

# Regoverning Markets

Small-scale producers in modern agrifood markets

## Innovative Policy

### Bolivia

**Government procurement policies in Bolivia: creating a learning environment for smallholder value chains to serve more demanding markets**

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## **Regoverning Markets**

Regoverning Markets is a multi-partner collaborative research programme analysing the growing concentration in the processing and retail sectors of national and regional agrifood systems and its impacts on rural livelihoods and communities in middle- and low-income countries. The aim of the programme is to provide strategic advice and guidance to the public sector, agrifood chain actors, civil society organizations and development agencies on approaches that can anticipate and manage the impacts of the dynamic changes in local and regional markets.

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## **The case studies were coordinated by:**

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# 1. Introduction

The paper is based on the experiences of smallholder organisations<sup>1</sup> in Bolivia. Linked to National Dialogue 2000 around the Highly Indebted Poor Countries' (HIPC) debt reduction initiative, CIOEC-Bolivia (part of the Liaison Committee of Small Producers – *Comité de Enlace*) organized a participatory process to identify the most important legal obstacles limiting market access and economic development for the smallholder sector (CIOEC 2000). After a series of workshops a consultancy team assisted producer organisations in improving the consistency of the workshop outcomes and in re-stating the problem using legal terminology. This research focuses on activities around one policy issue that was prioritised in the discussions and lobby strategy of the producer organisations and that effectively resulted in special legislation to facilitate increased smallholder access to markets: the Bolivian government procurement policies “Compro Boliviano” (“I Buy Bolivian”).

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<sup>1</sup> For readers' convenience, we use the concept 'smallholder organizations', rather than the Bolivian acronym OECAs, which literally translates as Economic Peasant Organizations – *Organizaciones Económicas Campesinas*

## **2. Restrictions for smallholders in government procurement procedures**

During National Dialogue 2000, smallholder organisations addressed the administrative limitations that excluded them from being suppliers in government procurement (CIOEC 2000). Purchases had to be done through mandatory public bidding procedures, according to the Bolivian SAFCO law on administrative transparency and accountability. To be eligible, organisations had to provide extensive paperwork, including registration in the Commercial Register. However, the Bolivian Chamber of Commerce did not register associations and cooperatives, but was instead restricted to commercial companies and individual people (Mendoza and Ton 2003). Registration was a requirement for participation in public procurement by national and municipal authorities, for example, nutrition programs (school milk, bread, etc.). Local governments could therefore not procure from local producers and were compelled to buy products from registered companies, often trader-importers based in the cities. Through this system, a selected group of companies managed to avoid competition and enjoy a relatively protected niche market. Smallholders united with village authorities during National Dialogue 2000 to address the issue and demanded that preference in local procurement procedures be given to smallholder suppliers<sup>2</sup>.

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<sup>2</sup> Interestingly, in the same period a draft legal proposal circulated, developed by the Banzer Government and World Bank, to introduce a new government procurement policy that would oblige purchases realized within a public contracting process, to open up to international suppliers.

### 3. Policy innovations to address the problem

After a process of negotiation, advocacy and street protests<sup>3</sup>, these demands were incorporated in several articles in the National Dialogue 2000 Law (BOLIVIA 2001), but it took several years to adapt the related ministerial resolutions and administrative procedures to this law. The regulations and requirements governing government procurement are codified in the Basic Norms for the Administration of Goods and Services System (SABS). The process to adapt the SABS and its administrative formats to the spirit of the National Dialogue 2000 Law started in 2001, and in 2002 a special "Enterprise Card" (Tarjeta Empresarial) was introduced to facilitate the registration of smallholder organisations and individual producers, in spite of active and passive obstruction by the Bolivian Chamber of Commerce. The Enterprise Card was given to associations when they presented a photocopy of their constitution and accredited a legal representative. Information as to assets and gross sales had to be declared, but did not have to be proven by audited financial statements as was the norm in the Chamber of Commerce. Holders of the Enterprise Card could be part of the Simplified Tax Regime (a fixed payment every two months based on declared turnover) rather than the General Tax Regime (value added tax according to sales records).

Although the Enterprise Card rendered smallholder organisations eligible for government procurement, the SABS (BOLIVIA 2001) contained another provision that assigned a 15% disadvantage to cooperatives and associations during the evaluation of their economic proposal. The SABS considered them as not-for-profit institutions that competed in unequal conditions with commercial companies<sup>4</sup>.

After three years of advocacy from the *Comité de Enlace*, in 2004 the new SABS regulation *Compro Boliviano*, "I Buy Bolivian" (BOLIVIA 2004), from the Mesa Government, resolved most of these legal impediments. The new SABS introduced additional provisions to give a 10% advantage to national products and local suppliers in the evaluation of bidding proposals. To facilitate local purchases even more, the 'I Buy Bolivian SABS' increased the possibility of direct contracting, rather than public bidding, for goods and services. It defined a threshold of 200.000 Bs,

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<sup>3</sup> The 2002 March to La Paz (and dynamite) of the National Federation of Cooperative Miners (FENCOMIN), part of the *Comité de Enlace*, was particularly effective in terms of creating space for policy change between the National Dialogue and the enactment of the National Dialogue 2000 Law.

<sup>4</sup> They were considered to have resources to subsidize operational costs to which commercial companies would not have access. The stipulation was introduced considering the competitive advantage of universities in terms of providing consulting services, but was applied as a general principle to all government purchases (Mendoza and Ton 2003).



below which local authorities could contract without the mandatory bidding process<sup>5</sup>.

The Morales Government seems to be continuing this policy. In August 2006 it created the inter-ministerial council COMPROBOL to explore and develop appropriate support services for the “I Buy Bolivian” policy. This support is specifically targeted towards making local authorities understand the new regulations and inducing them to engage in partnerships with small enterprises. It will also try to eliminate remaining administrative impediments with a new SABS, called ‘Ayni-SABS’ (BOLIVIA 2007). With these new SABS, the Morales Government intends to create even more possibilities for direct purchases. Through the Ayni-SABS, in high poverty areas all procurement is freed from the obligation to use a public bidding process (Ayni-SABS article 69)<sup>6</sup>. The Ayni-SABS explicitly state that ‘the school breakfast and nutritional programmes must be based on national products with an emphasis on local production’ (article 60). This has changed from a relative preference for national products in the 2004 regulation, to an absolute legal obligation. It is expected that the policy proposals from the *Comité de Enlace* developed in National Dialogue 2000 will be almost entirely adopted in the national legislation with these new Ayni-SABS!

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<sup>5</sup> To avoid abuse of this provision, it prohibited the ‘fractioning’ of purchases in smaller ones below this threshold amount.

<sup>6</sup> While smallholder organisations were excluded from government procurement before, they are not necessarily pleased with the informality and arbitrary nature of direct contract assignments. When requirements are too loose, medium sized individual farmers can out-compete organized smallholders. As such, CIOEC lobbied against the unrestricted access of unorganized middleman who had managed to access the Tarjeta Empresarial and were keen to supply the government with nicely packaged cheap barter imports. With the Ayni-SABS the risks are lower due to national and local content requirements, but have the inherent danger of discretionary contracting.

#### 4. Impact of the policy innovations on smallholder market access

Due the administrative obstacles (Mendoza and Ton 2003), few smallholder organisations could take advantage of the new possibilities for market access. Assessing impact is therefore premature. However, some evidence as to impact has been documented. In Chuquisaca Centro, with SNV support, local governments, CIOEC-Chuquisaca and supporting NGO's (CEDEC, ACLO, PROIMPA) have drawn up a coordinated action plan to 'match' local municipal demand based on smallholder supply with quality and quantity products for school breakfast programmes (Sánchez 2006). Five of the eight villages in the area showed a sharp increase in the budget allocation to support nutritional programmes as a result of this action plan.

**Table 1: Budget allocated to School Breakfast programmes in Chuquisaca Centro (Bs<sup>7</sup>)**

Municipality	Period 2003		Period 2004		Period 2005	
	Programmed	Realized	Programmed	Realized	Programmed	Realized
Sopachuy	71.223	70.223	99.734	89.171	105.000	71.495
Tomina	95.000	93.107	105.000	89.875	169.500,5	165.351
V. Alcalá	46.000	25.589	45.000	45.000	46.000	46.000
El Villar	55.000	37.806	76.000	74.851	86.000	79.722
Padilla	88.000	86.205	108.916	108.913	137.825	125.449
V. Serrano	100.000	N/D.	120.000	115.126	110.000	N/D
Azurduy	100.000	100.000	127.855	109.400	150.000	317.484
Tarvita	0	0	0	0	380.000	380.000
<b>Total</b>	<b>555.223</b>	<b>319.823</b>	<b>682.505</b>	<b>632.337</b>	<b>1.184.325</b>	<b>1.185.502</b>

Source: Sánchez, 2006

The amount of money spent on the school breakfast programme in each of these villages has risen significantly but is only a fraction (6%) of the total village budget. The school breakfast expenses represent an estimated 20% of the funds available to them as a result of the HIPC II debt reduction that is regulated in the 2001 National Dialogue Law (BOLIVIA 2001). Expenditures on nutritional programmes are neither a fixed cost nor a fixed ration in the budget, but are to a large extent contingent on political commitments and priorities. Due to the small overall budget of the villages, the part of the budget assigned to nutrition programmes competes directly with the budget for other investments like productive and social infrastructure (Sánchez 2006). The growing possibility of sourcing products locally stimulated political support and priority setting for school breakfast programmes: several villages, in addition to allocations in the HIPC budget, began channelling funds from their general budget to support the school breakfast programmes. One explanation for

<sup>7</sup> Exchange rate: Euro : Bs = 1: 10

these increased expenditures in the 2005 period may also be related to the objectives of re-election by standing mayors in the 2005 municipal elections.

**Table 2: Expenditures on School Breakfasts in Chuquisaca Centro according to funding (Bs)**

SOURCE	2003		2004		2005	
Poverty budget (HIPC)	407.919	94 %	555.477	84 %	843.133	68 %
General budget	0	0 %	71.774	11 %	343.825	28 %
Other	25.000	6 %	36.000	5 %	54.825	4 %
<b>TOTAL</b>	<b>432.919</b>	<b>100 %</b>	<b>663.251</b>	<b>100 %</b>	<b>1.241.810</b>	<b>100 %</b>

Source: based on Sánchez (2006)

Smallholder organisations<sup>8</sup> indicate that the prices they receive are somewhat higher than current market prices, but less than they had initially expected. Prices paid by governments have always been higher than regular market prices to compensate for transaction costs. Increased competition, enabled by opening up government procurement to include smallholder organisations, has reduced this price. While still higher than the wet market price, it is without the typically high margins enjoyed in the past. As such, it is not a price premium that drives smallholder organisations to sell to local governments. The major benefits lie in better possibilities to enter more advanced stages of processing and quality handling than there is in traditional wet markets for unprocessed agricultural commodities. Learning to access this market segment appears to be more important than remuneration<sup>9</sup>. Local governments are a learning opportunity for smallholder organisations to prepare themselves for entering the urban market for processed products or to enter into organic and fair trade value chains for export markets. Sanchez (2006) reports that nine of the 17 smallholder organisations delivering to school programmes in Chuquisaca Centro have processing facilities, and four invested (usually with NGO support) in processing infrastructure improvements in 2005.

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<sup>8</sup> Personal communication in August 2006: Giel Ton (author) with Felix García, President of CIOEC-Chuquisaca, in 2005 elected as mayor in Villa Alcalá.

<sup>9</sup> We had no access to information from smallholder organisations that decided NOT to enter into commercial relations via government procurement. As it was a first experience, a lot of time and money were spent on learning. Therefore, the organisations with experience have had good reason to invest time and money in establishing the relationship and *per definition* saw possibilities for developing market access. They cannot be considered representative of the sector, though clearly they function as a reference and benchmark for other smallholder organisations.

**Table 3: Smallholder organisations supplying the School Breakfast Programme in Chuquisaca Centro in 2004 and 2005**

Municipality	Smallholder organisation	Period	
		2004	2005
Padilla	APAJIMPA		X
	Cooperativa San José Obrero (Padilla)		X
Tomina	Sub-Centralia Tomina	X	X
	Cooperativa "San Mauro"	X	X
	APROA Kawasiri	X	
	Parroquia San Mauro		X
	Organización de Mujeres La Frontera		X
Sopachuy	APROCM I	X	X
	SIPAS		X
	Asoc. Prod. P. Punta y P. del Carmen		X
Villa Alcalá	APA	X	X
	APAMA		X
	APT Chuquisaca		X
El Villar	APAFAM	X	X
Azurduy	Asoc. Fruticultores Azurduy	X	
Villa Serrano	APROA B. Boeto	X	X
	Individual dairy producer	X	X

Source: Sanchez (2006)

## **5. Bottlenecks for smallholders using this new policy**

Traditional political patronage and corruption related with government procurement are still problematic for smallholders' organisations, with their intrinsic need for administrative transparency and accountability to members. But, due to broad-based membership and presence in village politics, these political conditions are easier to handle than some modern market necessities like branding, quality requirements and distribution systems (Ton and Bijman 2006; Soriano and Tapia 2006).

Major bottlenecks observed in the local sourcing of nutritional programmes are product quality and the fluctuation in consumer demand (Garafulic and Bredow 2006; Soriano and Tapia 2006; COMPROBOL 2007). As school is not always open, demand for fresh products (such as dairy) varies over time, while the supply of raw milk is stable. Others markets cannot easily absorb these 'surplus supply peaks' related to the educational calendar and regular teacher strikes. The components of the diet offered to schools was adapted in several villages to reduce this risk, as the problem of supply peaks is absent for non-perishable products like cereals, dry fruits and cheese. However this created a tension as consumers complained to their municipal authorities about the 'quality' of the menus. This process led to a tendency towards giving children and teachers locally available products, which are also eaten at home, thus reducing the variety and diversity in their meals. However, considering Bolivia's extreme ecological diversity, this problem could well be solved by orchestrating more regional exchanges between smallholder organisations supplying different products in different regions.

Another important bottleneck is the smallholder associations' need for working capital to source products from their members, and for the period when they have to wait for payment from clients. Municipal authorities have proven to be extremely slow in terms of making payments. This problem stimulated various activities to press for more access to credit, and the establishment of a special pilot fund by DFID. But so far, a more integral and general solution from the financial system is still lacking. This exacerbated the situation so that only those smallholder groups that already have working capital (high commercial turn-over) or that receive support from an NGO, can make use of the improved procurement facilities.

## 6. Conclusion

Bolivian policies to match local government demand with local smallholder supply are a symbol of the new economic and political reality in Bolivia and fit with the call for food sovereignty in global social movements (Olson, Berthelot et al. 2003). The Bolivian experience illustrates that legal changes are not enough. A whole set of intertwined administrative arrangements must be adapted to the new political objective of 'buying nationally'. Registration in the Chamber of Commerce was the most immediate obstacle for smallholder organisation eligibility. Adaptation of the SAFCO regime with appropriate administrative rules (SABS) to effectively free local governments from the mandatory public bidding processes and related national and local content requirements, proved to be another crucial step for opening up this market to smallholder farm products.

Although it is too early to fully assess the impact of these policies, scattered evidence suggests that they are indeed an effective way to stimulate smallholder value chains. The policies create a learning space for the development of value added activities and the establishment of technical and logistical processing capacity within smallholder organisations. For many smallholder organisations, access to government procurement implies an investment in administrative procedures and high transaction costs that still must prove to be effective in generating the expected financial returns in the years ahead. Learning to respond to logistic requirements, like the timely delivery of quantity and quality, are key aspects in this logistical and commercial learning process. Some organisations will make it and, in doing so, will develop skills that are useful for serving other markets. Others will fail to meet expectations and exit the 'niche market' of government procurement.

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