

A Brief History of Public Enterprise in Bolivia

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Abstract— Public enterprise can be quite useful in improving the economic and development objectives of a country. It's necessary to study the history of public enterprise in Bolivia to learn and provide solutions to improve its performance. The existence of well-managed public companies can greatly contribute to the GDP (Gross Domestic Product), especially in periods of economic slowdown. Private and public companies are very necessary to generate growth in the economy, develop it and to improve the well-being of the population. The methodology used on this research is the review of relevant primary and secondary bibliographic sources of information about the origins, evolution and current situation of public enterprise in Bolivia. In addition, interviews were conducted to identify the current problems public enterprises in Bolivia are facing.

Index Terms: history, public enterprise, performance, economy.

I. INTRODUCTION

The scope and importance of public enterprise in the total economic system varies from country to country. A lot can be learned from studying its history. The public enterprise is characterized by being managed by the State. The State can become the sole owner of the company, or it can own a part. Public companies can play an important role in a country's economy, as they can generate employment and contribute to economic and social development. However, they can also be criticized for their lack of efficiency in their performance.

There are some countries that manage their public companies in a way that contributes to the Gross Domestic Product. This is the case of China where public companies contributed 25% of GDP in 2023, but this has been the result of a lot of work and constant changes in the form of administration with reforms that are continuing. These changes and reforms occurred as China became a world power.

Studying and reviewing the history of public enterprise in Bolivia can provide a lot of important and valuable information that can be used for better decision making.

II. METHODOLOGY

The methodology used on this research is the review of relevant primary and secondary bibliographic sources of information about the origins, evolution and current situation of public enterprise in Bolivia. In addition, existing data was analyzed, and interviews were conducted with public enterprise employees to learn more about the current situation.

III. RESULTS

A. Nationalization and Privatization in Bolivia

It is clear from historical experience that Bolivia has alternated between national and private regimes. Bolivia, which is rich in natural resources such as minerals and

hydrocarbons, has gone through periods of nationalization and privatization that began in the 1900. Silver mines in Bolivia were extensively mined during Spanish colonial control. These mines were replaced in the 20th century by tin mines, which contributed significantly to the nation's economy for nearly a century. (Chang, 2009)

In 1922, Bolivia's first oil well was drilled by Standard Oil Company, which resulted to be very profitable. In 1936, Yacimientos Petroliferos Bolivianos (YPFB) was created, and Standard Oil Company was expelled from Bolivia after the confiscations of all of its holdings, the first time the oil industry was nationalized in Bolivia.

The Bolivian Revolution of 1952 involved a series of political demonstrations led by the Revolutionary Nationalist Movement (MNR), which, in alliance with liberals and communists, sought to overthrow the ruling Bolivian oligarchy and implement a new socioeconomic model in Bolivia. Its main leaders were ex- presidents Víctor Paz Estenssoro and Hernán Siles Zuazo. During this time, they nationalized the mining companies. (Requena, 1996) However, in 1956, with a slowdown in the economy, Hernan Siles Suazo invited companies from North America to invest in the country in the oil industry. To benefit these investors, a new hydrocarbon law was passed, The Davenport Code, offering property rights to investors. In 1969 a mixed company was founded with YPF and Gulf Oil, production and profits rapidly grew. However, in 1969, Gulf Oil Company was nationalized, leaving YPF at the head of the company.

In 1972, again another law was passed to promote foreign investment in the oil industry, contracts were signed with private firms, but the property rights were kept by the government.

By the early 1980s, there were about 520 federal agencies, state-owned businesses, and financial institutions that made up Bolivia's public sector. Comibol, the Mining Corporation of Bolivia, controlled more than 65% of total mineral production, while YPF, the Bolivian State Petroleum

Company, controlled 80% of oil and natural gas production. In terms of finance, the state controlled the major economic sectors through Bolivia's main development bank, the Bolivian Development Corporation, or CBF.

Bolivia went through one of the most tumultuous times in its political history from 1978 to 1982. During the four years, nine presidents came and left, and the economy drastically worsened. When Paz Estenssoro took office as president in 1985, he had to deal with rapidly rising inflation rates and a deteriorating economy.

The economy had deteriorated to the point where servicing external debt was challenging by the 1980s. The local currency was nearly worthless by the middle of the 1980s due to hyperinflation. Mining had been the main driver of the economy since colonial times, but this changed once the international tin market crashed in 1985. Tin and other minerals were eventually supplanted by natural gas as the nation's top export. Natural gas had emerged as the focal point of the nation's development plan after the tin market crashed.

The New Economic Policy (NPE), initiated by the Bolivian government in 1985, aimed to deregulate the economy in general, privatize the Mining Corporation of Bolivia, reform the public sector, and liberalize import laws. By taking these actions, Bolivia became the first democracy in South America to apply economic "shock therapy," and it subsequently became the template for other nations in the area. (Chang, 2006)

The primary creator of NPE and the former administration's planning minister, Gonzalo Sanchez de Losada, presided over Bolivia as president from 1993 to 1997. Bolivia launched a reform and privatization agenda during this time to transform the nation into a contemporary market economy. The public sector's operations were redesigned under this reform effort in two primary ways:

- All investment responsibilities were shifted to the private sector when state firms were capitalized and privatized. This duty was originally held by state-owned enterprises. This shift made it possible for public investment to concentrate on infrastructure and social spending.
- In areas that were previously within the jurisdiction of state agencies, the Sistema de Regulación Sectorial (SIRESI), an independent regulatory system, was established with the responsibility of monitoring the interactions between the private sector, consumers, and the government. The Sistema de Regulación Financiero (SIREFI), a comparable financial regulatory framework, was also created and assigned the duty of supervising the financial industry.

In August 1997, Sanchez was replaced as president of Bolivia by former General Hugo Banzer, who emerged victorious in the democratic election. Banzer stuck to an economic agenda that was in line with the previous reform process ever since he had been elected. This program placed a

strong emphasis on policies that increased international trade, decreased poverty, end the trafficking of cocaine and coca, increased productive credit availability for individuals and small businesses, increased public investment in social programs, fought corruption, modernized public administration, reformed the judicial system, and cut down on bureaucracy.

In 2006, Evo Morales became president and there was amid widespread discontent. The country had been experiencing a long-term economic growth failure, with income per capita in 2005 lower than it was 27 years prior, and privatization efforts had been widely unpopular, including with the indigenous majority.

Conflicts over natural resources, most notably the water and gas wars of 2000 and 2003, respectively, led to the resignations of Presidents Gonzalo Sánchez de Lozada in 2003 and Carlos Mesa in 2005. The Morales administration marked a dramatic turn-around for the country. The economy began to grow, experiencing its fastest growth in decades. Bolivia increased its sovereignty over economic policy; social spending increased by 45 percent from 2005-2012 and poverty was reduced by 25 percent from 2005-2011. In order to achieve these results, President Morales nationalized the hydrocarbons sector by decree early during his first year in office, allowing his government to engage in effective redistribution and macroeconomic policies that benefited the poorest segments of society, but all of this was possible because prices of hydrocarbons and minerals were high in the international market. However, the prices of commodities are very volatile and as of right now, the prices have drastically decreased.

Nowadays, the nationalized enterprises continue working but showing inefficient performance which marks the need of reforms and adjustments.

B. Bolivian Public Enterprise Nowadays

OFEP, Technical Office for the Strengthening of Public Companies OFEP, created by Law No. 466, a decentralized entity under the supervision of the Ministry of the Presidency, aims at monitoring the performance of public companies and their strengthening.

OFEP is the technical entity that provides strategic information and facilitates mechanisms for the development of public business management. Its long-term objective is to create a public, articulated, efficient, innovative and transparent business intelligence system to improve the functioning of public companies.



Fig. 1. OFEP, Technical Office for the Strengthening of Public Companies

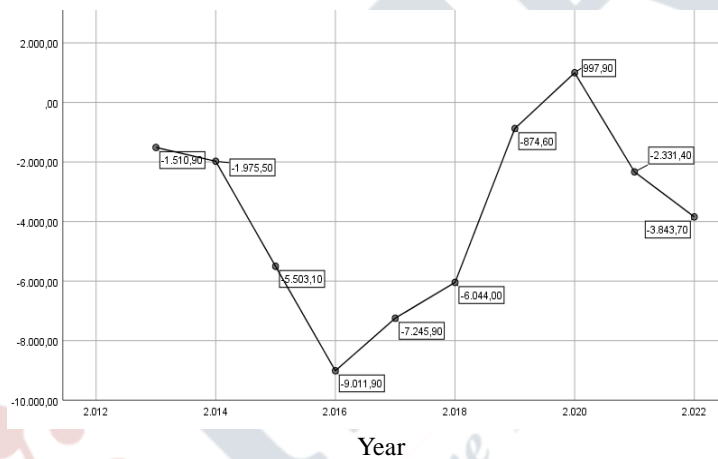
At the OFEP webpage, information of all the public enterprises in Bolivia can be found with general information, but financial information seems to be very scarce and discrete. More information should be available about public enterprises and their performance. The number of public enterprises has increased over the years as can be seen in Table 2.

Table 2: Evolution of the Number of Public Companies Pge (General State Budget) 2006, Pge 2016 And Pge 2023

DESCRIPTION	PGE 2006	PGE 2016	PGE 2023
NATIONAL ENTERPRISES	9	32	33
REGIONAL ENTERPRISES	2	2	1
DEPARTMENT ENTERPRISES	1	2	4
LOCAL ENTERPRISES	6	16	19
TOTAL	18	52	57

Source: MEFP (Ministerio de Economía y Finanzas Públicas)

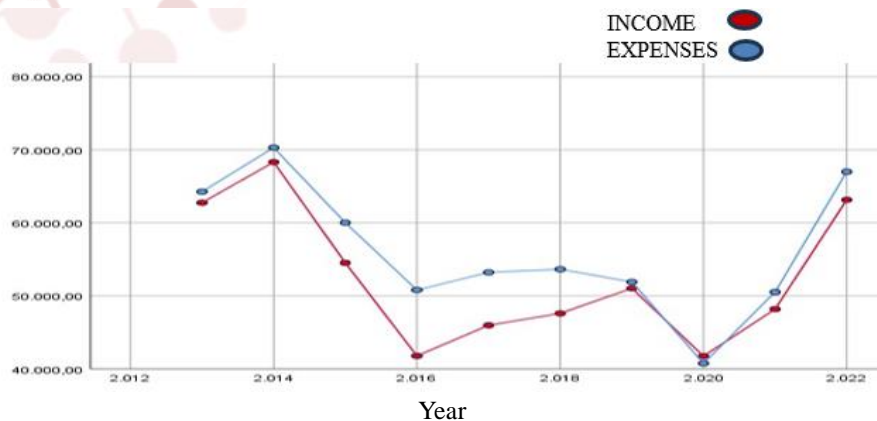
The number of companies in 2023 increased to 57. Although the number of companies is greater and this generates employment and some economic movement, this increase in public companies is not generating the expected results in profits and the well-being of society.



Graph 1- Surplus or Deficit of Consolidated Operations of Public Enterprises in Millions of Bolivianos

According to data in Graph 1, public companies in several administrations have shown a deficit in Bolivia. The year 2021 was -2,331.40 million bolivianos and the year 2022 was -3,843.70 million bolivianos and the previous years also showed a deficit performance with the exception of the year

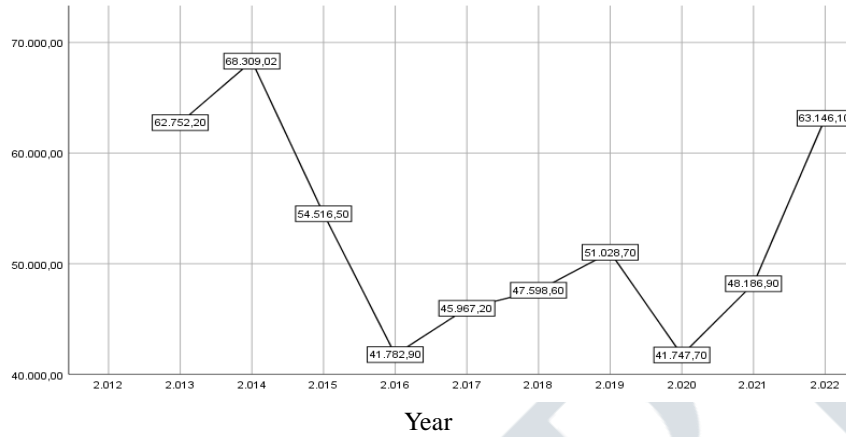
2020 in which there was a surplus of 997.20 million of bolivianos. Although the objective of the public company is to help a country meet the objectives of economic growth and development, the figures show other scenarios.



Graph 2- Income and Expenses of Public Enterprise in Millions of Bolivianos

On Graph 2, you can see the gap between consolidated income and expenses of Bolivian public companies. Expenses are much higher than income. The gap between

income and expenses for some administrations is quite wide, requiring adjustment of expenses to have profits.



Graph 3- Consolidated Income of Public Enterprises in Millions of Bolivianos

On Graph 3, consolidated income of public companies can be observed. In 2021, the income was 48,186.90 million bolivianos and in 2022 the consolidated income of public companies was 63,146.10 million bolivianos. In recent years, the performance of other companies outside of hydrocarbons has helped achieve these higher incomes. (Central Bank of Bolivia, 2023)

competitive pressures, the lack of profit motive and accountability to shareholders, the moral hazard associated with the implicit guarantee of a bailout in case of failure and the implicit guarantee of lifetime employment for workers, which reduces their productivity.

In some countries, governments have embarked on nationalization or public ownership of vital areas of production. On the other hand, in countries operating a mixed economy, public enterprises appear to be concentrated in the traditional and well-established public service fields of the economy, leaving a substantial proportion of activities in other fields to private entrepreneurs.

There are many theoretical reasons why public companies tend to be less competitive than private companies. First, because public companies are financed mainly with public resources. Therefore, they cannot be expected to play an active managerial role like private industry owners. On the other hand, the manager or representative of the public company usually works under limited terms. This prevents them from having the same understanding and experience about their companies and markets as private business owners.

If a private company does not do things well, it will have losses, and it will have to go out of business, but if a public organization does things badly, it will be expanded. The problem is the absence of any mechanism to recognize the error. The government only expands mistakes. According to Milton Friedman, the absence of a mechanism to cope with errors is the main problem of the public company and there is no mechanism for eliminating government agencies that are no longer needed or that have behaved perversely. (Milton Friedman, 2018)

Most public companies in Bolivia do not show profits, the reasons may be various, but according to several studies and cases in different countries, companies managed jointly by private companies and the public entity have better performance. Private entrepreneurs have in mind generating profits, the profitability they can obtain is very important. Perhaps, a mixed approach, public and private working together would show better results.

In general, the poor performance of state-owned enterprises can be attributed to the lack of competition and

The reasons why public companies in Bolivia have poor performances are the following according to the interviews carried out.

Table 3: Reasons Why State Companies are in Deficit in Bolivia

Lack of Market and Financial Study	The opening of new companies must be supported with a market, financial, feasibility and viability study. A market study sheds more light on whether an idea is good and whether it will make profits or not.
Lack of a Business Plan	There must be a business strategy for an organization with clear management goals and future projections. An organization's business plan outlines its goals and how it will achieve them. In

	other words, how much it needs to be sold and what marketing strategies m
Inexperienced Staff	People who work in public companies must be capable and proactive. These people must have extensive knowledge about the field so that they can contribute knowledge and new ideas. ideas.
Lack of experience in managers	Managers have to be experts in the area and have the responsibility of generating profits. Managers must keep in mind meeting sales objectives and if not, give way to another manager who can contribute to the improvement of the company.
Lack of marketing strategies	Companies must use marketing strategies to reach the market segment and be able to generate profits.
Lack of autonomy to make decisions and use resources	The company manager must have autonomy to be able to use resources and make decisions. State control must be agile and accurate and not create obstacles for the public company.

Source: Interviews to Public Enterprise Employees

A private entrepreneur seeks to maximize benefits and minimize costs. Private entrepreneurs seek to maximize their profits so that the company can continue working, growing, and generating employment. A private entrepreneur constantly worries about the performance of the company, carrying out planning accompanied by good direction and control.

State companies are not intended to generate sources of employment fundamentally, but rather, they are there to generate profits for the State, leaving the responsibility of creating jobs to the private sector, microenterprises and small producers.

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However, to improve the performance of SOEs, the separation between the ownership and management functions of SOEs must be ensured. Second, they must set clear and quantifiable short- and long-term objectives and appoint autonomous and competent management to develop strategies on how to achieve these objectives.

Third, the management of SOEs should institute transparent and independent monitoring and evaluation mechanisms to share regular reports on the performance of SOEs with all their major stakeholders and suggest improvements where necessary. Finally, state-owned enterprises must attract qualified and talented people to join the team with competitive salary packages. These employees should be rewarded for better performance and penalized for chronic underperformance to establish a professionally competitive work culture and not improvise in decision making.

In China, state-owned enterprises are likely to incur significant agency costs when state shareholders tend to

maximize social or political benefits rather than maximize corporate profits (Fan et al., 2007). For example, central and local governments in China often ask companies to absorb excess labor, sponsor public projects, and help revive local economies, but in this case public companies are maximizing the well-being of society.

In China, to consolidate the colossal number of state assets, the government decided to adopt a policy of "zhuada fangxiao" which means, grab the big, release the small, which resulted in a wave of group mergers and privatizations of small companies that were too expensive to monitor.

IV. DISCUSSION

Privatization of public enterprises does not seem to be a good solution. Stiglitz, a famous economist mentioned in an interview that privatization benefits the foreign companies especially if there is no transparency in the contracts. It seems the foreign investors are the only ones getting benefits from the deal.

The solution seems to lie in just concentrating on a small number of public enterprises and changing the management criteria. Public enterprises should work as private enterprises and apply tools that allow the generation of benefit. These tools or reforms are discussed below. The public enterprises have to be managed as a private enterprise being able to adapt to price changes in the international market since the products Bolivia most commonly sells are very volatile in price.

- State-owned companies must constitute the country's infrastructure megaprojects and a fundamental source of employment and economic growth.
- To improve the performance efficiency of SOEs, Bolivia should appoint competent and autonomous management bodies to supervise the day-to-day operations of SOEs.
- The management bodies of state-owned companies must establish clearly outlined, realistic and time-bound

objectives.

- Unlike private companies, performance evaluations of state-owned companies must include their profitability and social benefits.
- Management of state-owned enterprises should foster a competitive work culture by recruiting and retaining talented people through competitive compensation packages and performance-based bonuses.

From the logic of economic rationality, state companies must generate surpluses to finance their operations and their projects, either by resorting to commercial credit or the capital market, as private agents do.

The solution for Bolivian public companies has to be to reform the administration so that they can really generate profits like public enterprises do in other countries do. Additionally, it is not advisable to spend so much time on small companies that require so much supervision. It is better to concentrate supervision on a few strategic companies.

Previously, privatizations of public companies were frowned upon. However, the public company can use the knowledge, capital and technology of private companies that are willing to invest in Bolivia with a law that allows a win-win situation. The State wins and the private investor as well. This does not mean that Bolivian companies are going to go entirely private, but on the contrary, public companies can benefit from a mixed arrangement between public and private ownership and administration.

In order to achieve this, what investors are looking for must be considered, which is a country where they can generate profits

V. CONCLUSION

Over the years, Bolivia has experienced nationalization and privatization depending on many variables such as the ideology of the government at that moment, demand and prices of commodities in the international market. Foreign Direct Investment plays a role in privatization. During the profitable years of privatization, Foreign Investors earned a lot of profits, and some governments wanted those profits for the State and nationalization was seen a solution. However, when these companies were managed by the government, these enterprises failed to be efficient. Although prices of commodities plays an important role, enterprises have to be ready to face these challenges, but this was not the case when nationalized enterprises faced obstacles such as price volatility; planning for these kind of scenarios was inexistent.

Also, in the hydrocarbon sector, there are two types of principal activities, exploration and exploitation. During nationalization, explorations was left static resulting and less available wells for exploitation. The problem with the hydrocarbon sector nowadays is the lack of wells.

In addition, these last years more public enterprises were created. The main objective of this public companies is to help the Bolivian economy. In order to improve this current

situation, there have to be reforms, changes in the actual management of public enterprises.

Each company should do financial planning with s short-term and long-term objectives. These objectives should be linked to the company's budget. Companies that are not meeting the expected objectives should be privatized and the State should only concentrate on a small number of companies. Sometimes it's very hard to keep track of many companies at the same time. In other words, the State has to concentrate on efficiency and not creating more companies randomly or without clear planning.

There also must be greater autonomy for public enterprises with adequate and agile control. According to experts, these reforms can begin to improve the performance of public companies. However, over the years, other reforms must be adapted according to the situation and context

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