

The Bolivian Experiment: Structural Adjustment and Poverty Alleviation

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The emblem of Bolivia

Preface

This text summarizes the main conclusions from the studies included in the volume *The Bolivian Experiment: Structural Adjustment and Poverty Alleviation*. The basis of this volume was set during the conference “Structural Adjustment, Poverty Alleviation and External Donors - The Bolivian Experience” in Amsterdam on May 13th 1996. The initiative to organize the conference was welcomed by the Center for Latin American Research and Documentation (CEDLA) at the University of Amsterdam.

The plan to produce the volume was very much supported by Georg Frerks of the Policy and Operations Evaluation Department (IOB).

I much appreciated the enthusiasm and support of Miss H. von Metzsch, director of the IOB, and express my gratitude to the Ministry of Foreign Affairs for its financial contribution to the publication of this volume.

The text presented here has been based particularly on Chapter 12, Conclusions, of the volume referred to above. To facilitate the reading of these conclusions outside the framework of the overall study, tables and figures and some brief sections from the main text have been included, and most references to the chapters in the volume have been deleted. The Table of Contents of the volume has been included as an Annex to this text.

This text has been prepared as a contribution to the seminar organized by the Ministry of Foreign Affairs of the Netherlands and CEDLA in The Hague on January 18th 1999.

The Bolivian Experiment: Structural Adjustment and Poverty Alleviation — Summary and Conclusions

PITOU VAN DIJCK

Introduction

The Bolivian experiment which began on August 29th 1985 with the introduction of the New Economic Policy (NEP), was the first major neo-liberal reform programme in Latin America to be implemented successfully by an elected government during the lost decade of the 1980s. The reforms were aimed at putting an end to economic stagnation and chaos, widespread deep-rooted poverty, and political instability.

Beyond any doubt, the Bolivian experiment was highly successful in the very short term at putting an end to political turmoil and economic destabilization and decline. Moreover, the new policies established an entirely different relationship between the central government and the market and contributed to the creation of a new framework of economic and social rules. These remarkable achievements and successes contrast sharply with the failed attempts at economic reform in Bolivia in the early 1980s, and with the attempts at orthodox and heterodox policy reform in most other countries in the region during the same period.

Nevertheless, the impact of the new policies on private investment, overall economic growth and poverty alleviation was rather limited, particularly during the early stages, and results are still disappointing. This has raised serious questions about the appropriateness and adequacy of the neo-liberal agenda, while the extremely low overall level of welfare, and widespread poverty in the country create an urgent need to intensify and redirect policy reform.

Since its introduction the Bolivian experiment has played a significant role in the debate about optimal reform strategies in small open economies in Latin America. Moreover, the reforms have been watched closely by the international community which was involved in the design, execution and financing of part of the programme. It is hoped for that studies of this experiment will contribute to a deeper understanding of the potential benefits and shortcomings of the neo-liberal agenda and of the prospects for the initiatives implemented during more than a decade to stimulate investment and growth and to support the economic participation of the poor.

This paper brings together the main findings and conclusions of the ten studies included in the

volume regarding the achievements and limitations of the neo-liberal experiment in Bolivia. To start with, a number of observations are presented on the background and context of the New Economic Policy (NEP). Subsequently, the achievements and limitations of the first and second stages of the NEP are examined, followed by analyses of the progress that has been made to alleviate poverty in rural and urban areas. Findings on urban micro-enterprises are then reviewed while the next section focuses on the effectiveness of social policies and the social funds. The final two sections present the findings on the specific roles of non-governmental organizations (NGOs) and international donors.

Background and context of the NEP

Time-series analyses covering the period from the late 1940s to the early 1990s indicate that Bolivia was on a slow and volatile growth path during most of the period compared with the average performance of the Latin American economies.

Ultimately, the level of gross domestic product (GDP) per capita in Bolivia stagnated in real terms between 1950 and 1990 while it nearly doubled in the rest of Latin America on an average, despite the crisis of the 1980s.

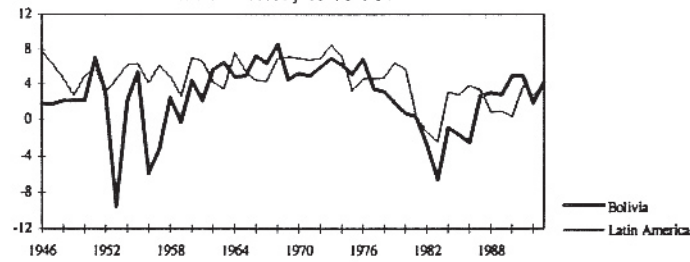
External factors including deteriorating terms of trade and lack of dynamism in international demand for Bolivia's export commodities contributed to the weak overall growth performance of the country. Major factors on the supply side which hampered growth are the low educational and skill level of the population, physical barriers and lack of access to the sea, which increase production costs. Policy failures and inconsistencies as reflected by the rate of inflation had a significant negative impact on overall economic growth. The investment ratio tended to be low during most of the years under investigation which had a significant negative impact on the overall rate of growth.

Regarding the overall macro-economic orientation, four periods have been distinguished: the socialist experiment which started in 1952, the establishment of the state capitalist model from 1964 onwards, the period of economic and political destabilization and chaos which started in 1978, and finally the neo-liberal experiment introduced in 1985.

The socialist experiment, which started when the *Movimiento Nacionalista Revolucionario* (MNR) took power, was a significant turning point in the recent history of the country. The revolution was supported by a broad alliance which confronted the elite of landowners and tin magnates. Among the leaders of the revolution was Victor Paz Estenssoro who has continued to play a significant role in the country and implemented the NEP in 1985. The revolution of 1952 was a true revolution that attempted to go to the heart of the structural problems faced by the country. The revolution was successful in making Bolivia enter the modern world and leaving the feudal state behind it. In the 1960s attempts were made to implement integrated rural development projects and to introduce development planning with the aim of improving the quality of life of the people and reducing income inequality. Against this background, the real issue is whether the reforms introduced in 1985 have been more effective than previous attempts.

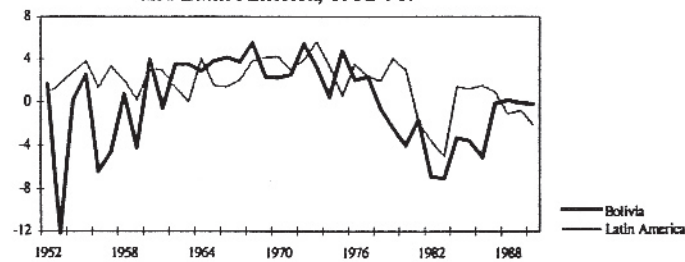
The priorities of the NEP and the shock-wise approach used when new policies were introduced in 1985 have to be set against a background of broad and deep involvement of the central government in economic affairs and a small private sector, the poor functioning of the overall economy over a long period, a very low level of income per capita and serious shortfalls in the satisfaction of basic needs, stagnation and economic chaos combined with a growing impact of the coca sector in the period immediately preceding the introduction of the NEP.

Figure 1. Growth rates of real GDP in Bolivia and Latin America, 1946-93.



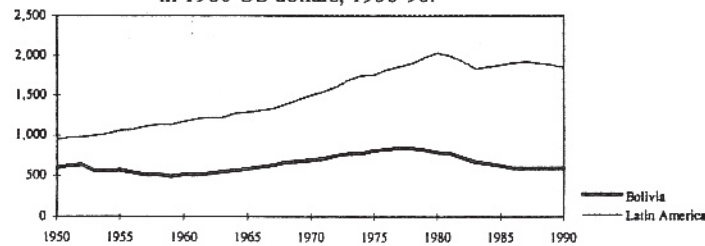
Source: J.W. Wilkie (ed.), *Statistical Abstract of Latin America*, UCLA, Latin American Center Publications, University of California, Los Angeles, several issues.

Figure 2. Growth rates of real GDP per capita in Bolivia and Latin America, 1952-90.



Source: See Figure 3.1.

Figure 3. GDP per capita in Bolivia and Latin America, in 1980 US dollars, 1950-90.



Source: See Figure 3.1.

Successes and limitations of the NEP Restoring balances

Restoring balances

Our study shows the results of the policy adjustments in terms of closing the internal and external gaps. See Figures 1-8. The overall gap between GDP and domestic absorption was reduced, hyperinflation was stopped, and the deficit of the non-financial public sector as a share of GDP was reduced. However, the gap between domestic savings and investment remained large and in spite of the significant successes in stabilizing the economy, both rates were low for a long period after the NEP was introduced. This is at the heart of Bolivia's weak economic performance.

With respect to the external balances it was found that the real effective exchange rate (REER) continued to decline and supported the policy of import liberalization, including the abolishment of non-tariff barriers and the reduction of import tariffs. In combination with the measures taken to stimulate exports, this resulted in increasing the shares of exports and imports in GDP. However, after an initial narrowing of the trade gap, this tended to widen again after 1989.

Since 1986, Bolivia has been remarkably successful in attracting long-term foreign savings in the context of adjustment programmes, and multilateral institutions have become the major lenders since 1986. Debt restructuring, swap arrangements and debt cancellation contributed to a significant reduction in the total debt stock since 1987. Nevertheless, the high dependence of the economy on primary exports, combined with a large debt stock, high debt-service ratio and a high dependence on foreign assistance, created a vulnerable external position.

The syndrome of savings, investment and growth

Despite the successful reforms and stabilization policies, investment and domestic savings ratios have remained rather low, and this also holds for the growth rate of income per capita. During the first stage of the reform programme, government remained by far the major source of investment, as was the case in the years preceding the reforms. Government investment as a share of GDP increased strongly during the second half of the 1980s, but private investment showed little dynamism.

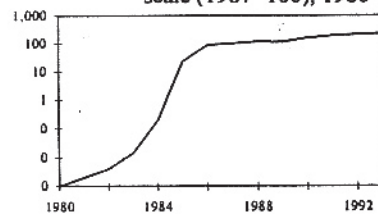
To support investment and growth, the government introduced a series of investment laws for the mining sector and investment codes in 1990 and 1991. Essentially, the objectives of the policy initiatives taken in the period 1994-97 were stimulation of national savings and investment in order to enhance economic growth, and a reduction in the incidence of poverty.

The combined privatization of the largest nationalized companies and reform of the pension fund system have been among the most crucial and innovative elements of the second stage of the reform programme, along with the programme of decentralization of economic decision-making and social expenditures.

The study finds a relationship between the variation in the domestic savings rate and the variation in the terms of trade between 1988 and 1995. Declining terms of trade for Bolivia's small export-orientated sector hampered the generation of savings to support growth. However, gross investment has been constrained by the net transfer of resources rather than the low level of domestic savings. Since 1986, the significant savings-investment gap was made possible by a rising net transfer of resources to Bolivia. About half of the increase in the net inflow of financial resources was stimulated particularly by the gradual reduction in net factor payments abroad, due to debt forgiveness and a drop in international interest rates. The other half is related to increased net capital flows and changes in reserves. The study also finds that only half the increase in the transfer of financial resources has been translated into additional investment, which may be due to the limited capacity of the economy to absorb investment.

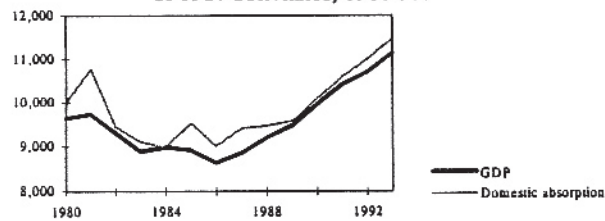
Moreover, savings and investment have been unfavourably affected by the dollarization of the economy

Figure 4. Consumer price index (CPI), logarithmic scale (1987=100), 1980-93.



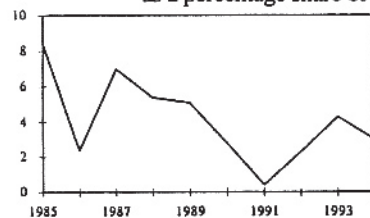
Source: The World Bank, *World Tables 1995*, Washington, D.C., 1995.

Figure 5. GDP and domestic absorption, in millions of 1987 bolivianos, 1980-93.



Source: See Figure 3.12.

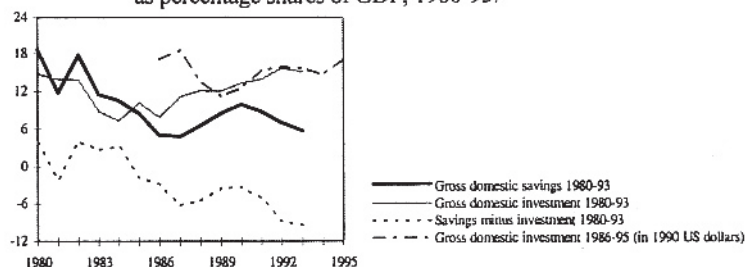
Figure 6. Deficit of the non-financial public sector, as a percentage share of GDP, 1985-94.



Source: IDB, *Economic and Social Progress in Latin America, 1995 Report*, Washington, D.C., 1995

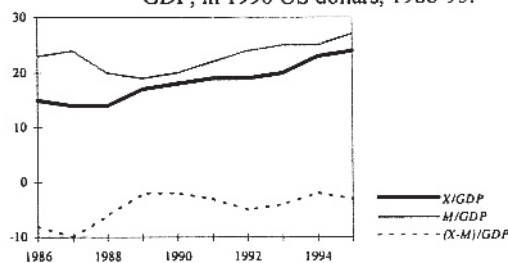
which has continued notwithstanding the success of the stabilization programme. Finally, the banking

Figure 7. Gross domestic savings and investment, as percentage shares of GDP, 1980-95.



Source: The World Bank, *World Tables 1995*, Washington, D.C., 1995; IDB, *Economic and Social Progress in Latin America, 1996 Report*, Washington, D.C., 1996.

Figure 8. Exports, imports and the gap on the current account of the balance of payments, as percentage shares of GDP, in 1990 US dollars, 1986-95.



Source: IDB, *Economic and Social Progress in Latin America, 1996 Report*, Washington, D.C., 1996

system has suffered from serious deficiencies in its operations related to its oligopolistic structure and the small scale of its operations. Successful capitalization may boost savings and investment in the medium term.

The Bolivian capitalization programme implemented in June 1995, is innovative and complex compared with traditional privatization programmes in Latin America, as it is tightly intertwined with other radical reform programmes such as the reform of the social security system and the institutional reforms that created sectoral and financial regulatory bodies. The study distinguishes three stages in the capitalization strategy: capitalization, distribution of owner-ship, and reform of the social security system. The capitalization strategy may be considered as a particular process of privatization with a specified destination for revenues: investment in the enterprise. This provides a guarantee to the investor as well as the population at large that resources will be used to finance growth of the privatized firms, rather than being part of the current government budget.

Since the process of capitalization is particularly concentrated in sectors with oligopolistic and monopolistic characteristics, sectoral regulatory systems are required, particularly since the lack of institutional order has been a major impediment to private initiatives.

Table 1. Poverty incidence by welfare measure and high and low poverty lines, headcount ratio P_0 , 1989-95.

<i>Poverty Measure</i>	<i>Area</i>	<i>1989</i>	<i>1993</i>	<i>1995</i>
<i>High Poverty line</i>				
Consumption	Urban	60.9	60.3	..
	Rural	..	..	88.3
Income	Urban	70.8	56.9	59.3
	Rural	..	..	77.1
<i>Low Poverty line</i>				
Consumption	Urban	27.9	28.3	..
	Rural	..	..	85.8
Income	Urban	46.0	30.0	32.2
	Rural	..	..	73.3

Note: Poverty incidence estimates refer to individuals. Consumption and income measures are survey estimates, unadjusted for possible underreporting.

Sources: INE, *Encuesta Integrada de Hogares*, 1989 and 1993 and UDAPSO, *Encuesta Socio-Económica de Hogares*, 1995.

The new pension funds scheme implies a transition to a system of individual capitalization implemented by private administrators. The basis of the system is a privately owned pensions administration. The scheme provides the population over the age of 65 with an annual retirement bonus. However, since the average life expectancy in Bolivia is only 59 years, the pension funds will mainly benefit the better off with a longer life expectancy. A major positive effect of the capitalization programme so far has been its significant contribution to attracting foreign investment. Until 1993, the public sector was the major source of investment, but in more recent years foreign investors have taken over this position. However, the reforms have probably not contributed to strengthening the domestic entrepreneurial sector, the major source of domestic private savings.

Table 2. Social indicators, 1970-92.

	<i>1970-75</i>	<i>1992</i>		
		<i>Total</i>	<i>Urban</i>	<i>Rural</i>
<i>Education</i>				
Overall illiteracy rate	37	20	9	37
Female illiteracy rate	..	25	15	50
Overall gross primary enrolment rate	85	83	92	74
Female gross primary enrolment rate	76	78	89	69
<i>Health</i>				
Infant mortality*	151	75	58	94
Life expectancy (years)	47	59	64	54
Total fertility rate (live births per woman)	6.5	5.0	4.2	6.3
Access to safe water (% of population)	34	46	74	33

Note: * <1 year, per 1,000 live births.

Sources: The World Bank, *Social Indicators of Development*, Washington, D.C., several years; Ministerio de Desarrollo Humano, *Mapa de Pobreza: Una Guía para la Acción*, 1994 and IDB, *Economic and Social Data Base*, Washington, D.C., several years.

Poverty and human development

Several of our investigations provide complementary insights into the incidence and severity of poverty, the direction of change since the introduction of the NEP, and the main characteristics of the urban and rural poor. Statistical results are presented in Tables 1-4. All available studies, irrespective of the methodology applied, indicate that poverty is widespread in both urban and rural areas in Bolivia.

Urban poverty

To measure poverty, two approaches have been used: the indirect approach - poverty as a shortfall of (adjusted) income or consumption, and the direct approach - poverty as a shortfall in the satisfaction of basic needs.

When using the indirect measure the study shows that the choice of welfare measure and poverty line affect the results of the analysis of urban poverty. According to the income estimate, urban poverty in 1993 ranged between 30 and 57 per cent of the urban population, and according to the consumption measure the range was between 28 and 60 per cent, depending on the poverty line selected. The income estimate suggests that urban poverty declined quite significantly between 1989 and 1993, and increased between 1993 and 1995, when using the low and high poverty lines. The yardstick of consumption level generates mixed results.

Social indicators show important progress over the past decades but shortfalls in the satisfaction of basic needs remain large and widespread. Bolivia ranks among the poorest Latin American countries as measured by health status and educational levels. Social progress is well below the Latin American average.

The infant mortality rate is near 100 per 1,000 live births in rural areas as compared to 43 on an average in Latin America. The average total fertility rate is 5 live births per woman and even 6.3 in rural areas, as compared to 3.1 for Latin America. More than half of the Bolivian population lacks access to safe drinking water as compared to 20 per cent for all of Latin America. Illiteracy affects one quarter of the total female population and half of women in rural areas. Gross primary school enrolment has increased only slightly since the early 1970s, but has shown a decline in recent years. The Latin American average of gross school- enrolment in primary education is above 100, due to overage and repetition.

Data on education are of poor quality, but comparison of various sources indicates that the declining trend in recent years reflects two tendencies. First, there seems to have been some improvement in the internal efficiency of education as may be reflected by lower repetition rates and higher educational attainment of those that entered the system. Second, in rural areas enrolment rates are lower due to high drop out rates, particularly among girls. Nevertheless, rural-urban migration, improved efficiency in urban education, and easier access to schools in urban areas appear to have facilitated the increase in educational attainment of the urban population and the decreasing gap between females and males in terms of years of education in schools.

The 1992 population census data have been exploited extensively to measure the geographical distribution of living conditions. This has resulted in several poverty maps which try to identify the most deprived regions using a composite social indicator or "indicator of unsatisfied basic needs". Aggregate or composite social indicators suffer from serious, if not insurmountable, methodological weaknesses and lack a theoretical framework for adding indicators for different dimensions of well-being into one composite indicator. These weaknesses have been spelled out in the literature and none of the poverty maps constructed for Bolivia have overcome these problems despite a certain degree of statistical sophistication.

Although this type of composite welfare measure - the indicator of Basic-Needs Insatisfaction (BNI) - as such lacks transparency about the type of deprivation in different regions, the poverty maps do play a policy role in the distribution of social spending, in particular for the FIS. It is more useful for policy making and subsequent impact evaluation to use maps of the geographical disparity for each individual indicator, i.e.,

the component parts of the BNI indicator.

The ranking of departments by basic needs shortfalls varies depending on the selection of indicator. According to the composite BNI indicator, Pando, Potosí, Beni and Chuquisaca respectively have the highest incidence of population with unsatisfied basic needs. The highest infant mortality rates are recorded in Potosí, Oruro, Beni and Chuquisaca and for illiteracy the order is Chuquisaca, Potosí, Cochabamba and Tarija.

Location is an important variable for social policy decision making. Yet, as indicated, poverty map information needs to be tailored to specific policy objectives and the geographical location of the poor as such tells us little about the determinants of poverty conditions. To overcome this, the next section will focus on the socio-economic conditions underlying poverty in Bolivia.

The study shows that a shift in employment opportunities has taken place away from the public sector towards the private sector. The share of self-employed in the urban labour force may have been reduced somewhat, but their absolute number increased significantly between 1989 and 1995. This reflects a discrepancy between job opportunities in the formal sector and the growing demand for such jobs.

The levels of remuneration of blue-collar workers, the self-employed and family workers decreased between 1989 and 1993, but this trend was reversed between 1993 and 1995. The incidence and severity of poverty in urban areas are highest among blue-collar workers and the self-employed. In the case of blue-collar workers the incidence and severity of poverty decreased slightly between 1989 and 1993 when using the consumption measure but in the case of the self-employed, the incidence and severity of poverty increased.

The poverty profile also indicates that urban poverty is strongly related to low educational levels. Hence, the significance of the educational reform programme initiated in 1994. The educational attainment of the urban population has improved substantially in recent years. However, educational achievement measured by the number of years of formal education shows a negative bias for females and indigenous population groups, as well as for blue-collar workers and the self-employed. In urban areas school enrolment rates for boys and girls are the same, but in rural areas girls have significantly less access to education than boys. Moreover, education may be crucial to improving welfare for the indigenous population by improving their access to the labour market, enhancing skills and overcoming linguistic differences.

Rural poverty

The incidence of poverty is most frequent and poverty is most severe in rural areas, independent of the poverty line selected. This also follows from the large urban-rural gaps for several indicators related to education and health that are used when measuring poverty according to the direct method.

According to the composite indicator for basic-needs insatisfaction, the regions of Pando, Potosí, Beni and Chuquisaca respectively have the highest incidence of population with unsatisfied basic needs, as noted earlier.

It was expected that structural adjustment policies of the type introduced in Bolivia would favour production in the sectors of tradables and reduce the bias in the incentive system that traditionally favours industry over agriculture. Clearly, the strong real depreciation of the domestic currency stimulated the sectors of tradables but the domestic terms of trade for the agricultural sector declined from 1985 onwards. The non-traditional export-orientated agricultural sector was particularly stimulated, but traditional agriculture showed little dynamism in terms of output. Farmers have not become the winners of adjustment and there was a lack of a well-defined policy for the agricultural sector and no particular role was attributed to the agricultural sector in the structural adjustment programmes. On the contrary, support services and facilities for this sector were curtailed during the transition and no particular policy for small farmers was formulated before 1996. Essentially, up to the promulgation of the new *Estrategia para la Transformación Productiva del Agro* (ETAP) in April 1996, 'dualism' was the hallmark of the national policy framework for the agricultural sector, and the Andean peasant sector was an object of social rather

than economic policies.

It is hard to generalize about urban-rural poverty gaps due to the lack of comparable data, but it is not unlikely that this gap has increased somewhat during the process of structural adjustment. Levels of basic-needs satisfaction have remained very low in rural areas.

The limited 1995 survey, which included 381 households in the departments of La Paz, Oruro, Potosí and Cochabamba, provides insights into the poverty syndrome and reveals some essential characteristics of the rural poor. Unfortunately, this survey does not contain data on agricultural inputs such as land and labour. Nevertheless, its broad focus is very helpful in relating poverty to a number of variables that may be influenced by government interventions in the context of a policy to combat rural poverty.

Table 3. School enrolment of children between 6-11 years of age, by consumption quintiles, in percentages.

	<i>Quintiles</i>				
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
Boys	90	94	94	96	100
Girls	81	95	97	94	100
All	86	95	96	95	100

Table 4. School attendance of children between 6-11 and between 12-17 years of age, by consumption quintiles, in percentages.

	<i>Quintiles</i>				
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
<i>Age 6-11</i>					
At least one day absent:					
All children	38	18	26	21	10
Children not reported ill last month	30	15	19	19	8
Children reported ill last month	40	23	44	33	18
When absent: number of days absent	2.4	3.5	2.5	3.8	3.2
<i>Age 12-17</i>					
At least one day absent	35	14	15	10	10
When absent: number of days absent	4.1	1.8	4.5	3.0	1.5

Comparing the characteristics of the population measured according to consumption per capita, the study finds that adults in the lowest consumption quintile had only 2.4 classes of school education as compared to 3.8 classes in the top quintile. The younger generation is better educated which may contribute to poverty reduction over time. School enrolment in the primary school age group is around 95 per cent, with the noticeable exception of the lowest consumption quintile which scores about 10 per cent lower, and even less in the case of girls. Moreover, school enrolment of children older than 10 years of age drops sharply in the lowest quintile but remains high up to the age of 15 among children from richer families.

However, being registered in school does not necessarily imply that the child will attend school. Table 4 analyses school attendance. The incidence of absence is clearly higher in the lower consumption strata, but the duration of the absence shows no particular pattern. In the lowest consumption quintile, 1 out of 3 children missed at least 1 day in the last month, compared with 1 out of 10 in the highest quintile, but the main reasons for missing classes cannot be inferred from the data. Health is an important factor explaining attendance. The absence rate is about 10 per cent higher for children aged 6-11 who reported to be ill in the last month. However, a significant percentage of children fails classes, for other - presumably

economic - reasons.

Regarding language skills related to ethnic background, it has been found that persons who cannot read and write Spanish are relatively strongly concentrated in the lowest quintile. Also, persons with an Aymara background are more likely to be in poor quintiles, and persons with a Quechua background in the richer quintiles.

Poverty is also correlated with health. Even among the young the frequency of illness is significantly higher among persons in the lowest two quintiles.

Finally, the study shows that safe housing is available only to 2 per cent of people in the lowest quintile as compared to 50 per cent of people in the highest quintile. Safe housing not only contributes directly to welfare but also reduces the probability of some diseases.

Policies intended to reduce poverty should focus on school enrolment, health and housing, but it is to be expected that programmes targeting the poorest quintiles who live in remote areas may be costly.

Rural poverty in Chuquisaca and Potosí

Investigations of rural poverty and livelihood strategies provide further insight into rural poverty in Chuquisaca and Potosí in the southern Andes, which are among the poorest regions in the country. The findings presented in the study are based on information on 41 villages and 136 families in 17 villages, monitored during the period July 1995 to July 1996.

Traditional rural producers have not been among the winners under the new economic policies introduced in 1985. Evaluations of the impact of the NEP indicate that not enough attention has been paid to persistent structural bottlenecks to the development of rural areas which limit the capability of rural producers to respond adequately to the new economic policies.

This study shows that there are wide intra-regional differences among villages in many respects and that, moreover, differences among families within these villages are substantial in terms of income, wealth and related livelihood strategies.

The 41 villages under investigation are clustered into four groups on the basis of variables related to the agro-ecological situation, road access, the number of NGOs and the quality of infrastructure. Villages with a favourable external environment share the following characteristics: the majority of the population is concentrated in urban nodes, agro-ecological production circumstances and road access are relatively good, the number of NGOs is relatively high, and the infrastructural situation is rather favourable.

Villages with a favourable environment show signs of successful agricultural development and specialize in potato production or, alternatively, diversified production of horticultural crops. As compared to other zones, fertilizers are used intensively in the cultivation of potatoes. In villages with an unfavourable environment, the population is more involved in cattle-ranching, non-agricultural activities and migration.

Moreover, the study shows that rural poverty is a spatially dispersed phenomenon and that the rural poor are located in different agro-ecological zones. There is no clear link between regional characteristics and the socio-economic situation of farmers, at least not within the same agro-ecological area. It follows also that in many cases the smallest farmers are not the poorest farmers, measured in terms of money income. This may be due to several factors: non-agricultural sources of income, land fragmentation, the quality of land and the degree of erosion, and ability and willingness to invest. Hence, ownership of land is not a useful criterion for identifying groups with common interests.

Finally, the study shows that the agricultural sector is dynamic in several respects. Land tenure arrangements are not fixed but frequently vary, and new types of arrangements have come into being. Also, specialization patterns have changed and diversification of production has taken place in response to new market opportunities in urban areas, expansion of irrigation systems and changes in precipitation and erosion.

Micro-enterprises in urban areas

During the crisis of the 1980s many firms in urban areas had to reduce the scale of their operations or went bankrupt, causing a significant increase in the number of underemployed and unemployed people. Many people migrated from depressed rural areas to urban zones such as El Alto outside La Paz, Potosí and Oruro. Their main preoccupation was to obtain income and employment through activities in mainly very small enterprises.

In 1989, the estimated number of small enterprises in the cities of La Paz, Cochabamba and Santa Cruz was 298,000; 85 per cent of these consisted only of the owner with or without the support of relatives. In 1993, 340,000 micro-enterprises with 10 employees or less were estimated to be in operation in all urban areas of the country.

The performance and prospects of micro-enterprises has been analysed on the basis of a survey of 608 enterprises in five sectors in the urban areas of Sucre, Potosí, Oruro, Tarija, La Paz and El Alto during May-July 1996. By far the largest number of enterprises were concentrated in the cities of La Paz and El Alto, but the sample used in the study consists essentially of quotas of prespecified sections of the research population since the centre of gravity of the project was in the urban areas in the south, not La Paz and El Alto.

The survey reveals wide differences among firms and sectors regarding levels of mechanization and sophistication, the range of products, economic performance, operational handicaps and barriers. Also, locations differ in terms of locational advantages.

In general, the degree of mechanization of textile production units is limited. Production units in the leather, gold and silver sectors tend to be more mechanized and operate as specialized artisans; enterprises in the metal and wood products sectors are more capital and skill-intensive and operate as semi-industrial firms. The variety of products manufactured by the workshops differ among the locations and is determined by resource endowment and clientele.

The study differentiated workshops according to their strength and potential on the basis of six criteria: growth performance in the past, method of costs calculation, accounting practices, attitude, organization, and growth prospects. The survey shows that enterprises considered to be strong according to their scoring on these criteria are concentrated in the city of Sucre, and that weak enterprises are largely concentrated in Oruro and Potosí. The sector of gold and silver processing include a large share of strong enterprises, and the textile production sector include a large share of weak firms. These wide differences in strengths and weaknesses may have major implications for the design and implementation of effective and efficient policies to improve the access of firms to inputs of intermediate products, capital, technical and administrative skills, infrastructural facilities and markets for outputs.

Social policies

In view of the relatively low average level of income per capita and the large number of people living below the high or low poverty line, redistribution of income may contribute little to poverty alleviation in Bolivia. Renewed economic growth is a necessary but not sufficient condition for the alleviation of widespread poverty. Policies to stimulate the growth of labour-intensive sectors such as traditional agriculture and small-scale industries including micro-enterprises are critical to combine overall economic growth with direct poverty alleviation. In addition, there is a need for social policies that contribute directly to welfare by creating employment or improving access to facilities that help satisfy basic needs, or indirectly by improving people's ability to generate income.

The reform of the social security system and the establishment of privatized pension funds may contribute to the sustainability of Bolivia's pension funds and contribute to the welfare of the elderly, although the better off will probably benefit most.

Government social expenditures including education, housing, health and social services as a share of

total government expenditures have not increased since 1986, but have increased as a share of GDP as well as in real terms per capita. See Table 5. Education and social services have been by far the most important categories of social expenditures by the government. However, these expenditures are not targeted specifically towards the poor. The lowest income groups benefit particularly from spending on primary education. The allocation of aggregated public investment in social sectors is only weakly related to existing poverty levels, as measured by unsatisfied basic needs. This has been compensated only to a limited extent by the allocation of social investment funds.

Table 5. Government social expenditures, 1986-95.

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<i>Shares of total government expenditures (%)</i>										
Education	18.4	24.8	20.7	20.3	18.0	18.7	16.7	17.0	18.5	19.3
Health	1.9	9.0	7.7	6.6	2.3	3.3	8.2	6.6	7.1	6.2
Social services	24.8	18.6	11.4	14.3	17.7	18.6	12.6	15.0	14.6	16.0
Housing	0.8	0.5	0.3	0.3	0.2	0.2	0.1	2.0	0.6	0.8
Total social expenditures	45.8	52.9	40.1	41.5	38.3	40.7	37.5	40.6	40.8	42.2
<i>Social expenditures as share of GDP (%)</i>										
	5.2	5.8	5.1	5.7	6.3	6.9	7.6	9.3	9.0	8.6

Source: Based on IMF, *Government Finance Statistics Yearbook*, Washington, D.C., several issues

Social funds

The Bolivian social funds were not a nouveauté at the time, but in some respects they functioned as role models. The Fondo Social de Emergencia (FSE) was introduced in 1986 and made important economic, political and social contributions to the structural adjustment programme. Although the FSE benefited a significant number of people who were employed temporarily, the fund was not very successful in targeting its activities meant to benefit the poorest quintiles. The FSE was replaced by the Fondo de Inversión Social (FIS) in 1990.

Both funds were successful in attracting sizeable amounts of foreign savings. The funds differ significantly in terms of objectives, modalities, activities and participation. See Table 6. The FIS was less demand-driven in its operations than the FSE, and allocated its funds more specifically to the health care and education sectors. Its target population was the poorest 50 per cent of population living in selected cantons. Moreover, the FIS was one element of a broader government policy to alleviate poverty. The FIS was the major vehicle of the social strategy promulgated by the government in 1991.

The study notices that with the shift from the FSE to the FIS the creation of emergency employment became less of an objective and was not replaced by the objective of creating more permanent employment opportunities. Moreover, evaluations indicate that the effectiveness of many of the FIS-supported projects was deficient due to inadequate consideration to factors on the demand side such as income and parents' education.

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Source: Based on IMF, *Government Finance Statistics Yearbook*, Washington, D.C., several issues

NGOs

Several of the studies included in this volume have shown that NGOs have grown significantly in number and size and have become more diversified in their activities.

The number of NGOs active in rural development has increased substantially, particularly since the drought in 1982-83 and the proclamation of the NEP. Between 1992 and 1995 more than 117 NGOs specialized in technical assistance and rural development, employing a network of over 1,200 extension workers. It was estimated that over 600 NGOs were active in Bolivia in 1995, managing 200 million US dollar annually of bilateral and Bolivian government funding. There are probably 100 NGOs active in supporting micro-enterprises in urban areas. Another study finds that about 800 NGOs may have been active in Bolivia, more than half of them in rural areas. The largest number of NGOs were active in the sectors of education, agriculture and husbandry, and health respectively. About half of all NGOs were concentrated in the departments of La Paz and Cochabamba. See Tables 7 and 8.

These NGOs differ widely in their abilities to support development at the sectoral level. There is agreement on the important socio-political role of secular NGOs in their struggle for human rights, democracy and the emancipation of ethnic minorities. With respect to poverty alleviation, however, their performance has been assessed positively in the areas of health care, support of urban micro-enterprises and decentralization. Their performance has been notably weaker in the areas of Andean peasant agriculture and husbandry, formal education and, to some extent, gender issues.

NGO activities related to the urban informal sectors are relatively recent. The approach has been professional and the services have been upgraded and diversified. NGOs are involved in supplying credit and in various financial schemes including leasing, guarantee and shared-risk funding, training and technical assistance, as well as marketing. Moreover, urban-based NGOs are moving closer to rural areas and setting up branches in medium-sized cities and extending credit to rural borrowers even to finance agricultural production. The *Ley de Participación* (LPP) will probably accelerate this process since it stimulates the integration of the peasant sector into the market economy.

Among major reasons for the rather poor performance of NGOs in Andean and tropical agriculture and husbandry are their ideological views, and institutional and methodological deficiencies including lack of sectoral and thematic knowledge and expertise.

Table 7. NGOs by sector.

<i>Sector</i>	<i>Number</i>
Education	178
Agriculture and husbandry	147
Health	123
Environment	80
Multisectoral	42
Basic sanitation	43
Industry	44
Hydraulic resources	29
Urbanism and housing	16
Communication	19
Transports	10
Mining	6
Energy	6
Other	69

Source: N. van Niekerk, *Desarrollo Rural en Los Andes*, Leiden, 1994, pp. 30-31.

Table 8. Dispersion of NGOs by department and urban and rural areas.

	<i>Rural</i>	<i>Urban</i>	<i>Total</i>
La Paz	107	128	235
Cochabamba	114	63	164
Santa Cruz	40	55	95
Potosí	45	14	59
Oruro	37	20	57
Chuquisaca	28	26	54
Tarija	27	22	49
Beni	22	12	49
Pando	7	5	12

Source: N. van Niekerk, *Desarrollo Rural en Los Andes*, Leiden, 1994, pp. 30-31.

Foreign donors

The role of private, multilateral and bilateral official lenders to Bolivia has changed significantly since 1980. By 1980, private foreign banks were the most important suppliers of foreign savings, followed by multilateral and bilateral lenders respectively. Between 1980 and 1985 disbursements declined sharply and private lending virtually came to a halt. Since 1986, multilateral institutions have become the major lenders.

Official development assistance (ODA) to Bolivia fluctuated between 660 and 760 million US dollar annually between 1990 and 1994, amounting to 12-15 per cent of GDP. See Table 9. The share of grants in total ODA declined sharply from 55 per cent in 1990 to 40 per cent in 1994. By now, Bolivia belongs to the group of countries with extremely high per capita dependence ratios on foreign assistance and in view of the declining prospects for continued large-scale external financing, the external position may be considered unsustainable.

Of all foreign aid to Bolivia, 10-20 per cent is macro-economic assistance including balance-of-payments support, support for the structural and sectoral adjustment programmes and debt-alleviation arrangements. Moreover, 60-65 per cent is destined to finance investment projects, 15-20 per cent to finance technical assistance, and 5 per cent to emergency and food aid.

Table 9. Official development assistance (ODA) to Bolivia, 1990-94.

	1990	1991	1992	1993	1994
ODA in million US\$	660	740	760	690	660
ODA as a share of GDP (%)	14.5	14.7	14.5	12.8	12
Share of public investments financed by ODA resources (%)	54	46	53	52	57
Share of donations in total ODA (%)	55	51	42	45	40

Source: Data taken from M. Méndez Ferry, *La Asistencia del Desarrollo en Bolivia*, Estudios de Milenio, Number 4, La Paz, 1995.

Programme aid by the Netherlands to Bolivia has been reviewed in terms of its policy relevance, effectiveness and sustainability. Programme aid is aimed at supporting macro-economic and social policies and includes three categories in particular: balance-of-payments support by means of import supplies including fertilizers, agricultural equipment, medicines and aircraft; debt-relief by means of contributions to buy-back operations of commercial bank debt and contributions to reduce debt service; and contributions to social safety nets.

In view of the lack of a comprehensive agricultural development policy of the Bolivian government and of programmes to support small farmers, donations of fertilizers and agricultural equipment including water pumps were hardly relevant from the perspective of Bolivia's overall policy.

Interestingly, the commercial debt-relief operation supported by the Netherlands has attracted other donors and paved the way for new forms of debt relief.

The evaluation of the effectiveness of the social funds at the macro level indicates that the FSE did not operate in an optimal way as resources were not allocated to the social strata, sectors or regions most in need. Allocation responded primarily to the demand for financing. The demand-driven nature of the fund gave rise to few linkages with any development strategy at the local, regional or national level.

As noted earlier, the FIS added supply-side related criteria to the demand-driven approach, attached priorities to projects on the basis of poverty maps and concentrated on areas with the most severe shortfalls in social services. This focus became a methodological issue between the FIS and several foreign donors. This was finally overcome by the decentralization law of 1995, when the FIS changed its strategy and started to allocate resources to prioritized municipalities.

With regard to the effectiveness of the FSE and FIS at the micro level evaluations indicate that the FSE focused on the new poor, not the poorest strata of society. Unemployed construction workers benefited particularly rather than ex-miners and civil servants.

The coverage of the FIS seemed superior to that of the FSE. The FIS reached its target population of the rural poor in 80 priority provinces and has benefited about 1.5 million people, about 20 per cent, of the total population.

In conclusion, it appears that the experiment which started in August 1985 with the introduction of the NEP has been radical, comprehensive and innovative in many respects. The new policies have been successful in creating new market conditions and establishing new relationships between the central, regional and local governments and society at large. Yet, notwithstanding impressive achievements so far, the challenges ahead are formidable and great efforts by governments and the private sector will be required to bring Bolivia's appalling poverty to an end.

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