for stability of technical staff of agencies in charge of certification (SENASAG, INIAF, IBNORCA) and improve training for technical staff and auditors. These agencies could also promote third-party service provision. ^a	Improve timeliness and reduce the costs of certification. High turnover of staff and lack of technical capabilities for certification lead to delayed and costly certification processes.	High
Develop a technical modernization program to address institutional weaknesses the sector's regulatory agencies (i.e., ABT, INIAF, SENASAG) that includes the allocation of resources and increased use of technology.	Increase efficiency (e.g., reduced time to issue harvesting permits) through the modernization of procedures and provide for legal and sustainable wood extraction by improving control capacity.	High
Remove restricting policies (quotas for exports, prior previous authorization) and incorporate technology (digitalization of processes, use of blockchain) within institutions related to agricultural trade.	Promote agricultural exports resulting in higher national production, which addresses increased vulnerability to food insecurity due to poor matching between domestic production and consumption.	High
Agricultural inputs		
Simplify the registry and certification import process for agrochemicals. As the competent national authority, SENASAG could define a single procedure, and act in coordination with MMAyA and INIAF. SENASAG could ensure consistent training and stability for the technical staff in charge of certification and registry.	Guarantee timely agrochemical imports.	High
Create a national seed institute that specializes in seed development and improvement as a joint public-private venture to take advantage of resource pooling. Moreover, knowledge, as a public good, could be disseminated through the SNIAF and producer associations.	Encourage the use of certified seed and fertilizers that would bring about significant increases in yields and productivity in the sector.	High

FEASIBILITY

(dark green: high; light green: medium; white: low)

RECOMMENDATION	OBJECTIVE	
Provide financial support to input supply shops and agro-industry. ^b	Lessen the burdens resulting from payment delays and client defaults and allow broader, better-suited financial products, especially for small and medium farmers who look to these shops for integrated farm solutions (i.e., inputs, technical assistance, extension).	
Strengthen the institutional framework of the public insurance agency by building the operational and technical capabilities of INSA to offer insurance products that are more aligned with user needs and financial sustainability. ^c	Provide agricultural insurance to ensure protection against catastrophic risk, allowing vulnerable farmers to invest longer term and protecting them against the possible impact of climate change.	
Set up a monitoring Geographic Information System (GIS) system to permanently provide crop return information to policy makers, insurers, and potential investors.	Provide standardized information on crop returns, conditional to weather forecasts, to address issues such as adverse selection.	
Forestry		
Strengthen the dialogue with the financial sector, to deploy a financing strategy with funds and instruments to facilitate investments and technological conversion along the productive chain. The strategy could include trust funds (<i>fideicomisos de crédito</i>) to allocate financing through the financial sector.	Develop a comprehensive financing package (e.g., long-term funds) to ensure growth of the forestry subsectors, including manufacturing.	
<p>Develop lending programs and equity participation initiatives to boost technological renovation and capitalization in forestry equipment and sawmills. Programs and initiatives could offer differentiated terms, according to the size of operations and include community operations.</p> <p>Through updates to the 1996 Forestry Law, enable financial institutions to accept the forest canopy (<i>vuelo forestal</i>) as collateral for small and medium enterprises, and grant recognition of legal status that allows communities that manage forests to gain creditworthy status.</p>		
Define the impact of financing on climate change mitigation and adaptation indicators within Bolivia's National Climate Change Strategy to facilitate access to international environmental funds (e.g., Green Climate Fund) that could fund the trust funds.		

RECOMMENDATION	OBJECTIVE	FEASIBILITY
Promote the implementation of quality and sustainability standards along the supply chain as quality-demanding markets require the fulfillment of manufacturing, social, and environmental standards This could include a technical training program for manufacturing companies, sawmills, and forestry operators.	Increase high-value exports of timber products.	(dark green: high; light green: medium; white: low)
Promote the signature of FLEGT/VPA ^e agreements to allow exports to the European Union to non-FSC-certified exporters.		
Develop a research and development program to address low harvesting yields in forestry operations, with a sustainable approach to the extraction and manufacture of nontraditional wood species. The program could be complemented with a promotion strategy for different species and relevant protocol.	Diversify sustainable extraction and manufacture activities to include nontraditional wood species.	
Develop technical training programs and best practices in management and administration, commercialization, productivity, and quality.	Develop human capital, which is currently limited, in the forestry subsector.	
Develop timber transformation centers sourced from communities and financed under concessional terms. Implement a business model that allows the management of timber transformation centers by third and specialized parties, the implementation of international quality standards, the articulation of supply to small and medium manufacturing companies, and the distribution of profits to participating communities.	Make the development of forestry operations inclusive by bringing the communities managing these resources into the modern value chain (to overcome obsolescence, insufficient capacity, and low value addition, and take advantage of the harvesting potential).	

Note: ABT = Bolivian Authority for the Supervision and Social Control of Forests and Lands; FLEGT/VPA = Forest Law Enforcement, Governance, and Trade/Voluntary Partnership Agreement; FSC = Forest Stewardship Council; GIS = Geographic Information System; IBNORCA = the Bolivian Institute of Normalization and Quality; INIAF = National Institute for Agricultural and Forest Innovation; INSA = National Agricultural Insurance Institute; SENASAG = National Service of Agricultural Health and Food Safety; SNIAF = National System for Agricultural and Forestry Innovation

- a. One such example of private provision of certification is the New Approaches for Smallholders and Communities Certification project (<https://fsc.org/en/for-people/solutions-for-smallholders-and-communities>).
- b. The Ministry of Economy and Public Finance (MEFP) and the Ministry of Rural Development and Land (MDRYT) could pool resources for a trust fund to finance agricultural supply shops and agro-industry through the Banco de Desarrollo Productivo at convenient rates and terms. The development of a crop receipt system could also be explored to provide pre-season financing based on the pledge of future crops. See IFC and World Bank experiences in Brazil and Ukraine.
- c. Globally, less than 20 percent of smallholders have insurance coverage to protect themselves against the impact of such unexpected events. See https://www.gsma.com/mobilefordevelopment/wpcontent/uploads/2020/05/Agricultural_Insurance_for_Smallholder_Farmers_Digital_Innovations_for_Scale.pdf.
- d. See MPD 2015.

The Logistics Sector: A Strategic Approach to Boosting Private Investment Across the Board

The logistics sector is a backbone of the Bolivian economy and holds huge potential for unlocking growth, but it faces significant challenges. The sector is considered strategic by the Bolivian government, which has undertaken the elaboration of a national logistics plan. It provides important backbone services for firms across sectors through warehousing services, customs agencies, and transport services by truck, river, air, and railroad. A well-functioning logistics sector can help reduce costs, increase efficiency, and open new opportunities for firms along their value chains as well as other sector value chains (agribusiness, manufacturing, and commerce), and as a result, it can contribute to export diversification. Moreover, it can promote regional inclusiveness by narrowing the time and cost of transportation between regions in Bolivia and neighboring countries, especially if it also provides an incentive to improve trade relations. Yet, the sector faces significant challenges that hinder the country's competitiveness and integration into global and regional value chains. Despite large transport infrastructure investments (32 percent of the public investment budget between 1998 and 2016), low road density, the poor quality of existing infrastructure, and restrictions on the use of ports result in logistical cost inefficiencies that are still far above the average for the Latin America and the Caribbean region. The National Logistics Survey (NLS) estimates the logistics cost for Bolivian firms¹⁷ as being 18.1 percent of the value of sales, which is higher than in Colombia (13.5 percent) and in Paraguay (13 percent), and above the average for Latin America (14.7 percent).¹⁸ Bolivia's results in the 2018 NLS result partly from low logistical efficiency in terms of the tracking and tracing of cargo and the time needed for delivery and customs processes.

Consistent with the overall private sector landscape, the sector is dominated by small firms (in both transport and logistics services), relies heavily on land transport, and is highly informal. This causes inefficiency and fragmentation, which affects the access, affordability, and quality of logistics services, as well as the financial sustainability of firms that provide them. The weak connectivity of road and railway networks is a challenge for the development of transport logistics infrastructure and the logistics services sectors. The sector is highly dependent on trucking, but in recent years the government and the private sector have turned their interest to other modal options, river transport being the most important after roads (particularly inland waterway transportation), followed by railways. Significant investment in river transport infrastructure has improved the performance of international trade logistics operations. As a result, the use of ports has been growing but still faces restrictions linked to seasonal navigability, insufficient dredging and amplitude of canals, and issues of service availability and cargo security that affect transport costs.

Regarding logistical services, firms (except for transnational companies) rely little on outsourcing to fulfill their comprehensive logistics service needs. There are few logistics service providers (LSPs) with a comprehensive and specialized service approach. Evidence suggests that in the past three years, LSPs have been developing

a supply of integral services for the movement of cargo in some relevant sectors (soybeans, fuel, cement, and steel, among others). The sector would benefit from incentives to start using international third-party logistics (3PL) providers (for managing supply chain transport, warehouses, and shipping) and fourth-party logistic (4PL) suppliers (which in addition to 3PL services include inventory management). This type of FDI is necessary to bring badly needed innovation to this sector that is so critical for Bolivia's competitiveness.

There is a need for a legal and regulatory framework for intermodal freight transport infrastructure and associated logistics services that promotes strategic coordination and the implementation of a sectoral road map. Transport infrastructure and services are organized and regulated under a handful of decrees and regulations that include freight transport and associated logistics services. The General Transport Law of 2011, which covers air, road, railway, and waterway transport, defines the concept of an integral transport system (*sistema de transporte integral*) that links different transport modes and components (infrastructure, operators, users, and service providers, including freight logistics services). The law also defines the principles of interinstitutional coordination and establishes different competency standards for national and subnational entities at three levels: the central state level, autonomous departmental governments, and autonomous governments in indigenous communities. Although a sectoral coordination council was created in 2017 under the authority of the Ministry of Public Works, Services, and Housing, it is not yet operational. Ineffective coordination is a significant obstacle to aligning and linking the different institutions and subsectors involved in logistics infrastructure and services, preventing the implementation of strategies to develop intermodal infrastructure and integrated logistics services.

Bolivia also requires a more conducive trade facilitation environment to expedite the cross-border movement of goods. Structural and policy-induced obstacles include lags in implementation of vital aspects related to cross-border cooperation such as (a) the regular exchange of information about import and export declarations with the border agencies of trading partners, (b) the implementation of health and agriculture electronic certificates, and (c) the use of advanced electronic cargo manifests. Outdated facilities at the borders that lack automation and connectivity lead to delays and slow clearance procedures. Cross-border coordination for the official approval of sanitary certificates is still pending, and thus Bolivia's sanitary diplomacy must be strengthened to boost the country's sanitary standing abroad, a necessary precondition for increased exports, especially in the agribusiness sector.

Bolivia has several opportunities to strengthen the logistics sector in the short and medium term and improve trade facilitation. Continued efforts to foster cooperation and coordination among private and public actors to establish a joint work plan are essential. Such joint efforts are also needed for coordinating activities at a national level to achieve integrated logistics services and complementarity among all transport modes. Priority recommendations appear in table ES.3, and the expected feasibility is color-coded as before.

TABLE ES.3. RECOMMENDATIONS TO PROMOTE THE DEVELOPMENT OF THE LOGISTICS SECTOR AND TO ENHANCE TRADE FACILITATION

RECOMMENDATIONS FOR THE LOGISTICS SECTOR	OBJECTIVE	FEASIBILITY <small>(dark green: high; light green: medium; white: low)</small>
<p>Develop a national logistics strategy that includes a freight transport strategy, and the regulatory and institutional frameworks to support multimodal operations in an integrated logistics infrastructure environment and promotes private sector participation and the creation and operation of specialized logistics providers in the country and attracts international 3PL and 4PL suppliers.</p> <p>The strategy could include a masterplan for waterways development, urban logistics platforms, dry port network, implementation of a freight consolidation platform, implementation of road bypasses in urban areas and development of last-mile logistics. The improved regulatory framework for freight can be linked with the ongoing formulation of the national logistics plan and strategy through the coordination of Conalog. The strategy could also consider the optimization of the use of containers in both export and import directions. Considering input from the shipping lines which serve the Bolivian market would be vital.</p>	<p>Complement the missing and pending regulations under Law 165 for intermodal freight transport and associated logistics infrastructure services needed to develop the logistics sector into a modern industry that integrates traditional freight transport providers and associated logistics services and attracts private investment.</p>	
<p>Develop logistics infrastructure through: (a) the design of logistics platforms following global good practice for multimodal logistics platforms and dry ports in the hinterland (on the main logistics corridors of the country) that attract private sector investment for their construction and operation, (b) the development of logistics infrastructure for consolidating and redistributing merchandise and facilitating loading and unloading areas in main cities for last-mile cargo delivery, and (c) the development of logistics cluster strategies and incentives for developing the warehousing subsector (both for dry and temperature-controlled logistics).</p>	<ul style="list-style-type: none"> (a) Improve the country's logistics efficiency through integrating logistics and government services. This will reduce time and the cost of processing and consolidating cargo for both domestic and foreign trade movement. The development of these platforms and dry ports could provide value added services to cargo owners (e.g., storage, packaging, redistribution). (b) Gain efficiency in last-mile logistics and reduce the effects on urban traffic. (c) Address limited warehousing infrastructure, strengthen service specialization, and raise current standards. 	

RECOMMENDATIONS FOR THE LOGISTICS SECTOR**OBJECTIVE****FEASIBILITY**

(dark green: high; light green: medium; white: low)

Ensure permanent maintenance of the Tamengo Canal.	Maintain the navigability of the Tamengo Canal. While normally the public sector is expected to be responsible for maintenance, exploring alternatives to guarantee a permanent dredging of the canal is necessary. Authorities would need to make efforts to ensure navigability at other critical points of the HPP, through the Intergovernmental Committee of Rio de la Plata Basin.	High Feasibility
Improve the legal and regulatory PPP framework to promote public and private investment in improving road networks (primary, secondary), as well as to modernize and expand supportive infrastructure for integrated logistics services.	Maximize finance for investment and road maintenance through performance-based contracts that could increase the managing capacity of the ABC using a stronger decree (DS 3469) that provides the regulatory framework to allow PPPs in infrastructure for integrated logistics services.	
Explore the promotion of funding facilities to help PPP projects reach financial closure once the PPP framework has been strengthened.	Maximize finance, contribute to addressing macrofiscal constraints on project financing, and stimulate private sector appetite for PPP investments.	Medium Feasibility
Evaluate alternatives for the development of Puerto Busch as an international Bolivian port with direct access to the HPP.	Find an alternative that would increase port capacity to respond in case of a likely increase in agricultural production and other cargo volumes that might be diverted to the HPP in the next five years. To this effect, evaluate alternatives to develop a port in Puerto Busch with a phased development approach as cargo volumes through the HPP increase. The port would enable a connection with the rail or road freight transport modes and would need to address concerns about environmental impacts.	
Upgrade physical borders and IT infrastructure through the formulation of a border infrastructure strategy that includes integrated facilities with neighboring countries, improved access roads, and broadband satellite connectivity, among other aspects. The strategy would contemplate a national trade portal, the rollout of the SUMA IT customs system, and upgrades to the single window.	Improve the processing time for international trade operations, increase transparency, and improve ease of trading. This would make trade operations more secure, efficient, reliable, and convenient for users. Priority actions would address large infrastructure and information and communication technology gaps in Tambo Quemado, Desaguadero, Pisiga, Yacuiba, and Puerto Suárez.	High Feasibility

RECOMMENDATIONS FOR THE LOGISTICS SECTOR	OBJECTIVE	FEASIBILITY
<p>Strengthen institutions and implement coordinated border management.</p> <p>This would entail (a) the formalization and empowerment of the National Trade Facilitation Committee, (b) common inspections and the integration of risk management for selectivity, (c) the implementation of capacity building and staff training programs, (d) the coordination and extension of service hours at the borders, and (e) the expansion of the AEO to accredited Bolivian companies.</p>	<p>Improve levels of service and border compliance, raise the qualification standards for public officials and increase their efficiency, reduce processing times, and enhance the integrity of border control organizations.</p>	<p>(dark green: high; light green: medium; white: low)</p>

Note: 3PL = third-party logistics; 4PL = fourth-party logistics; ABC = Bolivian Roads Administration; AEO = authorized economic operator; HPP = Paraná-Paraguay Waterway; IT = information technology; PPP = public-private partnership. a. Platforms are multimodal and handle different types of cargo (dry and refrigerated). They are near logistics clusters and linked to multimodal transport trunk infrastructure like intercity highways, rail lines, waterways, navigation channels, and urban and industrial areas that act as freight-generating or freight-attracting hinterlands.

NOTES

- 1 The update in the consumer basket and poverty lines using the new *Encuesta de Presupuestos Familiares* 2015–16 restricts the comparison of prior poverty measures. The new poverty headcount nonetheless shows progress in poverty reduction between 2016 and 2019, with a decrease from 43.0 percent to 37.2 percent, respectively.
- 2 The efficiency gap is the distance between Bolivia and the best-performing country in terms of the coverage and quality of infrastructure (output) for a given level of public capital stock (input) (IMF 2015).
- 3 Latest estimation by the International Monetary Fund (IMF) in 2018.
- 4 In May 2020, just after the onset of the COVID crisis, 70 percent of workers interviewed in a World Bank phone survey reported that they had not been working or had lost their jobs.
- 5 Data from the employment survey comparing the third quarters of 2019 and 2020 show a 21 percent increase in agricultural jobs in urban areas and contraction in all other sectors (hotels and restaurants by 23 percent, services by 19 percent, and commerce by 7 percent).
- 6 Poverty changes decomposition analysis shows that the role of private labor earnings accounts for nearly all of the poverty changes in the period.
- 7 Estimates obtained using the social accounting matrix multiplier approach based on a macro-micro model, which matches individuals to the new jobs and imputes income using parameters from models estimated on past baseline data (IFC 2020; World Bank 2014).
- 8 Using data from the 2019 Household Survey.
- 9 Bolivia Enterprise Survey 2017.
- 10 The *doble aguinaldo* policy emerged as a serious constraint to businesses in focus group discussions with small entrepreneurs in La Paz, Santa Cruz, and Cochabamba. Group members said things like: “I had two branches and had to close one because of the famous *doble aguinaldo*” (entrepreneur in Santa Cruz); “the *doble aguinaldo* affects microenterprises greatly, costs cannot be managed, the majority has had to let workers go, they don’t want to hire” (entrepreneur in La Paz). Qualitative data collected for the World Bank’s Bolivia Poverty Assessment (World Bank 2020a) in 2018.
- 11 The LPI ranges from 1 to 5, with a higher score representing better performance.
- 12 Sectors not subject to caps and quotas, in other words.
- 13 Based on a labor market structural model (World Bank 2020a).
- 14 Labor reforms include removing the double Christmas bonus, reducing severance pay, and reducing informal costs associated with employment termination. Tax reforms include eliminating the transaction tax (chain tax) and eliminating tax procedures related to legal costs borne by firms.
- 15 International Labour Organization, ILOSTAT database.
- 16 See MPD 2015.
- 17 Of the 284 firms that were surveyed, only 26.6 percent measure their logistics costs.
- 18 The logistics costs for agriculture and livestock firms are 8.0 percent of sales, while for manufacturing and retail, they are 15.1 percent and 18.1 percent, respectively. Of the firms that reported their logistics costs, 43.0 percent belong to the manufacturing sector, 33.0 percent to retail, 10.0 percent to mining, and 8.8 percent to agriculture. Surveyed firms identified three priority areas that need attention: (a) improvements to road infrastructure quality (23.8 percent), (b) the facilitation of freight movement with fewer restrictions (15.7 percent, and (c) investment in technology for logistics and communications (11.4 percent).

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