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## Small and Medium Enterprises in Bolivia, a Look Back to the Future, 1900 - 2020

### *Abstract*

The main objective of this article is to analyze Bolivian small and medium enterprises (SMEs), their evolution, and their contribution to the country's economy. The globalization of markets is currently a reality to which companies are exposed for their survival, growth and development. In developing countries such as the plurinational State of Bolivia, this reality becomes more relevant due to the socioeconomic characteristics of the country, where the main economic activity is dependent on the export of non-renewable natural resources (natural gas and minerals), and to a lesser extent the export of primary products. In this context, the article shows that SMEs struggle to consolidate their position in local markets, and have a low participation in global markets. The article reviews relevant secondary and primary literature, and concludes that SMEs require public and private support to contribute to the promotion of entrepreneurial culture, enter into global production chains, develop technological and innovation capabilities, and achieve growth in a sustainable manner and with high levels of competitiveness. The research method used is the review of relevant primary and secondary bibliographic sources of information about the origins, evolution and current situation of SMEs in Bolivia, and about possible alternatives for growth and development.

**Keywords:** Globalization; Small and Medium Enterprises; Competitiveness; Innovation

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## 1. Introduction

The plurinational State of Bolivia has many limitations in terms of the competitiveness of its production, being a country whose economy is based on the export of its non-renewable natural resources, and in maintaining a large part of its economic activity in informality, hence the central focus of this article is the analysis of the main limitations faced by Bolivian small and medium enterprises (SMEs) in their growth, and in their insertion in global markets. The Bolivian economy is very fragile and small, with its lack of maritime access, its insufficient physical and productive infrastructure, its institutional shortcomings, social and political instability and legal insecurity, which means that the Bolivian economy, and companies, are marginalized from the main international trade circuits.

At present, Bolivian SMEs are facing great challenges, and a new threat: COVID-19, the work is arduous, companies have to be prepared to readapt to the current times and face these challenges; for these reasons the objective of this article is to analyze the most important aspects of Bolivian SMEs to identify the greatest barriers, limitations, and deficiencies they are currently facing and prospectively propose solutions adjusted to their social, political and economic reality of the country.

The article covers chronologically the period from the beginning of the 19th century to the present. The research method is based on the review of the main secondary works carried out by renowned Bolivian historians, national and foreign experts, studies of international, public and private organizations in Bolivia;<sup>1</sup> about the most relevant social, political and economic,

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<sup>1</sup> World Bank, Inter-American Development Bank (IDB), Economic Commission for Latin America and the Caribbean (ECLAC), Organization for Economic Cooperation and Development (OECD), World Trade Organization (WTO), World Labor Organization (ILO), Fundación para el Desarrollo Sostenible en América Latina S A (FUNDESA); government agencies such as the Ministry of Industry and

historical and current aspects that had an impact on the productive sector of SMEs in the country, using primary and secondary sources of information.

The article is divided into four parts: the first part describes the most relevant historical aspects of industrialization in Bolivia and its main characteristics of the Bolivian economy from the 19th century to the present; the second part determines the origin of SMEs in Bolivia and analyzes their main characteristics; the third part analyzes the current situation, the projection, the obstacles faced by SMEs; the fourth and last part of the research presents the conclusions, recommendations and future lines of research.

## **2. Main milestones of industrialization in Bolivia since the 19th century**

During the 19th century, due to the importance of mining in the Bolivian economy and the political power of the time, it was considered the national industry par excellence and the one with the greatest technological development. There was manufacturing industry that was characterized by its artisanal production, it was aimed at satisfying the needs of the populations surrounding the cities and mining centers (Ferrufino 2017).

The arrival of the railroad at the end of the 19th century had a great impact on the country's economic activity, mainly due to the fall in transportation costs for mineral exports; it not only allowed the massive outflow of minerals but also the entry of imported products, which competed with advantage in a larger area, where local production suffered the effects of internal disarticulation (Mitre 1981, 175).

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Commerce, the Ministry of Economy and Plural Productivity, the National Statistics Institute (INE), the Bolivian Chamber of Commerce, the National Chamber of Industries CNI, the Bolivian Institute of Foreign Trade IBCE and the Chamber of Commerce of Santa Cruz (CAINCO).

For the political elite of the time, the expansion of the railroad was the way to increase state revenues, a way without which the country had no options for economic development, as expressed by the president of the Bolivian Congress in 1905, Edioloro Villazón (Correa 2013, 326). The railroads established the first major mass passenger transportation network,<sup>2</sup> the deficient road network (in terms of coverage, as quality) allowed it to have primacy in cargo transportation much further than in other countries, being a means for the economic development of the country (Contreras 2017, 318).

From 1920 to 1935 an important industrial advance began, important companies were created in certain sectors,<sup>3</sup> “it was the economic problems generated by the Chaco war and the inconvertibility of the monetary sign, which imports the control of the means of payment on the exterior, which impelled the growth of the industry” (Lora 1967). The initially handicraft items grew, the situation of the World War I generated a shortage of imported products that became a stimulus for the national production of manufactured goods, being the migrations a very dynamic contribution both with investments and with knowledge brought from abroad that was a valuable contribution to the Bolivian society (Seoane 2015).<sup>4</sup>

The period between 1938-1940, in the context of the post Chaco War, a new era opened in Bolivia, marked this time by tin production, where criticism of individualistic liberalism and

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<sup>2</sup> The development of railroads and then roads in Bolivia played an important role both in mass passenger transportation and in the diversification of production to the extent that it allowed the transportation of low-value products such as agricultural products. (Contreras 2017, 318).

<sup>3</sup> See Lora (1967): *Historia del movimiento obrero boliviano*, Capítulo III Los trabajadores fabriles, Vistazo a las industrias.

<sup>4</sup> The Germans set up breweries, mills, chemical factories, meat and sausage factories, canned food, liquor, paper and leather factories, as well as mechanical workshops (Bieber 2005). Italian migration created very important companies such as Figliozzi, La Estrella pasta and candy factory, Forno Textiles, Salvietti soft drinks, among the main ones. Other important factories were created, such as Said, Forno (which produced blankets and cloths, with more than 1000 workers and technicians), Volcán, Soligno (which competed with the best English cassimirs), Fanase (Bohan 1942).

abstract political rights and economic power at the service of big businessmen (mining barons) began. In this period, social justice and a social, regulatory and interventionist state with economic power at the service of society were sought (Barragán 2017).

The industrial sectors and several social sectors (academics) agreed that national production should be promoted on the basis of public policies, industrialization being the means to satisfy the domestic market; at that time there was no possibility of exporting to the global market. The social climate began to become complicated in 1940 due to the fact that in the industries, factory strikes and claims for better wages emerged with force, the unions assumed political roles leaving their vocation of labor demands (Ferrufino 2017, 284).

During the World War II, Bolivia became an ally of the United States, the US government invited General Enrique Peñaranda, President of Bolivia to the Allied table with the interest of negotiating the provision of tin, a mineral strategy for the production of weapons during that period (Unzaga de la Vega 2007). In 1941, as part of the cooperation of the United States with its allies, a mission of experts from the US Department of Agriculture, chaired by Merwin L. Bohan, was sent to Bolivia (Bohan Plan).<sup>5</sup>

The Bohan Commission focused on the need for the development of a diversified agriculture that would meet national consumption and create export potential, the creation of an adequate communications infrastructure was necessary; regarding mining and oil, the improvement of mineral processing methods (tin smelting) and the construction of refineries, noting that the

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<sup>5</sup> The Bohan Plan, presented in 1942, proposed a more diversified and stable economy through: 1) The design of a highway system that would allow the economic development of the regions crossed by the system and the connection of producer and consumer centers. 2) Promotion of agricultural production and the establishment of industrial processing plants, market facilities, credit agencies.

3) Studies and construction of connection works with the development of irrigation crops in selected areas. 4) Development of proven oil fields (Bohan1942).

country had oil not only to supply its own needs but also to create markets for exports, generating more foreign exchange (Ferrufino 2017, 286-287).

The Bohan plan also contemplated the creation of the Corporación Boliviana de Fomento (CBF), with the challenge of promoting industry in the eastern part of the country, which was financed with resources from the US *Export Import*, invested in sugar mills and other agro-industries. They also prioritized the needs related to the migration of workers, investments in schools and basic services. In mining, they carried out actions through CBF in exploration, training of their workers and studies to reduce costs; the Plan also promoted programs to develop manufacturing and industry; in the area of communications, they worked on the co-financing of roadways to the east of the country (Bohan 1942).

Bohan's diagnosis mentioned that mining represented 94% of the value of exports in 1940, which employed only 7% of the population, agriculture provided livelihoods to two-thirds of the population, however it was a subsistence activity, with very low productivity and little surplus for trade, which explained that 50% of imports are agricultural products (Seoane 2015).

Until the mid-twentieth century, Bolivia's economy remained rural, with the city of La Paz growing in the heat of political and bureaucratic concentration, a period in which a timid process of industrialization began, accounting for just over 70% of national industry (Gordillo, Rivera and Sulcata 2007, 24).

Between 1951 and 1970, several government plans were created to substitute imports, to obtain state support for industry, and to improve productivity, especially in staple products. The agribusiness and food industrial sector received financing, allowing the country to overcome the situation of dependence on imports of food and other essential products (Seoane 2015).

The so-called State Capitalism starts from the Revolution of 1952, in which the Revolutionary Nationalist Movement MNR and the popular resistance put an end to a government managed by an anti-national oligarchy in which governments were controlled and were at the service of the interest of the so-called tin barons (large mining owners), it is declared that social justice and economic progress represented the two main objectives of the new regime (Morales 2017).

The MNR government enacted three far-reaching reforms: the nationalization of large mining companies (October 1952) aimed at gaining control over the production and marketing of minerals to achieve long-term development according to the needs of the country; the agrarian reform (August 1953), which sought social justice and modernization of production systems in the countryside, the granting of land to peasants who did not have it, abolition of latifundism, cancellation of free personal services, and universal suffrage (Mansilla 1980). Before the approval of universal suffrage (1956), only literate men who owned property were entitled to vote, and only they were eligible for elected office (Peñaranda et al. 2012).

In the period from 1960 to 1970 there was a high and sustained growth of industrial production and GDP, the main components of this growth were oil refining and the activation of the agroindustrial sector, were the result of the development plans implemented during the previous period and mainly the continuation of the diversification that began with the “march to the east” driven since 1942 through the Bohan Plan (Seoane 2016, 145-146).

From the productive point of view, in 1978 the Bolivian Gross Domestic Product was generated by the agricultural sector with 17.2%, followed by the industrial sector with 15.1%, mining with 11.3% and hydrocarbons with 5.6%; Bolivia was not a totally mining country; there was a not insignificant development of the industrial sector, there was production in all the sectors that

were integrated, however, they used imported inputs when they could use inputs of national origin; the capital goods were almost entirely of imported origin (Espejo 1990).

With the economic crisis of the 1970s, a process of economic destabilization began in Bolivia that impacted mainly on workers; in the 1980s, conditions were fractured by neoliberal policies, the decrease in the labor supply of private companies and the public sector led to the creation of new artisanal and informal trade union establishments, which generated 80% of new jobs in Bolivia (Molero 2009).

Between 1970 and 1984, State Capitalism and its direct role with the generation of industry deepened, in this period the decline of the economy was generated which would lead to the most severe crisis that the country went through in the 80s (Ferrufino 2017, 294).<sup>6</sup>

Until 1987, Bolivia was a mining country, not only because of the strategic importance of minerals in its international trade, but mainly because of the presence of a “mining culture”, which came to be known as “mining centrality”, which collapsed when the international tin crisis (1985-1987) caused nearly 80% of the radicalized workers of the country's largest nationalized companies to be laid off (Rodríguez 1994).

In 1985 there was a large drop in the production levels of the mining sector that affected the GDP and the national economy. The Nueva Política Económica (NEP), with a clear neoliberal orientation, provided for a radical restructuring of the state-owned mining industry, which led to the dismissal of hundreds of workers (Rodríguez 2001).

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<sup>6</sup> During the eighties there were several levels of inflation: medium inflation until April 1982; high inflation from May 1982 to March 1984; hyperinflation from April 1984 to September 1985; and a period of stabilization from October 1985 (Espejo 1990).

Between 1985 and 2005, the neoliberal period was implemented,<sup>7 7</sup> in which the economy was opened up and markets were liberalized as an uncontrollable result of globalization; this opening was devastating for several weak industrial segments that had to disappear, and at the same time produced a rise in smuggling in the country. The main political and social actors saw in the hyperinflation of 1982-85 the most evident manifestation of the development model that had prevailed in the thirty-five preceding years, the government of Víctor Paz Estensoro promulgated Supreme Decree 21060, which clearly had the purpose of changing the accumulation model, based on State Capitalism in force since 1952 (Morales 1992).

The main measures they established were: wage freeze policies, price liberalization, dissolution of public companies considered non-strategic for the government, free hiring of labor force in the public and private sector, a flexible exchange rate policy that would work through the free play of supply and demand, and the liberalization of import and export policies (Torrice 2006).

Since 1993, the used clothing sales market began in Bolivia, and by 1995 this activity was fully consolidated; legal and illegal imports caused great economic damage to the country's small and fragile textile industry (Vidaurre 2005). Bolivia is one of the countries in Latin America with the greatest presence of used clothing sales,<sup>8</sup> according to figures from the National Institute of Statistics and the Ministry of Microenterprise, this sector represents about 45% of informal employment generated in urban areas (Bernal 2013, 491).

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<sup>7</sup> In Latin America the eighties of the twentieth century macroeconomic adjustments leaned towards neoliberalism and the well-known program summarized in the *Washington Consensus*; especially in the measures of privatization, trade and financial openness, and deregulation, measures that gave the private sector greater spaces for profitability and control of the economies (Hernández 2016).

<sup>8</sup> "While the second-hand clothing trade provides employment for some, for example, those engaged in the informal street business, it also undermines the local textile industry in many countries." (Brooks 2019).

For the Instituto Boliviano de Comercio Exterior (IBCE, Bolivian Institute of Foreign Trade), the impact of this activity directly influences artisans and micro small and medium-sized national textile production companies, harming their development, they are considered unfair competition as they belong to the informal sector and market goods from smuggling (IBCE, 2015).<sup>9,9</sup>

In the period 2006 to 2019 it has been characterized by an economic policy opposed to neoliberalism, from the rise to power of the Movimiento al Socialismo MAS (period governed by Evo Morales), the country enters a period of profound political, economic and social transformations, its economic policy is more focused on the domestic market, it is more nationalistic and insists on state impulses to production (Agudelo 2008).<sup>10</sup>

The fundamental pillar on which this model is based is the nationalization of hydrocarbons in 2006,<sup>11</sup> which was an indirect nationalization because there was no expropriation of assets of foreign companies, but rather an increase in state participation that reduced the profits of foreign companies. In labor matters, it repealed the free hiring and negotiation of salaries (a measure that was stipulated in DS 21060), which protects the labor stability of the worker by prohibiting unjustified dismissal (Muriel and Jemio 2010).

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<sup>9</sup> The acceleration of globalization produced that both smuggling and informal trade grew, borders and popular markets gave rise to informal trade networks both in Latin American and Caribbean countries, Southeast Asia, Russia or North Africa, these transformed regional economic dynamics at a global level (Hernandez and Loureiro 2017).

<sup>10</sup> With this model, the state has had a significant expansion in the economy displacing the private sector. Nationalizations have also occurred both in natural resource exploitation sectors and in other sectors; and state-owned companies have been created in some very small cases (Morales et al. 2017).

<sup>11</sup> The enactment of the Decree for the Nationalization of the Hydrocarbon Sector (Decree 28701) on May 1, 2006, which ended on October 28 of that year, called on multinational companies to leave the country if they did not remit 51% of their capital and 82% of their profits to YPFB within 180 days. The most affected companies were the Brazilian state-owned Petrobras and the Spanish- Argentine Repsol-YPF, which had 63% of the country's gas reserves (Neira 2007).

During this period, an important economic boom was experienced due to the rise in international oil and mineral prices; these were good years in terms of income, however, the productive apparatus and the national industry did not change. (National Chamber of Industries 2019, 13-14).

## 2. Main characteristics of the Bolivian economy

The Plurinational State of Bolivia's economy is based on the primary sector (export of non-renewable natural resources). In this regard, the co-authors of the book *Un siglo de economía en Bolivia 1900 2015* agree that:

The Bolivian economy, as part of its colonial heritage, has been organized based on the exploitation of mainly non-renewable natural resources (RNNR), minerals, oil and natural gas. The exploitation of these resources has generated significant revenues for the benefit of the State, which constituted and constitute today a decisive contribution to tax revenues, however, several researchers agree that this orientation brought an impoverishing growth that did not allow Bolivians to diversify and industrialize their economy, evidencing the phenomenon of Dutch disease,<sup>12 12</sup> adding that these revenues did not reduce poverty, much less reverse inequalities" (Velásquez-Castellanos and Pacheco 2017, 17).

The sociologist and researcher Fernanda Wanderley, referring to the periods of State Capitalism between 1952 and 1985, and the free market economy after 1985 until 2005, indicates that: insufficient economic growth, low productivity and competitiveness, social inequality and poverty are the result of an overconcentration of economic, social and political development associated with mining and hydrocarbon extractivism; small scale production of basic goods

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<sup>12</sup> Dutch disease is the name given to the phenomenon of expansion of foreign currency income due to booms in the export of natural resources (oil and minerals) which, without adequate measures, generates negative economic effects if the state does not invest in the development of industry and diversification of the productive sector (Aguirre 2011).

and services, from colonial times to date, has only covered the domestic market, where local production was formed by small family units of reduced size (Wanderley 2005).

According to Molina (2006), Coordinator of the Human Development Report for Bolivia of the United Nations Development Program (UNDP), the Bolivian economy has a development pattern centered on mono-producer dependence, it is a narrow-based economy that consists of a manufacturing sector in which 83% of the labor force is organized in family, peasant or micro-enterprise units of less than five people, producing only 25% of income; only 7% of workers belong to companies with more than 50 employees, generating 65% of income.

Another aspect that characterizes the Bolivian economy is unemployment, which affects most of the population and leads to high levels of poverty and precariousness (Muriel and Jemio 2010). Unemployment according to figures from the Ministry of Economy as of July 2020 was 12.6% and closed with a rate of 8.4% as a result of the COVID-19 health crisis; it should be taken into account that the largest employer in the country is the formal and informal private sector so the performance corresponds to the behavior of these sectors (INESAD 2021).

A critique of the plural economy model in Bolivia states that:

The Government has to change its vision in terms of economic policies, leave statism for a mixed economy where there is a good complementation between the market and the State, national, local and foreign entrepreneurship. To give legal security and stability to foreign investments, but also to national investment, on the other hand, we have to change the focus of monetary and fiscal policies. If the Bolivian institutional framework is not respected, it will be very difficult for national and foreign private investment to contribute to Bolivia" (Gutiérrez, 2010).

**TABLE 1.** Plurinational State of Bolivia: main economic indicators, 2016-2018

	2016	2017	2018
<b>Annual rate of change</b>			
Gross Domestic Product	4,3	4,2	4,4
Gross Domestic Product per capita	2,7	2,6	1,3
Consumer prices	4,0	2,7	1,3
Average Actual Salary	1,7	1,7	--
Money (M1)	9,6	2,0	7,6
Real effective exchange rate	-4,6	3,8	-4,2
Exchange price ratio	-20,2	15,5	7,9
<b>Average annual percentage</b>			
Overall general government performance/GDP	-34,4	-5,0	-5,8
Nominal deposit rate	0,5	1,4	1,9
Nominal lending rate	6,2	6,0	6,4
<b>Millions of dollars</b>			
Exports of goods and services	8.725	9.504	10.565
Imports of goods and services	10.789	11.678	12.082
Current account balance	-1.944	-2.013	-1423
Capital and financial balance	-1.102	2.001	-332
Global Balance	-3.046	-12	-1.755

Source: Economic Commission for Latin America and the Caribbean (ECLAC) based on official data 2018, own elaboration.

Bolivia has known a very important macroeconomic performance thanks to an external context that has favored economic growth, increasing its income and availability of public resources, which allowed it to become a lower-middle income country; the average annual growth rate between 2000 and 2014 was 4.2%; since the international financial crisis in 2009, the economy expanded at 5% per year, and the highest growth rate in the last 30 years was recorded in 2013 reaching 6.78%, doubling the real GDP per capita from US\$ 998 in 2000 to US\$ 1771 in 2013 (Castellani and Zenteno 2015).

For the co-author of the book *A Century of Bolivia's Economy* Beatriz Muriel Hernández, the export structure maintains the hegemony of the export of non-renewable natural resources with little or no transformation. Until the late 1960s tin was the main product that sustained the Bolivian economy; from 1972 onwards, natural gas began to be exported to Argentina and since 2000 to Brazil, becoming the main trading partners in the last decade (Muriel 2017).

**TABLE 2.** Main export products by share of total exports

Product	Percentage	Year
Natural gas	38.3 %	2018
Zinc ore and its concentrates	19.2%	2018
Oilcake, oilseed cake and meal and other vegetable oil wastes	6,9%	2018
Ores and concentrates of argentiferous ores, platinum ores and platinum group metals	6.7%	2018
Tin and its alloys, unwrought	4%	2018
Lead ore and concentrates	3.1%	2018
Coconuts, Brazil nuts and cashew nuts, fresh or dried	2.8%	2018
Soybean oil	2.7%	2018
Unground cereals	1.1%	2018

Source: CEPALSTAT Databases and Statistical Publications, Economic Commission for Latin America and the Caribbean 2018, own elaboration.

Jemio and Del Granado (2015), position regarding the country's economic growth is that the bonanza experienced by Bolivia in recent years has boosted the growth of non-tradable activities, which are those that generally employ workers with lower skill levels (e.g., commerce, small-scale cooperative mining, transportation, construction, informal services, etc.). This implies little job creation in the formal sector, which requires higher skill levels.

This economic boom has not been taken advantage of because no efforts have been made to strengthen alternative economic activities to diversify the economy. According to data from the Bolivian National Statistics Institute (INE) published by the National Institute of Foreign Trade (IBCE), 86% of Bolivian exports still depend on the extraction of nonrenewable resources such as hydrocarbons and minerals. This situation is alarming considering that there are sectors with potential development such as agro-industry, tourism and services (Arispe 2018).

**TABLE 3.** Business base according to economic activity, total number of companies (companies updated May 2021)

Section (1)	Activity	Companies (2)	%	La Paz	Santa Cruz	Cochabamba	Tarija	Oruro	Potosí	Chuquisaca	Beni	Pando	Companies (3)	%
G	Wholesale and retail sale; repair of motor vehicles and motor-cycles	124.232	36,3%	8.564	8.324	5.530	1.383	1.388	625	802	756	260	27.632	36,0%
F	Construction	45.003	13,2%	3.863	2.086	2.189	692	775	711	961	219	85	11.581	15,1%
C	Manufacturing industry	36.347	10,6%	2.467	2.206	1.776	330	249	130	249	164	59	7.630	9,9%
M	Professional and technical services	30.026	8,8%	2.676	2.109	1.307	398	314	195	281	112	31	7.423	9,7%
H	Transportation and Storage	21.490	6,3%	1.774	1.670	880	181	301	217	130	58	14	5.225	6,8%
I	Accommodation and food service activities	19.530	5,7%	1.062	943	714	203	155	151	162	118	23	3.521	4,6%
J	Information and communications	16.505	4,8%	1.076	639	465	160	90	80	92	59	29	2.689	3,5%
N	Administrative and support service activities	13.477	3,9%	846	878	489	132	54	169	107	62	25	2.762	3,6%
B	Mining and quarrying	6.774	2,0%	636	207	111	19	88	359	28	7	2	1.457	1,9%
Q	Health and social assistance services	5.816	1,7%	577	721	352	70	42	17	38	44	9	1.872	2,4%
S	Other service activities	4.852	1,4%	333	298	217	42	27	16	27	16	7	983	1,3%
P	Education services	4.679	1,1%	372	282	264	33	36	19	49	21	5	1.081	1,4%
L	Real estate activities	3.623	1,0%	274	415	116	17	20	6	7	5	1	861	1,1%
R	Artistic entertainment and recreational activities	3.490	1,0%	175	134	120	32	7	5	17	7	4	501	0,7%
A	Agriculture, livestock, hunting, fishing, and forestry	3.438	1,0%	46	497	71	17	5	4	10	21	1	672	0,9%
K	Financial intermediation and insurance	1.753	0,5%	294	208	60	24	9	20	8	5	4	632	0,8%
E	Water supply, sewage disposal, waste management and decon-Tamination	565	0,2%	36	52	31	2	5	2	3	8	2	141	0,2%
D	Electricity, gas, steam and air conditioning supply	162	0,0%	11	11	16	1	4	1	2	2	0	48	0,1%
	Undeclared activity	47	0,0	--	--	--	--	--	--	--	--	--	--	--
Total		341.809	100%	25.072	21.680	14.708	3.738	3.569	2.727	2.973	1.684	560	76.711	100%

Source: FUNDEMPRESA official data as of May 31, 2021, own elaboration.

- (1) Classification of economic activities.
- (2) Total, companies registered in the Bolivian Trade Registry as of May 31, 2021.
- (3) Total, companies with the Commercial Registry updated as of May 31, 2021.

Official data published by FUNDEMPRESA<sup>13</sup> show that as of May 31, 2021, the business base legally registered in the Bolivian Registry of Commerce was 341,809 companies, of which 76,711 have updated their registration, which represents 21.56% of the current business base in Bolivia; 265,068 companies, which is 78.44%, do not have updated their registrations and are therefore temporarily disqualified from carrying out their activities.<sup>14</sup>

**TABLE 4.** Business base by department as of May 31, 2021

Size	La Paz	Santa Cruz	Cocha-Bamba	Tarija	Oruro	Potosi	Chuqui-saca	Beni	Pando	Total
Microenterprises	22.425	17.338	12.904	3.276	3.239	2.632	2.463	1.480	442	66.199
Small Businesses	1.642	2.310	1.120	326	234	257	176	128	91	6.284
Medium-Sized Companies	837	1.687	619	125	87	77	80	66	25	3.603
Large Companies	168	345	65	11	9	7	8	10	2	625
Total	25.072	21.680	14.708	3.738	3.569	2.973	2.727	1.684	560	76.711

Source: FUNDEMPRESA as of May 31, 2021, own elaboration.

### 3. Origin of SMEs in Bolivia

Alquisalet (2014), refers to the book by historian Fernando Chuquimia Bonifaz, *Las Sociedades de Socorro y Beneficencia en La Paz, 1883-1920*, in which, although he does not clearly describe the existence of small businesses, he indicates that in Bolivia the artisan guilds emerged in pre-Hispanic times. However, in pre-colonial times there were already Indian artisans, that is, entrepreneurs and independent workers. It was in colonial times when the first artisans arrived having developed a new urban craftsmanship in La Paz in the late sixteenth and

<sup>13</sup> FUNDEMPRESA is a non-profit foundation that holds a concession contract with the Plurinational State, operates the Bolivian Commercial Registry (Law 2064, Law 2196, Supreme Decree 26215 and Supreme Decree 26335), see [www.fundeempresa.org.bo](http://www.fundeempresa.org.bo).

<sup>14</sup> It does not represent the cancellation of its commercial registration or the closure of the company, but the temporary disqualification of the company to carry out its activities, and it must carry out the procedure of reference to carry out its activities in a normal manner (FUNDEMPRESA 2021).

early seventeenth centuries, in which there was an interaction of Spanish artisans and Indians, this being a first historiographical approach to determine the origin of SMEs in Bolivia.

In the research conducted by Barragán (2015), he argues that the group of K'ajchas/trapiches meant the emergence of a quasi-parallel circuit to that of the extractive mining guild in the colonial period;<sup>15</sup> “the K'ajchas are an important part of the Andean-Bolivian mining history and although they have not gone unnoticed, they have not deserved a long term research”, which reinforces that they were characteristic of the eighteenth century, when mining was again on the rise, indicating that the K'ajcha was never a salaried and proletarian worker, but neither an owner or concessionaire of the mines, being legally recognized in the mid-twentieth century, so it is not clearly defined if they were small businessmen or rather independent workers; Hence, they aroused much debate in 1938: some considered the K'ajchas as small employers and small businessmen, others characterized them as workers, and others saw them as poorer than any mining worker.

In this regard, the Bolivian historian Gustavo Rodriguez, refers to the work of Antonio Mitre published in Lima "Los Patriarcas de la Plata", in which he identifies that the author does not take into account the parallel sector to the "official" production of silver, which was the *kajcheo* (today it would be abusively called informal).<sup>16</sup> The Kajchas were articulated in a complex

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<sup>15</sup> The trapicheos and K'ajchas were closely related because the trapiches received ore from the K'ajchas, because the K'ajchas could own or lease trapiches and because there were arrangements between them.

<sup>16</sup> The Jajcheo, which originated in the XVII century, played a leading role in mining activities, so much so that in the period from 1825 to 1950 they were responsible for the production of approximately 35% of the silver extracted from Cerro Rico de Potosí. It was an activity that allowed the workers and inhabitants of the city to freely take possession of pieces of ore (corpas) between Saturday night and early Monday morning; they also carried out the activity of working by splitting (mediería) the ore obtained, where the Kajchas contributed their labor force and the owner provided the mine in reciprocity (Rodríguez 1994).

relationship that included small mill owners and ore collectors,<sup>17</sup> so the Kajcheo, which originated in the seventeenth century, played an important role in mining activities, especially in the period 1825-1950 (Rodríguez 1994).

The K'ajchas, who were pieceworkers at that time, became mining cooperativists starting in the 1940s and who were consolidated after the 1952 Revolution, where most men and women had to create their own sources of income (own account); so the K'ajchas broke into the mining sector in the eighteenth century and in the twentieth century opened the possibility of creating a mining economy that was not based exclusively on large and medium-sized entrepreneurs (Barragán 2017, 26). So it is possible to attribute the origin of small entrepreneurs and independent workers in the country to the pre-colonial times.

#### 4. Main Characteristics of Bolivian Micro, Small and Medium Enterprises

It should be noted that the majority of Bolivian small-scale enterprises are microenterprises and that, in practical terms, they may be *closer* in definition and behavior to microenterprises than to medium-sized ones (Collao 2011, 73). Microenterprises in the Bolivian economy represent 99.68% of the total number of enterprises in the country, and in total MSMEs represent 99.95% (Saavedra and Hernández 2007).

One of the main characteristics is that the labor force belongs to the informal sector, which leads to the creation of microenterprises that are the main source of subsistence for the generation of income for low-income families, due to the precariousness with which they operate; the most relevant aspect that contributes to this situation is the increase in migration

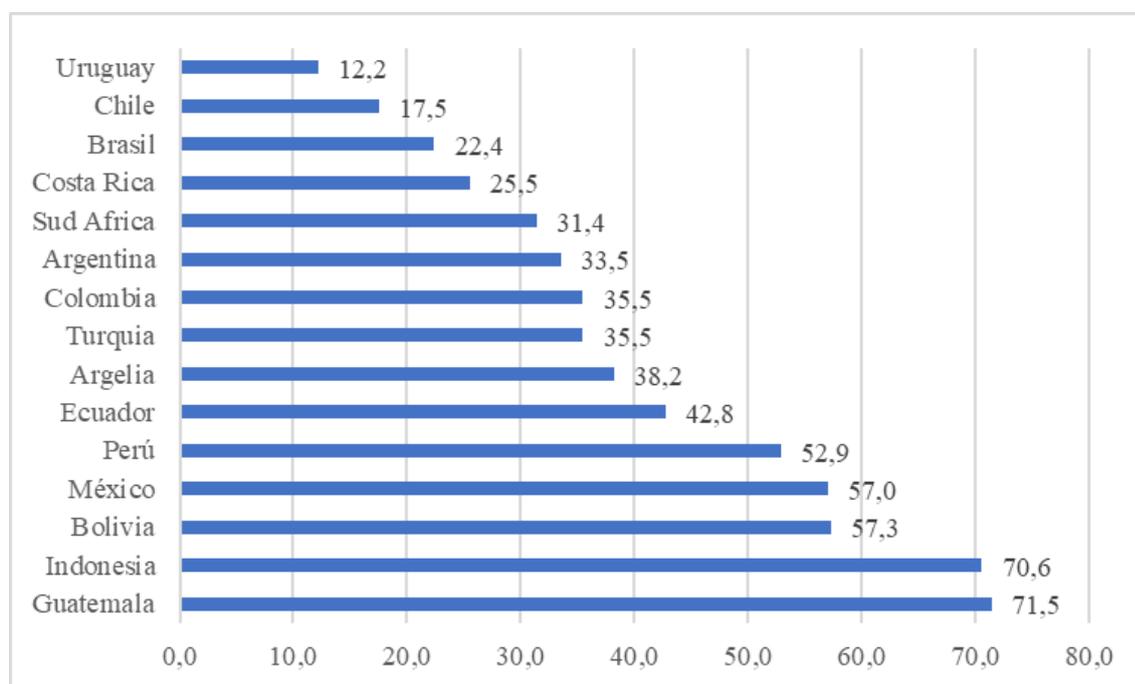
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<sup>17</sup> The trapiche in the charcas region, especially in Potosí, had a certain discredit for being linked to the kajchas and the theft of minerals, but in other provinces and mining centers such as Oruro this stigma was not so important (Gavira 2020).

from the countryside to large cities, urbanization resulting from the precariousness of the standard of living and lack of job sources seek employment opportunities or entrepreneurship in the informal sector (Solé, Parella and Petroff 2014).

Data provided by the International Labor Organization (ILO) estimates that in 2014 the proportion of informal employment in Bolivia was 75.1% of the employed population. The origin of informal employment comes from a series of historical processes and structural policies, at the end of the 1970s and during the 1980s with neoliberal policies caused the growth of informal trade, which originated a new labor configuration at the margin of the state and the formal economy (López 2018, 88-89).

**FIGURE 1.** Informality in economic activities, expressed in % 2019



Source: Andrews, Caldera and Johanson (2011). Own elaboration.

In Bolivia, the importance of micro and small enterprises (MSMEs) in the national economy is recognized, not only because of the large number of enterprises, but mainly because of their

contribution to employment generation and socioeconomic aspects, their contribution to GDP, to the improvement of income distribution and to family savings (Collao 2011,18).

In the study of policies to increase the formality and productivity of enterprises in Bolivia, carried out by the Perry et al. (2007), it indicates that: “Informality is also seen as another symptom of the failure of the State to promote basic public services, protection and opportunities, inciting people to work in an environment without authority. According to another hypothesis, the size of the informal sector in Bolivia is due to the high cost of becoming formal, compared to the low benefits” (Seynabou 2007,18).

Another characteristic of MSMEs in Bolivia is the low level of capital investment; in most cases they are small family businesses, so the hiring of workers is direct, with little or no qualifications. They are concentrated in the country's three main cities, which is where the bulk of the country's economic activity is located: La Paz, Santa Cruz de la Sierra and Cochabamba. There is a high degree of obsolescence in the productive sectors, with a very distant relationship between the educational system and the productive sectors; investments in scientific and technological development are very low, which explains the weak international economic insertion (Zeballos 2003, 143).

Studies conducted on public policies to promote SMEs, identify that barriers to financing (bank and non-bank) in many cases restrict or block the development of projects related to research and development R&D&I that limits innovative capacity and, consequently, access to international markets (Heredia and Sánchez 2016).

One of the latest studies shows a predominance of the commercial sector with 54.41% and the service sector with 34.03%, these sectors are of low added value since trade is only an exchange

that generates minimal value and services are of a personal nature. The manufacturing sector only concentrates 11.56% of the activity, this low average is due to the fact that this sector requires greater investment in technologies and innovation, qualified personnel and competitive advantages in its products and/or services for their acceptance in the markets (Collao 2011, 32).

**TABLE 5.** Classification of companies according to the Instituto Nacional de Estadística of Bolivia

Company category	Employment segment
Large company	50 and more workers
Medium-sized company	15 to 49 employees
Small business	5 to 14 workers
Microenterprise	1 to 4 workers

Source: National Statistics Institute (INE) Micro and Small Business Survey 2008, year 2011.

In relation to the classification of SMEs, there are no unique criteria; in its broadest conception it is defined as the economic unit producing goods and services (Cardozo, Velásquez and Rodríguez 2012). In the case of Bolivia, they are mainly based on quantitative aspects such as the number of workers, sales and equity assets (Collao 2011, 19-21).

## 5. Current situation of MSMEs in Bolivia

The sector of micro, small and medium-sized economic units (made up of self-employed workers, small owners, producers, farmers and artisans) have not enjoyed opportunities and rights to improve the quality and scope of their economic transactions, do not have access to government support systems to minimize risks, do not have policies aimed at reducing transaction costs, improving their productivity and competitiveness, and therefore these economic activities have not been able to consolidate and do not generate quality jobs (Wanderley 2005).

The country's domestic demand is characterized by a very small economically active population (potential demand); unemployment and underemployment rates are very high, which shows the precariousness and poor working conditions. The poverty level of the majority of the population means that demand has low purchasing power and that the quality of products and services are conditions that are not taken into account when making purchases. Regarding products, they prefer those of foreign origin whose origin is smuggling in most cases and which are of better quality and much lower price; the image of national production is quite deteriorated and with prices considerably higher than foreign products (Collao 2011, 19).

Due to their productivity and scale, MSMEs cannot access demanding markets in terms of quantity and formal requirements. Their low capacity to improve their productive efficiency, their human capital, their access to credit and technology, of the micro and small business units (1 to 20 employees), 92.7% of their production is destined for the local market. Micro and small enterprises sell to local and national markets at 3.6%, and 1.5% of those in the local and/or national market are destined for international markets. There is evidence that the small number of exporters is not due to the fact that Bolivian products are not competitive in foreign markets, but to the informal nature of exports (Borda and Ramírez 2006).

In recent years there has been some interest from public and private institutions in the country, which are still in process, to be able to unify and articulate efforts aimed at supporting and promoting the sustainability of MSMEs. The government of the Plurinational State of Bolivia (Government of Evo Morales) with the purpose of improving the competitiveness of MSMEs has included the strategy to support the development and growth of MSMEs in the New Political Constitution of the State (NCPE - 2009). To carry out these actions, the State has

entities (deconcentrated and/or decentralized) that provide services according to the assigned functions (Collao 2011, 44-49).

## 6. Barriers faced by Bolivian MSMEs

Historically, informality has been one of the main barriers to the development of SMEs in Latin America in general and of the Bolivian state in particular. Schneider (2002) indicates, as a result of surveys carried out in Latin America in 1998-1999, that the largest subway economy was in Bolivia with 67% of GDP, and the smallest in Chile with 19%.

Morales (2008), considering the proportion of workers in the informal sector as a measure of informality,<sup>18</sup> finds that 70% of workers in Bolivia develop their activities in the subway economy. A study by Vargas (2011), which seeks to quantify the size of the informal economy in Bolivia, finds that most estimates suggest that both the proportion of workers and the proportion of the product generated by the informal economy are between 60% and 70% of GDP.

The eloquent lack of public policies to promote research and technological diffusion, lack of quality control standards, lack of marketing strategies added to institutional and regulatory obstacles to productivity growth that are related to tax rates,<sup>19</sup> obtaining operating licenses and

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<sup>18</sup> The study carried out by the Perry et al. (2007), determines that the main aspects of informality are that the costs incurred for MSMEs to formalize do not compensate the benefits that entrepreneurs could obtain from the State. Informality is attractive to many because it allows more flexibility and independence due to the poor quality of services provided to the formal sector.

<sup>19</sup> Another cause of informality is the regulatory complexity that affects Bolivian formal companies, Bolivia being one of the countries with the highest regulatory burden. (Seynabou 2007). Although the tax structure is relatively simplified for MSMEs, particularly micro enterprises, it is an extra cost to comply with the payment requirements, because the rates do not differentiate between the size of the companies but by their legal constitution, reducing their competitiveness, especially due to unfair competition such as evasion and smuggling (Borda and Ramirez 2006).

business registration, corruption and macroeconomic and political instability are the other obstacles identified (Seynabou 2007).

On the other hand, smuggling is a barrier to the development and growth of MSMEs and the fragile national industry; in Bolivia it has become an uncontrollable phenomenon that eliminates the country's productive development initiatives, generates informal commerce and therefore tax evasion is of great magnitude, competes with the formal sector in conditions of unfair and unequal competition, occupying the first place in the country's informal sector (Orias 1997, 226).

Cross-border trade in the Andes has deep roots and has grown during the 1980s, in recent years governments have tried to limit and control these flows, however, these trade practices are based on networks of cooperation and exchange developed in response to historical inequalities and marginalization (Odegaard 2016, 34-35).

MSMEs in the textile sector face unfair competition from the marketing of used clothing, which has a negative impact on the sector's activity. This activity has been developing in the country since the enactment of D.S. 21691 of July 2, 1994, which regulates sanitary control for the import and marketing of used clothing in Bolivia in order to prevent smuggling and establish a regulatory framework for the import of used clothing; currently, this regulatory framework is not complied with, except for legal imports registered in the corresponding customs precincts (Vidaurre 2005, 81). In Bolivia, unfair competition associated with the informal sector stands out, and is still aggravated by tax burdens, labor and corruption scenarios, which constitute as main obstacles to formal productive-business performance (Muriel 2018).

A new threat to the country's weak productive structure is the global COVID-19 crisis; the fall in gas prices and export volumes since 2014; the global economic contraction, aggravated by the collapse of oil prices; social distancing measures, including the national quarantine; could result in an economic contraction and an increase in poverty. Given the health emergency, it is necessary to use all possible mechanisms to reduce the human cost of the crisis and lay the groundwork for economic recovery, consolidate its macroeconomic stability by reducing its fiscal and external deficits, promote the development of private investment to diversify its economy, and generate quality jobs (World Bank 2020).

## 7. Conclusions

Based on the review of relevant secondary literature, this article has analyzed the main characteristics of the Bolivian economy and the main models of economic growth in Bolivia since the 19th century. Different studies coincide in pointing out that the Bolivian State's economy historically depended on the exploitation of its non-renewable natural resources, which was the only sector favored by investment in technology and in its exploitation processes (industrialization).

Reviewing the historiography, the article confirms that the origin of SMEs in Bolivia dates back to pre-colonial times, when there were already Indian artisans, i.e., entrepreneurs and independent workers; in pre-Hispanic times, the first artisan guilds emerged; and in the colonial period of the 17th century with the parallel activities to the mining sector (K'ajcheo) they increased, being only recognized as small entrepreneurs and independent workers in the middle of the 20th century.

In the 1970s and 1980s of the 20th century the SME sector increased, as a result of a process of economic destabilization that impacted mainly on workers and led to the creation of new artisanal and informal trade establishments.

The most important characteristics of MSMEs are that they develop in a submerged economy (informal activity), have many limitations in terms of competitiveness, and show the fragility and lack of efficiency of public and private policies to support, promote and strengthen entrepreneurial activity. The economic boom experienced in the first 15 years of the 21st century was not properly exploited, the country did not grow in sustainable alternative productive activities; the little industrialization in potential sectors of the country was not adapted to the requirements of current markets both to meet domestic demand and to increase its very low participation in external markets.

Although public entities (decentralized and deconcentrated), private entities and international organizations that support and promote MSMEs are currently working on programs to promote entrepreneurship, innovation and the use of new technologies, which is a great step forward in changing the entrepreneurial mentality, it requires greater support and integration among the parties involved (government, businessmen, higher education centers), so that a model of support and sustainable growth of the national productive sector can be built.

It is necessary to review tax policies, adjust them to benefit businessmen and entrepreneurs, promote formality in economic activities, have effective mechanisms to fight smuggling, cut bureaucratic hurdles, facilitate access to financing, promote investment in the development of their productive processes (industrialization), promote the use of R+D+i to increase the technological capacity of their productive model, improve their production and distribution

structure so that they can participate more actively in the markets, which is the basis for creating dynamic, profitable and sustainable enterprises.

The recurrent political, social and economic instability of the country, the legal insecurity, the little support to the productive sector by the State, the little and slow integration in international markets make it a very difficult objective to achieve for the Bolivian State and its national industry.

The review of research on the weak structure of SMEs in Bolivia in this article demonstrates the possibility of carrying out future research work that could contribute to the elaboration of a productive model that may improve the economic activity of SMEs in a sustainable manner and in accordance with the socioeconomic reality of the country, taking into account that SMEs are currently considered the engine of economic development of nations for their contribution to employment generation, and the reduction of poverty and social inequalities.

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