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**Managing Competitive Advantage:
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*Adding Value:
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What Works?*

Bolivia

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BOLIVIAN SYSTEM OF PRODUCTIVITY AND COMPETITIVENESS

INTRODUCTION

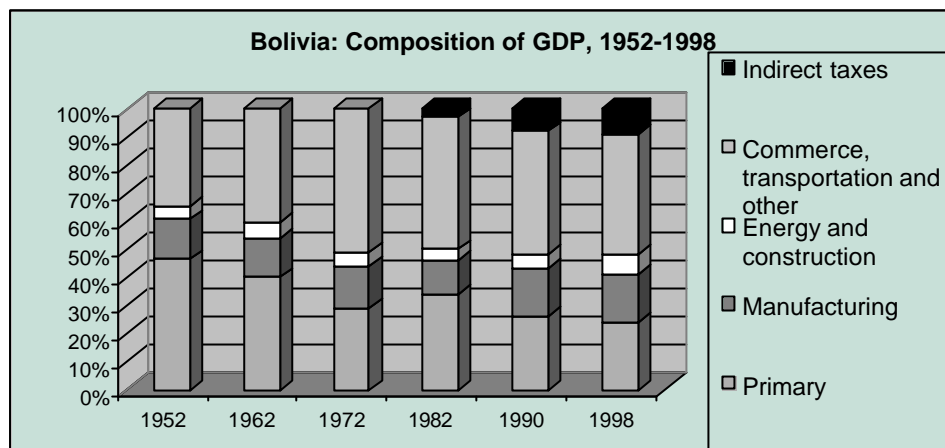
The Bolivian System of Productivity and Competitiveness (SBPC) was created by decree in November 2001, with the objective of establishing a strategic alliance between the public, private sector and civil society, to generate and implement public policies designed to improve levels of productivity and competitiveness in the country. The vision behind the creation of the SBPC has been to create a platform for a transition from public policy centered on maintenance of macroeconomic stability and support primarily for the social sectors to a pro-growth, pro-exports, pro-productivity and pro-competitiveness agenda. This system has been based on the development of a common long term vision, development and strengthening of productive clusters, removal of red tape, improvement of management skills and capabilities and development of a regional apparatus to implement policies on a national scale. The conceptual framework for the SBPC was provided by the analytical work in the Global Competitiveness Report and the ranking that Bolivia received in various measures of competitiveness. The work plan of the SBPC was designed on the basis of this analysis, and is discussed in further detail below.

CONTEXT

In spite of 17 years of sustained macroeconomic reforms, growth in Bolivia has not been sufficient to combat poverty. The Bolivian economy has grown at less than 3% per annum on average during this period, or at a mere one-half percentage point per capita per annum. This is below the average for other Latin American countries in the same time period and a fraction of what East Asian economies have managed in terms of per capita growth. With such low rates, it is not surprising that there has been little impact on absolute poverty levels: half of Bolivia continues to live on less than \$2 a day, and infant mortality rates-- a key indicator of poverty-- continue to be among the highest in the world. Thus Bolivia provides a vivid illustration of the now widely accepted thesis that while macroeconomic reforms may be necessary, they are by no means sufficient to generate growth or have an impact of poverty reduction.

Moreover, the success of macroeconomic management and other structural reforms has not translated into fundamental changes in the productive structure of the economy. This is all the more puzzling when one considers the gamut of structural reforms that have been implemented in Bolivia: financial market and trade liberalization, divestiture and capitalization of the major state enterprises; establishment of the independence of the Central bank, laws for popular participation and decentralization, pension reform, establishment of independent regulatory bodies and independent superintendencies, customs reform etc. Table 1 clearly illustrates that the economic and industrial development of Bolivia has not been dynamic, as the productive base has remained relatively undiversified and therefore vulnerable to external shocks.

Table 1



Source: Based on figures in Sachs and Morales, 1990 and The World Bank, 2001

A segmentation of the economy by firm size and contribution to GDP is also revealing. Basically, the structure of GDP is an inverted pyramid: while micro and large firms contribute together more than 90% of GDP, the heart of the enterprise sector-- which is made up of small and medium sized firms-- contributes only 6%. Micro enterprises contribute 25% percent of GDP but account for 85% of the active economic population. Large firms contribute 65% to GDP but account for only 9% of formal sector employment.

The unequal distribution of economic entities and is amply illustrated in Table 2 below. Small and medium firms are clearly at a disadvantage unable to absorb new technologies and operate to scale. On the other hand, the top of the pyramid is made up of firms are primarily exploiters of natural resources and are not large employment creators. Second, disparities between urban and rural areas is evident: 95% of employment in the rural areas is concentrated in self employed economic units. Third, only weak linkages exist today between large and small, public and private, foreign and domestic firms as reflected in the poorly developed clusters and networking among enterprises.

Table 2
Characteristics of Economic Units

Size of the firm (# employees)	GNP Mill Bs.	GNP %	Urban Employment	Rural Employment	Total Employment	Total Employment %
Micro (1-9)	12,404	25.52	1,411,970	1,571,533	2,983,503	83.1
Small (10-19)	1,330	2.74	147,277	23,014	170,291	4.7
Medium (20-49)	1,630	3.35	108,674	14,302	122,976	3.4
Large (50+)	31,759	65.34	277,436	35,014	312,450	8.7
Ajuste	1,479	3.04				
TOTAL	48,904	100	1,945,358	1,643,863	3,589,221	100

Source: Viceministry of Microempresas.

Coupled with this is one of the highest informality rates in the world. Informality studies provide estimates for informal manufacturing establishments between 54 and 95,000.¹ The World Bank's 2001 study on micro constraints to growth suggesting that the vast majority of manufacturing and the labor force may be informal in that they operate outside the law and do not have access to institutional arrangements that enable economic units to realize economies of scale, adapt innovatively and improve the efficiency of factor markets. In addition, cross country studies assessing the unofficial economy in 9 countries place Bolivia as one of the economies with the highest share in the unofficial sector in the world, surpassed only by Nigeria.² This high level of informality is also an explanatory factor in the low productivity of the economy

Given these characteristics, it is not surprising that export growth has remained relatively stagnant. In 1980, Bolivian exports totaled \$1,000 million. Twenty years later, the total volume stands at \$1,240 million. The percentage growth is very low, especially in comparisons to other countries in Latin America. While there has been some diversification in the composition of exports, the growth of manufacturing exports has been small. See Table 3 below.

Table 3
LATINAMERICAN EXPORT'S (1980-2000)

COUNTRY	1980	2000	GR
	(MM \$US)	(MM \$US)	(%)
BOLIVIA	1,036	1,242	19,8
PERU	3,898	6,412	64,5
ECUADOR	2,481	4,942	99,1
COLOMBIA	3,924	11,565	194,7
CHILE	4,705	15,619	231,9
BRASIL	20,132	53,235	164,5

The situation in Bolivia is aggravated by growing pressures from the labor supply side. In the next few years, Bolivia will need to absorb more than a million new entrants into the labor force. This could herald a potential calamity if the accelerated growth in the working age population does not translate into productive employment. As growth is well below what would be needed to reduce open unemployment and absorb the dramatic increase in new entrants to the labor force, Bolivia needs to take urgent measures to be able to confront the imminent demographic challenges.

The structural characteristics of the productive sector in Bolivia, specially the high rate of informality, suggest that if Bolivia wants to gain successfully the fight against poverty, the strategy has to incorporate actions to improve conditions for the overall economic development

¹ Larrazabal, Hernando, 1997. "La Microempresa ante los Desafíos del Desarrollo, Encuentro Nacional Microempresa versus Pobreza Un desafío posible?. (manuscript), CEDLA, La Paz, Bolivia

² Johnson, S.,D. Kaufmann and P. Zoido-Lobaton. 1998. "Regulatory Discretion and the Unofficial Economy". American Economic Review.

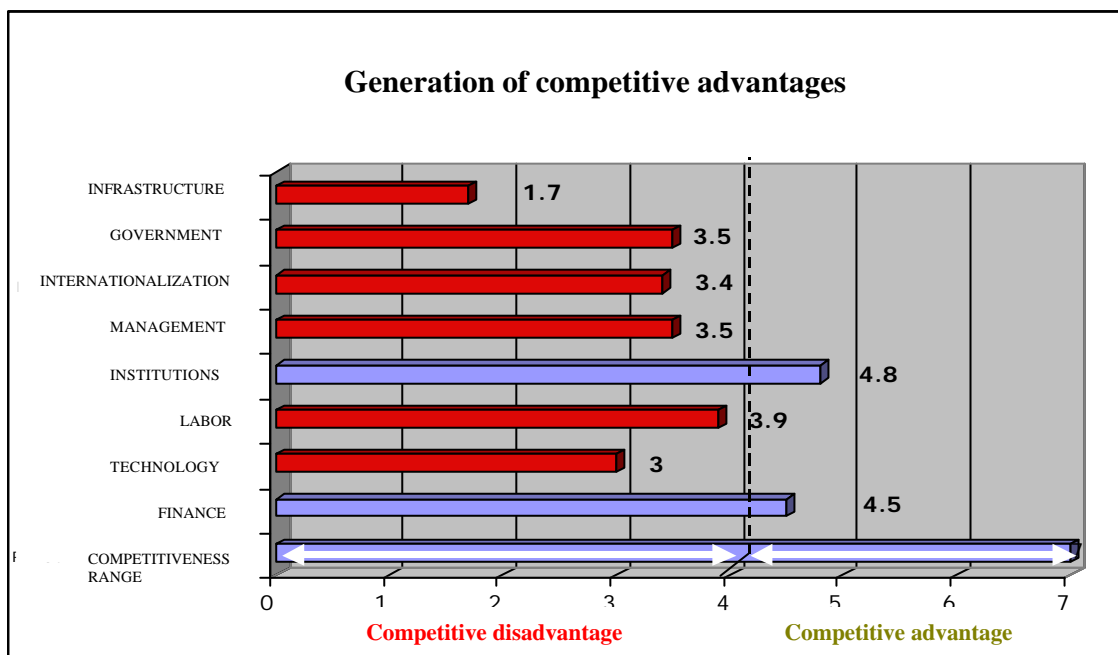
the private sector especially for those that do not have access to information, institutional support and credit.

Until the creation of the SBPC, there did not exist any institution that analyzed, implemented public policies to achieve greater productivity and competitiveness. Neither was there consensus among academic, private and public sectors on measures needed to implement policies of a transversal nature. Problems included the lack of a common vision, the lack of an entity with authority and leadership, separation among design and implementation of policy, lack of interinstitutional coordination, bureaucratic, and the lack of an effective relation between the public and private sector.

THE COMPETITIVENESS SITUATION IN BOLIVIA

According to the Global Competitiveness Report 2001, Bolivia occupies last place in the Index of Current Competitiveness and an equally dismal ranking in the Growth Competitiveness Index. Additionally, as Table 4 shows, in six of the eight factors that are analyzed in this ranking, Bolivia generates competitive disadvantages for its firms.

Table 4



STRUCTURE OF THE SBPC

The structure of the Bolivian System consists of: i) council on Productivity and Competitiveness- CBPC, presided over by President of the Republic, ii) An Inter-institutional Committee on Productivity and Competitiveness-CIPC- whose objective is to support the UPC in interinstitutional coordination and in the implementation of competitiveness policies, and iii) a Unit of Productivity and Competitiveness -UPC- the operating arm of the SBPC.

PROGRAMS

To achieve its goals, the SBPC works in five areas: i) Development of a Competitiveness Matrix, whose objective is to elaborate proposals of public policies in key areas in order to help the development of the productive sector; ii) Cluster Development, whose objective is to increase exports by organizing products with export potential in an integrated cluster; iii) Simplification of Administrative Procedures, whose objective is to reduce red tape and improve the business environment, iv) Improvements of Management Capability, whose objective is to improve the management quality of companies and promote entrepreneurship and v) "Bolivia Competitiva", whose mission is to create a culture of competitive entrepreneurship in Bolivia.

After a year of work the UPC has designed a new strategy focused primarily on cluster development with the remainder of the programs supporting this central area. Additionally three new areas have been created, which are: 1) The Bolivian Network of Competitiveness to implement national policies of competitiveness at the regional level, 2) the area of Monitoring and Evaluation to measure the impact of the programs on the economy, finally, 3) Internationalization that examines issues having to do with access to markets such as the incorporation of the private sector in negotiations of commercial agreements.

EXPORTS AND EMPLOYMENT GENERATION IN THE MAIN CLUSTERS

Cluster	ACTUAL SITUATION		10 YEAR PROJECTION	
	EXPORTS VALUE (MM/US\$)	JOB GENERATION DIRECT/INDIRECT	EXPORTS VALUE (MM/US\$)	JOB GENERATION DIRECT/INDIRECT
OLEAGINOUS PRODUCTS	300,00	104.000	600,00	160.000
QUINUA	5,00	30.000	40,00	120.000
WOOD & MANUFACTURES	41,00	10.000	1.000,00	150.000
LEATHER & MANUFACTURES	23,00	2.352	80,00	10.000
BANANAS	5,00	3.870	30,00	8.000
TOURISM	160,00	60.000	2.000,00	125.000
TEXTILES & GARMENTS	42,30	2.483	300,00	17.600
CAMELOID PRODUCTS	46,00	60.000	120,00	160.000
POULTRY	0,17	30.500	5,00	68.000
WHEAT	0,05	35.000	2,00*	43.000
BRASIL NUTS	30,00	30.000	116,80	110.000
GRAPES & WINE PRODUCTS	0,11	11.700	1,10	50.000
HEARTS OF PALM	3,10	1.000	10,00	3.226
MEAT	0,01	12.000	40,00	16.000
Totals	655,74	392.905	4.342,90	1.040.826

RESULTS

Coordination among the public, private and academic sector has been path-breaking and the results achieved have been excellent. In addition, one of the most important achievements has been the level of coordination achieved between three key Ministries (Economic Development, Agriculture and External Trade). These three agreed on a common agenda in matters related to productivity and competitiveness.

Regarding the private sector, the main work has been done with the manufacturing and commercial sector, where agreements of cooperation were signed with the purpose of elaborating an strategy for the regional competitiveness apparatus. Presently, three of nine CDC (Comites Departamentales de Competitividad – Regional Competitiveness offices) have been constituted. There are 15 agreements with the academic sector (public and private universities) throughout the country, in order to create beneficial linkages for both actors.

The support of the international donor community has been an important element since the inception of the SBPC. The UPC has managed to achieve an impressive level of donor coordination through the creation of a donor committee (CAS: Comité de Acompañamiento) which in turn has led to a more efficient allocation of donor resources.

There are many factors that have been contributed to the success of the program. Among these are:

- A team of well trained technocrats
- Multiministerial Coordination
- Clear definition of the goals to be achieved
- Personal commitment of the President of the Republic.

The new government has given priority to issues of productivity and competitiveness in the country. In two specific areas the first being revision of the National Strategies for Transformation of the Agricultural and the Industrial sectors, and the revisions of country's overall Poverty Reduction Strategy the UPC has been asked to play a leading role. This attests to the fact that issues of productivity and competitiveness are now squarely on the state (as opposed to government) agenda for development.