POVERTY AND GLOBALIZATION IN LATIN AMERICA

CASES STUDY: BOLIVIA AND NICARAGUA

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POVERTY and GLOBALIZATION IN LATIN AMERICA

CASE STUDY: BOLIVIA and NICARAGUA

INTRODUCTION

The following series of studies have been entrusted to INAFI as part of the execution of their Triennial Plan (2004 - 2006).

INAFI is a network of practicing institutions of microfinances, which has world-wide coverage. It was created in 1995, in Cuzco, with the auspices of NOVIB - Holland. The Network was baptized with the denomination of International Network of Alternative Financial Institutions, from where its abbreviation derives.

Since then, three large INAFI Regionals have been constituted: Latin America, Africa and Asia and a Sub Region in Eastern Europe.

In 2002 it was decided to carry out a Triennial Plan to a world-wide level, with the same characteristics, programs and activities in all the Regionals, a plan that was initiated in 2004, with the execution of five programs:

1) Capacity development of the members
2) Investigation and development
3) Defense of interests
4) Members services
5) Product Development

The program which introduces the present document is the Program of Development and Research which was set in motion due to the necessity to depend on updated and reliable information on the microcredit market, on the successful experiences, the environment and the evolution of the social and economic conditions of the countries.

This program includes four subprograms, three of which are investigative about a) poverty and globalization, b) systematization of experiences of some affiliated and c) research on the performance of affiliated and their environment. The fourth subprogram concerns a book publication, with the purpose of leaving a testimony of the investigations.

As a common objective, the investigations have to illuminate the practices of the affiliated so that these focus their micro financial programs towards poverty relief.

It has been contemplated that investigations based on Poverty and Globalization in Latin America are made in the national scope, that is to say, in the countries where INAFI Latin America has membership. The investigations will try to explain the causes that originate poverty in each country and the causes of the economic crisis affecting the countries of the region. Linked to the main topic, a chapter will be included in the investigation on the globalization effects in the microfinance sector.
The studies have been made by national consultants, under a methodology established by INAFI Latin America.

During the first year, 2004, two investigations on Poverty and Globalization, one in Bolivia and another one in Nicaragua have been made, countries that have been chosen being representative of South and Central America. Additionally, an introductory chapter on The General Framework of Poverty in Latin America has been included.

Both central concepts of the investigation have, for INAFI Latin America, the following meanings:

POVERTY: It is the situation of the people and the families in Latin America, which deprives them from enjoying the well-being that the state of the civilization of the twentieth century could grant them given the growth of production and consumption.

Poverty expresses itself generally by a low income and the unfulfilled necessities, which allude to the lack of social infrastructure available to the poor. These are the two elements that have been mainly studied and that have taken even to the gradation of poverty in the countries of Latin America.

Nevertheless, the causes of poverty and their effects have been less studied; thus, the investigations will have to incise on these aspects, considering the impacts that the globalization process has caused.

GLOBALIZATION: It is the process by which the speech of opening of markets becomes an opening of the economies of the third world generating the public desiversion in the productive apparatus and the purchase and privatization of state companies on behalf of transnational companies.

This process comes accompanied by a great expansion of the communicational systems, commerce and information, that legitimizes the mentioned process.
Evolution of the poverty concept

Throughout human history, poverty has been a concept associated with the appreciation of the situation of well-being of the families. At the beginning of the twentieth century, the first attempts of measurement occurred. But, when criteria for establishing a measurement were introduced, it became evident that the concept of poverty was part of that great set of concepts that man always used and still today it is not possible to define them suitably as beauty, ugliness, happiness, etc.

The first criterion to measure poverty was introduced around the purchasing power of the income of the families. The pioneering work of Rowntree (1901) introduced the index of incidence of poverty as the percentage of families whose income is below the cost of minimum goods and services. This last value was called “line of poverty” and this methodology of measurement of poverty is known by the same name. This way to determine the volume of the poor population continues being used in all the studies of poverty. Nevertheless, the concept for its construction is clear; it presents a series of theoretical and operative difficulties. Among the theoretical ones are the definitions of income and those of a minimum goods and services. The concern in relation to the income refers to its possible volatileness that it prevents to measure “the permanent” poverty. On the other hand, it is very difficult to define what minimum goods and services can contain; since, this can be influenced by social and cultural criteria and can have infinity of minimum goods desired by the consumers that can be considered minimum. The operative difficulties refer to the frequent absence of information on the income of the families, and when this information is available, to the problems that raises the imprecision of the information and the definition of the periods to which it refers.

As opposed to the shortage of information on income, in the fifties, the Cepal launched the idea that some variables related to the patrimony (basically relative to the quality of the household) and to the access to basic services (specially, housing services, education and health) they could function as indicators on the flow of past income into the homes. In this manner the methodology of measurement for poverty known by its abbreviations as NBI (basic necessities unfulfilled) was born.

In the nineties, economists of the World Bank proposed the use of the value of the consumption of the families as replacement of the income for establishing the magnitude of poverty. The supposition they used that the information on the expenses of consumption is of better quality than the information on income is very controversial; but, the use of the consumption to measure the poverty can be interesting in a sense different from initially proposed.

The indicator associated to NBI criterion of measurement of poverty can be considered not only as a means to inform on the past flow of income but as an indicator of the effective access to some basic supplementaries. Considering that the income is not always used in the fulfillment of basic necessities, this methology adds an additional criterion to the one of of the income. The use of the consumption as an indicator of poverty would have a virtue similar but more slanted to the access to services and non-durable goods.

Despite the similarities of the three mentioned criteria to measure poverty, the preceding discussion satisfactorily puts in evidence one first mayor question not yet answered: Is poverty the absence of
income, is it the impossibility to consume durable goods (still having an income)?; or, in similar manner, is it the possibility of having savings for constituting a patrimony and to consume durable goods?, or, simply, Does it refer to the importance of expenses of common consumption?

The previous preoccupations have taken to a rich debate marked essentially by the search for a better concept of what is known as poverty. Many of the present proposals in this debate tend to separate the concept of poverty from the close scope of the economy to include it in other forms of deprivation, including the lack of freedom to choose different options in life. In this respect, the author who has made himself be heard in the last two decades is the Nobel prize in economy Amartya Sen. More than to propose a new concept of poverty, Sen rejects the underlying one in the studies on this subject to insist on that the problems relative to man must be analyzed from the optics of the capacities\(^1\) and the dynamic processes that take to their expansion. The capacity is understood like the range of things that the people can and must do to improve their well-being such as to acquire education, to improve their health, to have work and income, to live in community, etc\(^2\). On the other hand, the Index of Human Development (IHD) derive from a conceptualization similar to the one of SEN: it is not precisely a poverty measurement because it adopts the principle of which in addition to the income it is necessary to consider the opportunities to accede to the knowledge and to have one long healthy life.

It is worthy to remember that as much as Sen as Mahbub ul Haq, creator of the IHD, they are of Indian origin and that Indian culture tends to put emphasis in values like knowledge and life.

Since the end of the nineties, basically impelled by the economists of the World Bank, the concepts of risk, vulnerability and the impossibility of the poor to make themselves be heard have been associated to poverty studies.

In most of the studies on poverty there are considerations present with regard to the inequality of the distribution of the income and/or wealth.

In the present state of the debate, it is possible to fear the confusion of conceptual levels between what is a measurement of a deprivation situation or deficiency from what is its context or are its causes\(^3\). In order to explain this fear, the following similarity can be used: fever is measure by a thermometer; two people with a forty-degree temperature are comparable from the point of view of the symptom which they manifest but their causes and remedies can be completely different, including the ones related to the states of their souls\(^4\). In the same manner, the measurement of poverty through the income or some proxy establishes a deprivation situation that can have very different origins and also different remedies. But, it seems advisable to insist on that the analysis of poverty continues being part of the social analysis, the one that includes the economy.

\(^1\) Possibly, the translation of capabilities (not capacities) does not reflect correctly what Sen really means. Perhaps the use of the expression competions is more adequate.

\(^2\) See Fakuda-Parr S. (2002)

\(^3\) Amartya Sen mentions that poverty is just a manifestation of the lack of expansion of the capabilities.

\(^4\) Which does not impede that a thermometer be a good instrument for measuring fever.
The main causes and effects of poverty  Just as the causes of a fever can vary, the causes of poverty can also be different.

A great division of the types of poverty that opens the opportunity for reflection on its causes is related to the permanence of the phenomenon and its temporality. The existing poverty in some Latin American countries like Bolivia, Peru, Ecuador, the Central American countries and Haiti can be classified as chronic or structural with intergenerational component, whereas the poverty that has recently affected some families in Argentina and Uruguay can be described as temporary.

Beyond the dimension of time, the first form of poverty is characterized by the scarce competition of the poor in using for their benefit the opportunities of the natural and social environment, whereas the second form is characterized by the existence of competitions but the lack of opportunities of being able to use them. In the first case, poverty must be analyzed from an historical point of view as a weak process of accumulation of human, social and political capital; whereas, in the second case, the interest must be centered in the economic policies that explain unemployment.

Regarding chronic or structural poverty, the deficiencies in human accumulation of capital become latent particularly in the low educative levels and the insufficient physical development that quickly leads to fatigue in the execution of not only manual jobs, but intellectual and desktop ones as well. Education like health is variables that fall in important forms over labor performance. The most serious problem in this situation is that generally it has strong intergenerational components: the children from parents with little education and or with previous undernourishment problems tend to reproduce those characteristics. In general, the lack of political space for the poor causes the state to fail in managing to fulfill suitably its mission to equal the opportunities looking for to alleviate the negative intergenerational effects.

Simultaneously, the structural poverty is characterized by the formation of an insufficient share capital, that is to say, by the weak adoption of the criterion and corporative practices that lead to improve the common well-being. This leads to a profligate vicious circle: the communities that suffer from structural poverty do not manage to be heard by the dominant state and elites take advantage of that situation to confine to the economic and social exclusion to these communities. The poverty problem becomes then a social and political one. Frequently, after long periods of lethargy, the poor react violently demanding the equality of opportunities.

The last causes of chronic poverty never clearly have been established because they have to do with the economic development of the communities and the countries. Identifying them presents the same problem that the one of being able to give an explanation to the differences of development between nations. Nevertheless, in the present situation of Latin America at least it is possible to mentioned three causes associated to chronic poverty of local communities: problems of access to the natural resources, basically land and water, phenomena that periodically affect agriculture and economical and political systems to benefit the rich more than the poor when there is growth and to avoid losses to them in situations of crisis.

Beyond the poverty that affects some communities in isolated form, Latin America has countries that can be considered globally poor. This is the case of Bolivia, Nicaragua, Honduras and Haiti where the GIP per capita is below the line of poverty. In these cases, poverty is essentially related to the development. Everything that has been mentioned at the level of the communities can be transferred to the country as a whole, but, in addition it is necessary to consider the international plane. The poor countries, in general, have a little world-wide gravitation and they do not obtain equitable commercial relations, they suffer from important crises of commerce as a result of the deterioration of the
interchange terms, they show an excessive dependency of the international cooperation and live crushed by debt problems. Frequently, it is mentioned that the developed world does not establish relations of fairness and solidarity with the poorest countries, but, also it is necessary to indicate that for reasons associated to its own structural poverty they have not managed to develop suitably defense mechanisms so as to be heard.

But, in Latin America there are some particularly rich countries with many poor people, such is the case, for example, of Brazil and Mexico. Poverty in these countries can be analyzed from two angles: on the one hand the poor communities suffer generally of structural poverty and, inserted in rich countries, they suffer from problems related to the effects on the distribution of the income of an economic structure and of a legal order that does not favor them.

The temporary poverty is associate to economic crises and incorrect designs of the economic policy. The effect of the crises is easy to understand, for example, the deterioration of the interchange terms, the fiscal deficit caused by the excess of national debt, etc. as an effect they do not stimulate the investment and the production and consequently employment. When the members of a family are unemployed, they quickly deteriorate their conditions of life and they go into poverty. The effect of the economic policy is more difficult to understand because it has much to do with what was named before political economy. Guided measures to accelerate the growth through the commercial opening or to stabilize the economies reducing the public cost can be good for the objectives that they look for but in general the distribution of the sacrifice which they imply results in a difficult game of confrontation of political power between poor and the rich. Generally, these last ones tend to win, causing greater inequality in the distribution of income.

In the countries where there is chronically poverty situations there can also appear situations of temporary poverty since they both generally have important characteristics of heterogeneity. The causes that also originate temporary poverty can affect negatively the structural poverty by two routes: directly, for example, the commercial opening can affect the situation of the poor farmers and, indirectly, causing the groups that could be affected by the economic policies to give ways to transfer the sacrifice that imply towards the poorest, for example, suppressing the subsidies that favor them.

Finally, it is possible to indicate that the inequality in the distribution of the income in the region to a great extent has its origins in the unequal distribution of generating assets of income, particularly of the education and the land. It shows on the one hand, the inefficiency of the public policies to equal the opportunities and in the other, it gives as evidence the fact that the problem of poverty in addition to being an economic problem is a political problem.

**The dimensions of poverty and their indicators**

In the preceding sections, an exhaustive explanation has been done on the concept of poverty and the problems that its measurement carries. In the present section a brief reference to some current used indicators of poverty will be done including its mathematical formulation in the Appendix...

As it were previously indicated, one of the most important criteria for measuring poverty is the one referred to as a line of poverty defined as the minimum cost of a minimum basket of basic needs. The minimum basket contains the minimum amounts of a certain number of goods and services that allow satisfying the basic necessities. The requirement that the cost is minimum emerges from the fact that there can be several minimum gool that satisfy the basic necessities. As it will be understood, the
determination of the line of poverty can be controversial. However, in the last years, under the influence of the works of Psacharoupoulos for the World Bank, it has almost resulted as a convention to retain as line of poverty for all the countries of Latin America the amount of two dollars daily. This amount approximates well enough the line of poverty of many Latin American countries, but, more than a line of poverty itself it is a parameter related to the distribution of income which could be the "quartiles", the medium one, the average, etc.

Several indicators are deduced from the line of poverty. The first one is known with the name of Index of Incidence and the percentage of people is defined as those whose income is smaller than the line of poverty. Half of the line of poverty is known as the line of incidence or extreme poverty. The percentage of people whose income is below this value is known as the Index of Incidence of the extreme poverty.

The index of intensity of poverty is defined as the difference between the line of the poverty and the average of the income of the poor in percentage to the line of poverty. A similar index is deduced for the extreme poverty.

Different indicators on the inequality in the distribution of income are commonly used; possibly, the index of Gini is the best known. This index is worth zero when the income is uniformly distributed and it is worth 1 when a single person receives all the income of the sector families. In all the other cases, the index of Gini is between 0 and 1, increasing when the inequality is also increased. It is interesting to use the index of Gini in describing the inequality in all the distribution of income and also only in the distribution of income of the poor or only on the nonpoor.

Different authors have proposed compound index that have the virtue to reflect in a single number the incidence, the intensity and the inequality. These efforts are very remarkable but the resulting indications are unable to show with clarity the effect of each one of these variables.

The other criterion of measurement of poverty, the one of NBI, is based on the observation of the access to some basic satisfactors. In most of the studies, these refer to the characteristics of the houses, to the access to the training centers and health services. There exist many methodologies to determine an index from these variables, those that to a large extent are categorical, that is to say, are not numerical...

Many of the methodologies used in Latin America in this field suffer of a high degree of subjectivity when defining what they understand by basic satisfactors and/or in the mathematical construction of the indexes.

An exhibition of the different ways to measure poverty is included in the text of Morales (2000), “Methods for Measuring Poverty.”

**Evolution of poverty in Latin America**

Chart 1 shows the estimate made by the Cepal, in its publication Social Panorama for 2003, of the evolution of poverty and the indigence in the period that goes from 1980 to 2002.
Chart 1. Poor and indigent population and incidence of poverty and the indigence in Latin American

<table>
<thead>
<tr>
<th>Years</th>
<th>Poor people Population (in millions)</th>
<th>Percentage</th>
<th>Indigents Population (in millions)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>135.9</td>
<td>40.5</td>
<td>62.4</td>
<td>18.6</td>
</tr>
<tr>
<td>1990</td>
<td>200.2</td>
<td>48.3</td>
<td>93.4</td>
<td>22.5</td>
</tr>
<tr>
<td>1997</td>
<td>203.8</td>
<td>43.5</td>
<td>89.8</td>
<td>19.0</td>
</tr>
<tr>
<td>1999</td>
<td>211.4</td>
<td>43.8</td>
<td>89.4</td>
<td>18.5</td>
</tr>
<tr>
<td>2000</td>
<td>207.1</td>
<td>42.5</td>
<td>88.4</td>
<td>18.1</td>
</tr>
<tr>
<td>2001</td>
<td>213.9</td>
<td>43.2</td>
<td>91.7</td>
<td>18.5</td>
</tr>
<tr>
<td>2002</td>
<td>221.4</td>
<td>44.0</td>
<td>97.4</td>
<td>19.4</td>
</tr>
</tbody>
</table>

Source: Panorama Social de America Latina 2003

As it can be observed in Chart 1 and Graphic 1, the incidences of poverty and the indigence grew in the eighties, they tended to decrease in the nineties, showing at the end of this decade again a tendency towards the growth. In 2002, the incidences of poverty and the indigence were of 44 percent and 19, 4 percent, respectively.

Graphic 1. Incidence of poverty and indigence in Latin America

Graphic 2 shows that the amount of poor grew by 50 percent and the number of indigents by 30 percent during the eighties; in the nineties these volumens became stabilized but by the end of this decade once again they began to increase. In 2002, Latin America broke its record showing 221, 4
million poor and 97.4 million indigents. These data suggest Latin America is a continent with an important potentiality of severe social conflicts. They also show the uselessness of the sacrifices requested to the population with the neoliberal model.


The Goals for the Millennium commitment signed by all the countries of Latin America, has set out to diminish poverty in each one of them to the year 2015 at a level equivalent to half of which it was in 1990. To the light of the previous information, it is believed that it is very difficult to obtain this objective for Latin America as a whole, but, as it shows on Chart 3, the advances are very different between the Latin American countries. For some countries as Argentina and Venezuela it went very bad. Others like Bolivia, Colombia, Ecuador, and Honduras made a very modest progress. For a few countries it went well, among them Brazil, Chile and Uruguay.
Chart 3. Latin America. Percentage of the progress in the reduction of poverty according to the goals of the millennium
One of the most important characteristics of Latin America is that it is the continent of the world that shows greater inequality in the distribution of income. Picture 2 shows this situation. Whereas the average for Europe and the United States of the index of Gini are of 29, 6 percent, in most of the countries of Latin America it surpasses the 50 percent. The countries with smaller relative inequality in Latin America are Uruguay and Costa Rica, whereas Brazil, Guatemala, Colombia are the countries with greater inequality.

Chart 2. The inequality in income distribution in Latin America

<table>
<thead>
<tr>
<th>Country</th>
<th>Gini</th>
<th>Participation of the last decile in the income</th>
<th>Participation of the first two deciles in the income</th>
<th>Quotient in the income between 10 and 1 decil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil (2001)</td>
<td>59.0</td>
<td>47.2</td>
<td>2.6</td>
<td>54.4</td>
</tr>
<tr>
<td>Guatemala (2000)</td>
<td>58.3</td>
<td>46.8</td>
<td>2.4</td>
<td>63.3</td>
</tr>
<tr>
<td>Colombia (1999)</td>
<td>57.6</td>
<td>46.5</td>
<td>2.7</td>
<td>57.8</td>
</tr>
<tr>
<td>Chile (2000)</td>
<td>57.1</td>
<td>47.0</td>
<td>3.4</td>
<td>40.6</td>
</tr>
<tr>
<td>México (2000)</td>
<td>54.6</td>
<td>43.1</td>
<td>3.1</td>
<td>45.0</td>
</tr>
<tr>
<td>Bolivia (2000)</td>
<td>53.6</td>
<td>39.7</td>
<td>3.2</td>
<td>36.4</td>
</tr>
<tr>
<td>Argentina (2000)</td>
<td>52.2</td>
<td>38.9</td>
<td>3.1</td>
<td>39.1</td>
</tr>
<tr>
<td>Jamaica (1999)</td>
<td>52.0</td>
<td>40.1</td>
<td>3.4</td>
<td>36.5</td>
</tr>
<tr>
<td>Rep.Dominicana (1997)</td>
<td>49.7</td>
<td>38.6</td>
<td>4.0</td>
<td>28.4</td>
</tr>
<tr>
<td>Costa Rica (2000)</td>
<td>46.5</td>
<td>34.8</td>
<td>4.2</td>
<td>25.1</td>
</tr>
<tr>
<td>Uruguay (2000)</td>
<td>44.6</td>
<td>33.5</td>
<td>4.8</td>
<td>18.9</td>
</tr>
<tr>
<td>Average Europe y EEUU</td>
<td>29.6</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Latin American Countries except for Bolivia, World Bank (2003), Vleminckx K (1998), R. Morales

As it can be appraised by the previous results, the different plans and projects for the reduction of poverty in Latin America executed in the two last decades have had very poor results. On this they have been able to affect, on the one hand, the structural reforms carried out during this period and, on the other hand, the weakness of the compensation policies and the inefficiency of the projects of proposed eradication of poverty (and often, imposed) by the international financing organisms.

The roll of Globalization in the increase of poverty.
The concept

According to (the IMF, 1997), globalization is a process of integration of different human activities (mainly those that have to do with the financial production, commerce, flows, the cultural alert networks and currents), which is what is allowing world to be perceived smaller each time.

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5 Quoted by Roman E. (2000)
More precisely, globalization can be characterized by the international integration of activities in the following fields: a) Economy (Commerce, Finances, and Corporations), b) Political, c) Communications, d) Culture.

It is in the economic field that globalization is better known and more resisted; some authors (Aisbett E. 2003) use the expression "economic globalization" as a form to restrict the amplitude of globalization, but it is clear that their different facets are strongly related.

According to FOLADE, globalization is the process by which it allows that the opening statement of markets becomes an opening of the economies of the third world generating the public desinvestment in the productive apparatus and the purchase and privatization of state companies on the part of transnational companies. This process comes accompanied by a great expansion of the communicational systems that legitimize this process.

**Economic globalization**

The most important aspect of the economic globalization refers to the intensification of the world-wide commerce on the base of the liberalization of the markets. That is to say, globalization has gone side by side to the adoption of reforms that gave a place to the free internal commerce as much external eliminating restrictions and policies of protection and privatizing many public companies. Furthermore, as it is known, the opening of markets which was very broad, maintained important niches in the main countries of the world, particularly, in Europe and the United States. In May 2002, the United States Government signed a law that increased in a unilateral and alarming manner the subventions that destine to its agricultural sector. It is estimated that in ten years, the U.S.A. is going to spend about 190 billion dollars in this policy. According to some international experts, these subventions allows the producers to sell their articles at a price between 10 and a 15% cheaper, making them more competitive in a harmful manner to the products of countries like, for example, Guatemala, where agriculture represents 75% of the GIP, with the consequent loss of quality of life for the population that lives on this activity.

Aisbett E. (2003) mentions that the first reason why many are against globalization is the hypocritical manner by which it is executed by its main promoters.

The second important aspect of economic globalization deals with the free movement of capitals on short and long terms between the countries. The direct foreign investment as well as the intensification of the commerce has been approached by many authors as positive factors for the economic growth in the medium and long term, but its relation with the reduction of poverty is in discussion as well as the conditions so that these actions indeed affect the growth. On the other hand, consensus exists regarding a significant part of the movements of capital on a short term is of speculative character being able to cause serious problems to the involved countries.

The third important aspect of economic globalization is the fusion of companies and growth in terms in which they control more wealth than many countries of the world, including the countries that in the first instance generated them. This new power is changing the relations of the world. The previously effective political system to world-wide level was characterized by the presence of powerful countries that tried to, politically, dominate the others to establish economic relations that favored them. Globalization is offering a space to be filled by the presence of great companies that from the economic power conclude in the political domination. Whereas elites of the powerful countries were forced to structure a political statement to convince their electorate on the morality of their interventions in other countries, the companies do not need to do the same. In spite of hypocrisy that

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6 Quoted by Roman E. (2000)
this often meant, the powerful countries got to offer some form of compensation under the umbrella to protect the poor in the countries which they dominated. The companies need neither the statement nor to make social deeds. But still, they do not have to be present in international tribunes to defend their policies. A hurtful example on the matter is the occupation of Iraq.

The financial and speculative bias of this type of globalization is questioning the legitimacy of the democracy as a coexistence system. The citizens from the countries of the South are stating that their political authorities are incapable to contain the pernicious effects of the financial crises (promoted by the unrestricted freedom of the speculative movements). The power is being concentrated in the global financial markets (where the democratic control does not arrive from the people), scorning the local space, that is the one that occupies the people of flesh and bone\(^7\).

**Political globalization**

The second level of globalization is the political one. A first aspect on the matter has been explained in the preceding lines showing the power that they have acquired and will continue acquiring the transnational companies. A second aspect mentions the effort made by the countries to harmonize their policies in an ample spectrum of fields, from the economic, going through the social, justice, the environment, etc. up to the military. The result of this action is the relative loss of sovereignty. In some areas, for example, the one regarding the universalization of the concept of human rights and the possibility that the infractions in this field can be judged in any place of the world has been the right choices; however, as in the case of free commerce, some powerful countries also want to establish exceptions in this dominion. Since World War II, agreement spaces and harmonization of policies have been established which have given the opportunity to institutions that nowadays have practically the trusteeship of the development of the poorest countries of the world? But, it is possible to indicate that these spaces are far from being democratic because the vote by countries is proportional to the amount of contributions that make to the institutions. The policies which they defend and impose are, in general, strongly resisted by the poorest countries, because they force them to assume positions that hurt their interests.

But, the globalization also has its clearly positive aspects, for example, the development of mass media. In this field, it is worth mentioning the development of the Internet and its importance for the less favored countries. Nowadays, through the Internet, millions of people from all the countries of the world can accede to the information and technical and scientific documents of good quality which access to in other times was difficult and expensive. Through the radio and the television, the world can be inform on what happens in any country and freely choose the information channel they want. The great boom of the telephony allows the fast and relatively cheap communication between countries that are far apart from each other. All these facts contribute enormously to the development of all the countries, but relatively more to the countries that before did not have opportunities in these fields.

Nevertheless, the boom of the communications also has its risks; these refer to the tendency they have to standarize cultures, these are defined as systems of values. The poor countries, once separated from the rest of the world, normally maintained solid traditional cultures based on solidarity, the effort, justice, and peace. With the arrival of globalization, hand in hand with neoliberal ideas, the principle of solidarity is being displaced by one of competitiveness, the one regarding effort by the search for income, the one for justice by one of profits and the one for peace by one the violence.

\(^7\) Quoted by Roman E (2000)
Economic globalization and poverty

The specific effects of the globalization on poverty are difficult to establish despite the great proliferation of studies on the subject. Most of these are centered around the effects of economic globalization, particularly, where the advantages or disadvantages of the free commerce and the direct foreign investments are concerned. Furthermore, the world is far from making consensus on the relation of these policies with poverty. Two polarized positions on the matter are included in the book by the International Forum on Globalization titled "Does Globalization Help The Poor?", to which it responds with a strong "NO!" and in the book by Bhalla (2002) whose question: "Who has profit from globalization?", responds with a convincing "the poor". Much of the debate between the defenders and the critics of globalization revolves around the acceptance by some or by others of the concepts of absolute or relative poverty and absolute or relative inequality. The works of both sides are based on numbers and models whose causal assumptions and methodologies are also far from making consensus. In particular, several authors have criticized the limitations and methodologic falencias of the studies based on linear regressions having used cross-sectional information from several countries. Generally, these choices are based on the author's discretion.

The following chart illustrates the causal questions that exist in variables that are assumed to be correlated in one way or another:

Note: IED = Direct Foreign Investment

![Diagram showing causal relationships between Economic Growth, IED, Commerce, Technology, and Poverty]

Parts of the arguments of those who defend the commercial liberation are based on the advantages that the widening of the opportunities of investment and the free circulation of production factors means. Besides, generally, they forget to indicate that the manual labor is an important factor of production and that today more than ever exist strong restrictions to the international migrations. They also forget to mention the importance of the incorporation of technical progress in the growth and the obstacles raised by the existence of patents and the intellectual appropriation of knowledge in the more developed countries in contrast with to the poorest.

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9 Some authors talk about various waves of globalization and set one of them in the discovery of America and the other one in the twentieth century. Both periods were characterized by the massive European migration to America. Later, the migratory current tended to inverse but it found itself facing a series of bans.
The assumptions of the defenders that globalization implies reduction of the poverty are the following ones: a) The economic growth necessarily implies the reduction of poverty (at least in incident terms), b) the direct foreign investment and the free commerce contributes to the economic growth by several routes, in particular, through the technology transference.

Based on these general principles, they try to look for empirical proof for their affirmations. On the other hand, the critics use a very great variety of arguments, some of which will be explained in what follows.

What seems to be more or less certain is that it is not possible to obtain valid general conclusions for all the countries of the world, because the results of the globalization depend much on the initial conditions of the countries as well as on the possibilities that they have to assume their commitments.

According to Ravallion (2003) it is more or less accepted in the academic world that globalization favors on the average the poor. Without possibly having the intention, it is indicating that it favors some countries and others not. The Cepal, on the other hand, indicates that the exports are the driving force of the growth, clarifying that it refers to exports with a high added value. This last explanation has two important conceptual consequences: a) the increase of the exports not always implies growth, b) only the countries able to add added value to their production can benefit from the increase of the exports. Then, it would be necessary to conclude that only the countries with a certain level of development can only obtain a beneficial insertion in international commerce. In regard to this, Latin America presents extreme case. For instance, there is Bolivia, a country where the mineral exports in the past were of much importance to their economy and did not manage to grow nor to makes use of the advantages of free commerce and, on the other hand, there is Chile that obtains important benefits from globalization. In the case of Bolivia, it is clear that the importance of its exports in its economy allowed neither to grow nor to reduce poverty. But, there are other countries; for example, Mexico and Ecuador, that through the exports they obtained greater growth but the impact on poverty is far from being the expected one.

The other side of the free commerce is the elimination of the restrictions on imports. Again, according to the countries, this opening can have positive or negative effects. The positive effects are in those countries with conditions for competing or in the possibility of obtaining these conditions in not very long periods. The commercial opening can have an effect towards the loss of the prices of many products and, consequently, favor the consumers, among these are the poor. But if national companies are not able to compete with the imports they will end up closing operations and generating unemployment which will cause a negative impact to the poor. It is worth mentioning that the most vulnerable companies to the commercial opening are those that have little capital and technology. The commercial opening can also affect the fiscal levy if the diminution of tariffs is not compensated by a greater volume of imports. If that is the case, then there can be a diminution of the resources destined to finance social services with a negative impact on the most vulnerable groups. But, it is also certain that the possible negative effect of the increase of the imports can be seen compensated by the positive effects of the exports. The final result of the commercial opening will depend on the initial conditions, of the potentialities of the country to compete in the future and of the policies that are adopted at a government level.

Some econometric studies show that the growth is good for the poor\(^\text{10}\). But, beyond the methodologic observations that provoke, it would be necessary to conclude that if it is as such, it is on the average, being established that there are cases that do not respond to that presumption. In order to explain this observation, we can mention countries that generate important exports on the basis of foreign

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\(^{10}\) See, for example, Dollar D. And Kraay (2002)
investments in little intense activities in manual labor, for example, those related to the exploitations of hydrocarbons and their refinement. We must bear in mind that employment is the only suitable mechanism of distribution of income. If in addition the taxation level of these activities is low, the state is inhibited to maintain and/or to increase the social cost. In this case, the economic growth, measured by the growth of the Gross Domestic Product, will have no effect in the reduction of poverty. Besides, this situation even can have perverse effects since the exports can lead to a significant supply of currencies that it has as an effect to maintain its prices low promoting this way the imports and harming the rest of the exports and, consequently, the development of other economic activities.

The defenders of globalization also make vindication of the advantages of Direct Foreign Investment (DFI) over that which relates to promoting to the needed countries the resources that they require for their development. Beyond this contribution, it is acknowledge that the DFI is desirable in the measurement in which: a) Provides employment, b) Transfers retorable technology, c) Makes significant contributions in taxes. When one or several of these conditions occurs, the DFI contributes to the growth and, most of the times, to the exports; it is also possible to affirm that they contribute to the reduction of poverty, going through the direct employment that they generate, or through the indirect one from the technology transference, or from the increase in the fiscal collections that allows a greater margin for social expense. In the manufacture and services the DFI generally have a positive effect in the three variables before mentioned (Chile, Mexico, Brazil, Colombia, Cuba), the one made in agriculture have effect in employment mainly (such is the case of the investments in banana tree plantations in some Central American countries), but, the ones carried out in the operation of nonrenewable natural resources do not have any effect on employment nor technology and its effect on the tributes is very vulnerable to the correlation of forces between the transnational companies and the governments.

The Rodriguez and Rodrik (2000) insist on that the relationship between commercial liberalization and growth is still an unsolved question. A recent article by Lee, Ricci and Rigobon (2004) tries to establish the effect that the commercial liberalization has on the growth controlling the effect of this last variable over the first. The conclusion is that the commercial opening has an effect on the growth, but that this is small one.

**Effects of the Free Trade Agreements**

In the preceding sections, the possible benefits and damages that mean the commercial opening for the Latin American countries have been analyzed. In this section, we will refer to the Free Trade Agreement.

In the last years, important initiatives in relation to commercial treaties between the American countries have occurred, including those from the North, the Central section, the South and to those of the Caribbean. Among them, the most controversial, without a doubt are the Nafta, the Atpdea, the ALCA and the FTA that until 2004 were in negotiation.

The NAFTA is an agreement of free commerce between Mexico, Canada and the United States. This concerns a very controversial treaty. Those who defend it affirm that it contributed positively to the economic growth of Mexico from the expansion of the exports and the increase of the direct foreign investments that contributed an exit to the Tequila crisis and consolidated its macroeconomic stability. Their detractors indicate that it is a inequitable treaty in the sense in which the United States continues granting important subsidies to their farming sector which has negative impacts on the
Mexican farming sector, that have not allowed to generate employment and that has contributed to the increase in the inequality in the distribution of the income.

Atpdea makes reference to the Law of Andean Tariff Preferences (Andean Trade Preference Act - ATPA) whose presumed beneficiaries are Bolivia, Colombia, Ecuador and Peru. In addition to tariff preferences in a product list, it contains agreements for the fight against illicit drug traffic and looks for the “the democratic consolidation of values, institutions and practices in the sub region necessary for the peaceful coexistence in the hemisphere. At the same time it consults the objectives of The United State’s national security”.

The benefits from Atdpea for the Andean countries have been of different magnitude, Colombia ranked as the first Andean exporter to the United States, selling 1,959 million dollars in the first semester of 2004; in contrast to 1,417 million exported, in same period of time in 2003. With the number of 1,959 million dollars, Colombia surpassed Ecuador which registered in the period, 1,205 million dollars, to Peru that exported 774 million dollars and to Bolivia whose amount was of 61 million dollars. In spite of the small magnitude of Bolivian exports under this treaty, it is convenient to indicate that it has opened an opportunity for the small craftsmen in the area of textiles and their tailoring.

The treaties that have caused more controversy and continue doing so up to the point in which they have not yet been signed are those of the ALCA and the FTA that the United States is promoting in bilateral form or by groups of countries.

The main topics of the ALCA mention the access the markets, agriculture, purchases of the public sector, investments, policy of competition, rights of intellectual property, services, antidumping policies, solution to controversies, compensatorios subsidies, policies and rights, smaller economies, civil society and electronic commerce.


As it can be observed, the ALCA as well as the FTA are attempts of treaties that go much more beyond than traditional agreements of free commerce. This characteristic in addition to the unequal capacity of negotiation of The United States and the rest of the countries generates much distrust in Latin America. The opinion of many sectors is that the United States wishes, through these treaties, to consolidate its presence and supremacy in the continent and to grant extraordinary advantages to its own companies. In this framework, there is fear that the weakness of the Latin American negotiating teams will lead to accept conditions that national majorities reject.

The ample spectrum is in which the United States wants to take the negotiations is also objected. For example, the conditional control of drug trafficking to negotiate is considered like a hair in the soup. Also, the representation of the States before the government of Bolivia protesting the legal security for its companies at the moment when the country is trying to pass a new hydrocarbon law as condition for "giving access" to the FTA is considered like an illegal intervention.

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In the unequal correlation of forces between the Latin American countries and the United States the stubbornness of this last one in continuing is criticized maintaining millionaire subsidies to its farming sector. In general the exigency to make respect the so called “rights of intellectual property” is rejected since it can mean an attack against the health of the people and the environment, besides consolidating rights that do not correspond. The subject of the national purchases is also controversial, since, the United States would wish that the Latin American governments, who in spite of the neoliberal measures of the nineties continue being large, become their main clients turning aside their demand of the national markets. By a sovereignty principle, the Latin American countries are against to that the solution of controversies be under the jurisdiction of the United States. Finally, the proposals of reform of the labor dispositions done by the United States to the other countries are objected.

Without a doubt, the widening of markets for the Latin American production is a subject that deserves attention, because in general the Third World Countries have complained about the restrictions that developed countries have proposed for their exports. Besides, on the one hand, as it were previously indicated, the commercial liberation can have different effects according to the countries and consequently it is not possible to establish a common policy for all of them, and on the other hand, the agreements of free commerce can be nonviable if to the treaty of commerce itself it is added policies of different domains different from the commerce or if they are intended to be signed in a framework of inequity.

The previous worries have taken to polarize the opinions in Latin America: there are some who are in favor of the ALCA and the FTA and there are some who are in against it. Nevertheless, common sense presents the possibility of negotiating the proposals of the United States until the moment at which it is not possible to be obtained more changes and if the obtained changes are not sufficient it is possible to break the negotiations.

Towards a globalization with a human face?

As seen in the preceding section, the impacts of globalization on the economic growth and poverty depend consequently on many conditions being different according to the countries. What it does not seem to be sensible is to believe or to advise some country is to stay at its margin.

Nevertheless, it is also possible to accept that the challenges which the rich countries, as well as the poor ones, have in order to obtain a globalization with human face are enormous. First they must try: a) To avoid to be dominated by the great companies, b) To facilitate the creation of a democratic world order from new institutions of agreement and financiers, c) To make flexible the regime of patents, d) To play "clean" in the matter of subsidies the exports. The second parties must try: a) Gradual commercial and financial openings, b) To fortify their capacities (education, technology, infrastructure), c) To watch over the good operation of the markets, d) To fortify their capacity of negotiation, e) to favor the oriented investments to generate employment, f) Democratize their structures of government.

The positive and negative effects of the migrations

There exists enough difference in the information on the importance and magnitude of the remittances towards Latin America, possibly, so that some significant part escapes to the observation
of the Central banks. It is estimated\textsuperscript{12} that for the year 2003, the total of remittances of which resides in foreign countries and send to their countries of origin was around 140 billion dollars, evaluating that a 30 percent of this sum benefits the Latin American countries and that a 78 percent of it would be originated in the United States.

For some countries, the remittances count much for their economy, for example, in the Dominican Republic they sum US$ 2000 million, which represents a 10\% of its Gross Internal Product. It is estimated that a 40\% of the Dominican families benefit from them. About 1.5 million Dominicans are believed to reside in the United States and about 150 thousand in Europe.

Near a million of Ecuadorian, the 14 percent of the adult population receives remittances from relatives who reside outside the country. In 2002, the total of these remittances was of 1,432 million dollars and in 2003 the amount grew. The average is 175 dollars. The remittances are equivalent to one fourth part of the total value of the exports of Ecuador, 10 times the total of all the foreign economic assistance that receives or five times the credit granted to the country by the International Monetary Fund.

About 4 million Colombians receive remittances, whose amount would ascend to about 2272 million dollars in 2003. This sum competes with the income of Colombia from petroleum export.

In Honduras, the remittances contribute in a 4 percent of the total income of the family sector.

Chart 3 provides information on the importance of the remittances for some countries of Latin America.

![Chart No.3 Remittances to Some Countries of Latin America, Year 2002](chart)

The magnitude and extension of the remittances towards Latin America have introduced new dimensions in the economic and political analysis.

\textsuperscript{12} BID and other sources
On the one hand, in the macroeconomic plane the countries benefit in significant form from the emigrations and the remittances because the export of labor and employees implies less pressure in the prediction of social services, such as health, water, environmental sanitation, etc. On the other hand, the emigrants send to their families sums that if added altogether mean a strong to the Balance of Payments, the national income available by the sector families contributing to the consumption and, possibly, to the saving and the investment. The composition of the cost of the receiving families provokes the thought that that the families been dealt with are more or less poor. Thus, for example, according to a survey done by the Central Bank of the Dominican Republic, 70% of the received resources are used for nutrition, 4% for health expenses, 5% for education, 7% for housing and 8% for others. It deals with a structure of cost typically of the poor families.

The receiving countries of workers are those that need them. But at this level, the first conflicts of political economy are consider: the receiving countries wanted to attract, on the one hand, good level professionals from the poor countries and, on the other hand, workers moderately described to do jobs that their own workers no longer wanted to do (cleaning, cooking, help with housework, hospitals assistants, etc.). In the first case they cause a significant desinvestment in human capital in the poor countries which, as it is known, make important efforts in education, sometimes, reasonably beyond what their economies allow. The second case creates social and human problems difficult to solve. When workers in the receiving counties perform their jobs that few want to do an asymmetric relation enters the scene allowing to situations where the immigrants feel discriminated and excluded.

According to the type of migration, significant human and familiar problems have been observed. Some countries allow the immigration of workers but not of its families, this policy affects on the medium or long term to the familiar desestructuración. In some cases, the temporary migration is encouraged only as a form to avoid the expenses in basic infrastructure that require the immigrant causing situations of labor instability in their countries and outside their countries and of familiar instability.

The traditional pattern of migration characterized itself by the emigration of young men with a working age (20 to 40 years old), followed by those of their companions or spouses, younger children and sometimes other relatives. The period of time in which the family becomes reunited can be long; meanwhile, the children often remain with their grandparents in countries of origin. In the measure in which the grandparents are often elders, the children and young grow up without a solid support of their families. Some studies consider that that is one of the causes of the development and consolidation of “mares” (gangs of delinquent young people) in Central America.

Lately, the migration pattern has been changing, particularly, where Europe is concern, because more women than men migrate to the European countries. The companions or spouses of the women emigrants remain in charge of the children which is causing a new form of familiar disintegration.

The migrations of young people at a moment when in all Latin America a fast aging of the population characterized by the growth of the life expectancy is observed can create in few more years a serious social problem: countries that have not developed sufficiently their productive base have a large population outside the working age: children or elders. This phenomenon would come to destroy what is known as the "demographic opportunity" which is characterized by a diminution of the dependent population and, consequently, the increase on the savings and the investment. Possibly, those will be the poorest countries which will undergo more of this situation which, in turn, will become one more poverty factor.

Throughout History, the world has known important migratory movements reason why it is not possible to associate them only to the recent wave of globalization. In particular, Latin America has
received in the first half of the twentieth century several million immigrants coming especially from Europe. The difference between traditional migrations and the present ones is that now they are in a frame of strong restrictions. The amazing thing about this is that different forms of restriction are maintained and become hardened during moments when the ideas of the free markets for merchandise, services and capitals are factors of growth seem to prevail. Supposing the assumptions are acceptable that the free markets facilitate the best allocation of the productive resources it would also have to be applied to this principle for the manual labor raising the restrictions to the migration.

Finally, it is possible to make reference to two concomitants phenomena with effects in opposite senses: the Latin American emigrants tend to adopt the culture of the countries that receive them and in that sense a phenomenon of culture and a sense of loss of country appears (with relation to the country of origin); but, simultaneously, the great amount of immigrants in some countries (like for example, the United States) is allowing the consolidation of Latin American communities that promote their culture and continent and that little by little begin to have political and economic weight in the countries that receive them managing to have influence in the design of favorable policies for their countries of origin.

Appendix, indicators of poverty and inequality

Indicators for the measurement of poverty

The process of measuring poverty includes at least the two following stages: i) the identification of the poor people and ii) the aggregation of poverty in a synthetic measurement. The first stage detailed in box 1.1. consists of distinguishing the population whose income per capita is inferior to the cost of minimum goods satisfactores of the basic necessities. Second, it is to measure the problem of poverty through indicators that synthesize the information in a single number.

The measures of poverty applied in this document correspond to the family of parametric index proposed by Foster, Greer and Thorbecke that are obtained from the following expression:

\[ I = \frac{1}{n} \sum_{i=1}^{n} \min(y_i - L, 0) \]

Where “n” represents the size of population “q” is equivalent to the number of people with inferior income to the line of poverty (L) and the parameter to \( a \geq 0 \) it assigns different relevance degrees from the distance between the income \( y \) of each poor individual and the line of poverty.

When \( a \approx 0 \), the expression (1) corresponds to the denominated index of recount. \((H)\) that enters the proportion of people with inferior income to the line of poverty:

\[ H = \frac{1}{n} \sum_{i=1}^{n} \min(y_i - L, 0) \]

Due to its facility of calculation and interpretation, this indicator is used in the study of poverty. However, the count index offers a limited vision of poverty since it does not offer information on “How poor are the poor?”, nor is the distribution of the income taken into account.

On the other hand, when from \( a \approx 1 \) an indicator is obtained that measures the relative deficit of income of the poor with respect to the value of the line of poverty and it is known as a poverty gap. \((PG)\):
The index poverty gap is considered more complete than the recount index, because it not only takes into account the proportion from poor people but also the difference between their income and the line of poverty; in other words, it adds information about the depth of poverty.

Finally, when a ~ 2 an index is obtained that considers, in addition, the degree of disparity in the income’s distribution between the poor. This indicator also measures the distance between the line of poverty and the income of each person, but it elevates to the square the mentioned distance to give a greater relative weight in the final result to those who are far from surpassing poverty.

The values of index FGT, are not so simple to interpret as those of indices H and PG. However, its greater completion makes it preferable for designing and evaluating policies, as well as the comparisons in poverty matter between geographic units or social groups.

The three mentioned indicators fulfill the quality of "decomposition additive", according to which the index poverty of population is equivalent to the index pondered sum of the different sub-groups that conform it. In function to it, the national index of published poverty and indigence published in this document have been calculated dividing equally the indices corresponding to each geographic area, pondered according to the population percentage that lies in each one of them.


The measurement of inequality

The degree of concentration of income can be moderate from an ample set of indicators. So that the inequality indicators produce coherent results, it is desirable that to fulfill certain basic properties, among those it is possible to emphasize the following ones: i) Principle of "weak" transference: Before transference of income from "a rich" home to "a poor" home, the indicator must reflect a diminution of the inequality degree. ii) Independence of scale: The indicator does not have to vary before proportional transformations of the income or changes of category, change of status, for example, modifications of the unit of measurement of the income. iii) Principle of population: The concentration of the two populations enters with identical curves of Lorenz must be the same one, independently of its size. iv) Decomposition additive: The concentration of the income in a population must be equal to the weighed sum of the inequality in all the sub-groups that conform it. v) Principle of "strong" transference: before transference of income from "a rich" home to "a poor" home, the diminution in the inequality will be more pronouncing as it increases the distance between the incomes of both homes.

Among the most used indicators of inequality it possible to mention: a

i) Index of Gini
The index of Gini, that geometrically corresponds to the area between the Curve of Lorenz and the line of equidistribución, is used in the analysis of the distribution of income, in spite of not fulfilling all the desirable properties, specifically the principle of "strong" transference nor the decomposition additive. Taking values in the rank where value zero corresponds to the absolute fairness and the one to the absolute inequidad.
ii) Index of Thell
This index, that grants more importance to the transfersences that are made in the low part of the
distribution and therefore it fulfills the principle of "strong" transference, it has the advantage to allow
its decomposition additive. Its minimum value is zero (absolute fairness) and its maximum value is log
(n) where n represents the size of the population.

iii) Index of Atkinson
The index of Atkinson, that takes values between 0 and 1, has the special characteristic to use a
parameter of "aversion to the inequality" (e) that indicates the high praise that receives the
observations of the low part of the distribution.

All the indicators of inequality have an ordinal character, reason why their values are not
equiparables. Furthermore, since each one of them measures partial aspects of the inequality, it is
common that they generate different classifications from the distributions, reason by which a
classification can only be considered definitive if it does not vary no matter which index is used.
Therefore, it most appropriate to use the indexes of inequality in a complementary way and to
analyze its results in joint form.

Source: Elaborated on the basis by Frank Cowell, "Measuring Inequality". LSE Handbooks on
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PART II

CASE STUDY: BOLIVIA

POVERTY AND GLOBALIZATION
Study by Jose Antonio Peres
1. Demographic, economic, social and political situation in Bolivia

1.1 Demographic aspects

Bolivia is a diverse, pluricultural and multilingual country, with a surface of 1.069.000 km². It has a population of 9.2 million inhabitants, with a slightly greater relation of women with respect to men and with a 62% that lives in the urban areas. Its population density is one of lowest of Latin America (8.6 hab./ km²).

**Graphic 1**

![Tasa de crecimiento de la poblacion (%)](image)


The rate of population increase is 2.3% annual. In the urban area the population grew to 3.7%, whereas the rural only 0.1%, expressing each time a greater evacuating of population in the rural scope and the accelerated process of urbanization in the country. Infant life expectancy is of 62.5 years, about sixty-one years for men and sixty-four years for women. The rate of infantile mortality is near sixty-one for every one thousand born alive and maternal mortality 390 for every one hundred thousand born alive.

1.2 Economic situation

The situation of the Bolivian economy up to 2003 shows certain levels of recovery after the period of crisis initiated in 1999. Nevertheless, it remains in a state of precarious stability. The GIP is positioned in 7.878 million American dollars, with an effective growth of 2.45%, almost similar to the rate of growth of the population and an average to per capita that does not reach annually a thousand
dollars ($us.>910). The accumulated annual inflation is of one digit (near 4%) and the rate of
devaluation of 4.5 Bolivians for dollar.

The exports, due mainly to the increase of the international prices on the raw materials of export
(mineral and agro-industrial as tin, soy, chestnut, among others), have been increased to 1,573
million dollars with perspective in 2004 to reach at the historical record of the country $US 2.000
million and, after long period, to have a positive\textsuperscript{13} trade balance. The imports ascended to 1,630
million dollars, with a still negative commercial balance of 57 million dollars.

The heel of Aquilles of the Bolivian economy continues being the fiscal deficit that was positioned for
2003 at 8,1 % of the GIP, an aspect that leads to serious restrictions in the public cost. The deficit
that in a good percentage is due to the weight of the reform of pensions (around 5%) is covered in a
good part with external financing (5.5 %), considering every increase in internal financing (2.6%).
International cooperation has promised for the procedure of 2005 the sum of 111.5 million dollars
(46.5 bilateral sources and 65 million multilateral dollars) destined to finance part of the fiscal deficit
and to support the reduction of poverty\textsuperscript{14}. The critical fiscal situation has taken the present
government to a policy of austerity of the public expense, the same one that has impediments and
inhibits the execution of the public investment. The total investment for 2003 has been in 873.3 million
dollars, with a layout in its execution of 57% of public investment, 25% of single national private
investment and 18% of foreign private investment.

As much the deposits of the public as the gross portfolio of the banking system diminished due,
fundamentally, to the instability and political uncertainty in the country. The deposits lowered to 2,713
million, approximately 106 million less than in 2002. The past due accounts reached to 16,7%. The
external debt ascended at near 5,040 million dollars surpassing the historical levels of around 4,500
million. The commercial debt has been settled and, in the Bolivian case, the weight of the debt is
concentrated with the multilateral organisms (84%) and, to a lesser extent, in the bilateral scope
(16%). The service of the debt has been in 2003 of 428 million dollars equivalent one to 26% of the
exports. The international reserves net (# $$us.>975.8 million) recovered with respect to 2002 of an
indicator of 5.6 months of import went to 7 months of import in 2003 (although below the international
standard that is located between 8 and 10 months\textsuperscript{15}).

\textsuperscript{13} “The Agricultural and Industrial sectors, main producers of transables goods of the economy were the ones that most
contributed to the economical growth reached in 2003, stimulated by an international favorable context an also by a more
competitive change. The soy production increased 41.2% due to a rise in the agricultural surface by 7.6% and a significant
increase of the yield by hectarea from 1.9 to 2.4 MT, surpassing historical levels. The good performance of the
manufacturing industry is originated in the sub-groups of foods, textiles and leather. The sectors of commerce and
transports were also dynamic, although its incidence on the total growth was limited. The hydrocarbons sector also
recovered in 2003, explained by the favorable evolution of the international prices of tin, gold, as well as by the incentive
of a more competitive current rate. The hydrocarbons sector showed an elevated rate of growth in comparison to previous
periods. (11.2% in 2003) and constituted the main sector with the greatest dynamism of the economy due to the increase of
the volumes of export of natural gas in Brazil”Komines, K., Aguilar, J.C., et. “ Reducir la Pobreza y Crear Riqueza en
Bolivia: ¿Cuál es la contribución del “Proceso PRSP”?”. (To Reduce the Poverty and to Create Wealth in Bolivia) Rough

\textsuperscript{14} La Razón (Newspaper), La Paz, October 29, 2004, p. A10. According to official information, it is anticipated that the
country will have a fiscal deficit of $US 115 million and the rest $US 340 million (75%) will be financed with internal debt
(bond sales, letters and other papers). Businesses. \textit{More than 75% of the fiscal deficit will be financed with internal debt.}
Periódico La Prensa (Newspaper ), La Paz, October 30, 2004, p.5c.

\textsuperscript{15} Nueva Economia. “Once Años Once Indicadores.” (New Economy. Eleven Years Eleven Indicators). La Paz, October
**Chart 1. Main indicators of the Bolivian economy 2003**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Interior Product (GIP)</td>
<td>Nominal: 60.418 millions Bs</td>
</tr>
<tr>
<td></td>
<td>Constant en Bs. 1990: 23.837 millions Bs</td>
</tr>
<tr>
<td></td>
<td>Nominal: 7.878 millions $us</td>
</tr>
<tr>
<td>PIB per capita</td>
<td>910.3 $us.</td>
</tr>
<tr>
<td>Effective growth rate PIB</td>
<td>2.45 %</td>
</tr>
<tr>
<td>Annual growth inflation</td>
<td>3.9 %</td>
</tr>
<tr>
<td>Nominal exchange rate</td>
<td>7.8 Bs/$us.</td>
</tr>
<tr>
<td>Devaluation rate</td>
<td>4.5 Bs/$us.</td>
</tr>
<tr>
<td>Exports FOB</td>
<td>1.573.4 millions $us.</td>
</tr>
<tr>
<td>Imports CIF</td>
<td>1.630.5 millions $us.</td>
</tr>
<tr>
<td>Commercial balance</td>
<td>-57.10 millions $us.</td>
</tr>
<tr>
<td>Deficit spending % PIB</td>
<td>-8.1 %</td>
</tr>
<tr>
<td>Investment</td>
<td>Public executed : 499.8 millions $us</td>
</tr>
<tr>
<td></td>
<td>Foreign private: 160.2 millions $us</td>
</tr>
<tr>
<td></td>
<td>National private: 213.3 millions $us</td>
</tr>
<tr>
<td></td>
<td>Total: 873.3 millions $us</td>
</tr>
<tr>
<td>Tributary co-participation (20% national</td>
<td>172.1 millions $us.</td>
</tr>
<tr>
<td>collection)</td>
<td></td>
</tr>
<tr>
<td>Banks</td>
<td>Public Deposits: 2.713.0 millions $us</td>
</tr>
<tr>
<td></td>
<td>Gross portfolio: 2.551.6 millions $us</td>
</tr>
<tr>
<td></td>
<td>Doubtful portfolio: 16.7 %</td>
</tr>
<tr>
<td>Micro finance</td>
<td>Urban portfolio: 362.5 millions $us</td>
</tr>
<tr>
<td></td>
<td>Rural portfolio: 104.6 millions $us</td>
</tr>
<tr>
<td></td>
<td>Total: 467.1 millions $us</td>
</tr>
<tr>
<td>External debt</td>
<td>5.041.7 millions $us.</td>
</tr>
<tr>
<td></td>
<td>Multilateral: 4.219.9 millions $us</td>
</tr>
<tr>
<td></td>
<td>Bilateral: 821.8 millions $us.</td>
</tr>
<tr>
<td></td>
<td>external debt service: 428.0 millions $us.</td>
</tr>
<tr>
<td></td>
<td>(25.9% from the exportations)</td>
</tr>
<tr>
<td>Gross international reserves</td>
<td>1.096.1 millions $us.</td>
</tr>
</tbody>
</table>

1.3 Social situation

As the Humane Development Index (IDH) municipal\(^{16}\) indicates the profits of Bolivia in regard to education and health shows an improvement (a little high for the indicator of education 0.7 - 0.8 and middle for the indicator of health 0.6 - 0.7) and they are slightly below the countries of Europe Oriental and Latin America.

Contrary, the income indicator is something superior (average under 0.5 - 0.6) to the one of sub-Saharan, considered like the only region of the world with a low human development\(^{17}\).

*Chart 2. Social Indicators*

<table>
<thead>
<tr>
<th>Index of human development (2000)</th>
<th>0.648</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ranking en el IDH (2000)</td>
<td>104/162</td>
</tr>
<tr>
<td>Incidence of poverty (2000)</td>
<td>61.25%</td>
</tr>
<tr>
<td>- Urban area Incidence</td>
<td>49.54%</td>
</tr>
<tr>
<td>- Rural area Incidence</td>
<td>81.79%</td>
</tr>
<tr>
<td>Pop. That does not attend its health</td>
<td>21.90%</td>
</tr>
<tr>
<td>- Men</td>
<td>22.29%</td>
</tr>
<tr>
<td>- Women</td>
<td>21.59%</td>
</tr>
<tr>
<td>- Urban area</td>
<td>20.43%</td>
</tr>
<tr>
<td>- Rural area</td>
<td>25.10%</td>
</tr>
<tr>
<td>- Illiteracy rate (2000)</td>
<td>13.83%</td>
</tr>
<tr>
<td>- Men</td>
<td>7.41%</td>
</tr>
<tr>
<td>- Women</td>
<td>19.63%</td>
</tr>
</tbody>
</table>

Source: Taken from www.econoticiasbolivia.com
With data from INE, PNUD, Min. Hacienda, Min. Educación, Min. Salud.

\(^{16}\) The PNUD. *Index of Human Development in the Municipalities of Bolivia*. National report of Human Development 2004. Program of the United Nations for the Development. PNUD. La Paz, March 2004, p. 13. The IDH is a multidimensional indicator of the development that measures the profits in health, education and income. The value of the IDH is obtained from the simple average of these dimensions and that it fluctuates between 0 and 1, where 1 is the desirable maximum value. The international standards of comparison allow to classify the countries in three categories according to their level of human development: stop when the indicator is superior to 0.8, medium when it is between 0.5 and 0.8 and low when it is inferior to 0.5.

\(^{17}\) Ibidem., p.13
Bolivia is in an IDH at national level, with base in municipal data, 0.641 considered as a medium high level of human development. In the international ranking it is in position 104 among 162 countries. The incidence of the poverty is more than 60%, being the incidence in the rural area of 82% and in the urban area of 49%. The population that does not assist its health is in a 22% with one slight majority of the men with respect to the women and with greater incidence in the rural area. In the inverse way, the illiteracy affect the women more (20%) in relation to the men (7%) and, certainly with greater occurrence in the rural area.

As far as the variable income, these are low. A great part of the population lives with an income below the line of poverty.

**Graphic 2**

![Graphic 2](image)

The line of urban poverty (cuts the distribution of the income between deciles five and six. In the rural area, the line of poverty (Bs. 268 in a month)) cuts the distribution of income between deciles eight and nine. Specialists in the subject observe that "the fundamental factor of poverty in Bolivia originates in its low level of development. In addition to it, there is a problem of inequality in the distribution of income. The index of Gini for 2000 was worth 54 percent, placing Bolivia among the countries with greater inequality in the distribution of income in Latin America. Also, "the incidence of the poverty is elevated because it affected 73 percent of the population in 2000, but that it has shown a tendency to diminish in the last twenty-five years of the twentieth century." Nevertheless, of the percentage diminution of poor and indigents, "the absolute numbers of poor and indigents grew in an alarming form because the population grew to a rate faster than the diminution of these percentages... In the last years of he twentieth century, the number of poor increased by 2.6 million and the number of indigents by 1 million."

One of the main impacts of globalization over poverty situation refers to a constant growth of concentration of the wealth in key sectors of the economy related to transnational companies, mainly of hydrocarbons, energy and telecommunications; to the financial sector and the commerce. The breach between the rich and the poor has been increased and, in spite of the advances in the

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main social indicators, the persistence of the poverty in ample sectors of the population mainly located in the rural and marginal urban sectors of the cities, affecting mainly natives, women, children and youth. The opportunities and possibilities of access to the development and technological advance of these sectors are more and more remote, being placed in situations of greater disadvantage on the central axes that characterize the globalization process: the technological development, the information and the knowledge.

1.4 Political situation

The present government of Carlos Mesa (2003 - 2007) assumes the governmental conduction as a result of the social mobilizations in September and October of 2003, the consequent political crisis and the resignation and exit of the country of formerly president Gonzalo Sanchez de Lozada. As Vice-president assumes the Presidency and establishes a constitutional exit to the serious political and social crisis at that time, carried out by the social movements in the country, the mines and the cities, mainly of Altiplano and the cities of Alto and La Paz. The social movements impose the denominated “agenda of October”, consisting of three key points that characterize the thematic and definition of the political times and simultaneously expresses the exhaustion as much of the initiated economic model in August 1985 as the prevailing system of democracy agreed since then in the country: National referendum to define the export of gas; Hydrocarbon law; and call to the Constituent Assembly for the modification of the Political Constitution of the State. (PCS).

The government of Carlos Mesa, soon after the Referendum made on July 18th, 2004, faces the exigency of ample sectors of the Bolivian population for the nationalization of hydrocarbons and the recovery of their property from the side of the State. On the other hand, sectors related to the regional hegemonic power, mainly of Santa Cruz, put pressure for the autonomy of the regions. To the urgency of the promulgation of the new Hydrocarbon Law the anticipated calendar for the municipal elections to be carried out on the first Sunday in December 2004. The government faces the historical challenge of change that the Bolivian population demands.

In a similar way, the call for the new national dialogue is assumed, the same one that by the demands of ample sectors of the citizenship is centered in the productive aspects and the necessity to generate employment and income. The present National Productive Dialogue is in process of accomplishment through the municipal tables and the departmental tables, soon to end in the national dialogue.

In addition to the explicit agenda, the society has high expectations in the accomplishment of the judgment of responsibilities for ex-President Sanchez de Lozada and his collaborators by the events of February and October of 2003 that had a sum of more than seventy people dead and hundreds of wounded. The fight against impunity is one of the pending subjects to recover the credibility of the citizens in justice and public institutionality.

Although President Mesa’s image and popularity are high, the political and social context in which his government struggles is of continuous uncertainty. The permanent social conflicts and sectorial demands related to the destabilizing attempts on the civic committees and the displaced political forces, mainly of the Revolutionary National Militia (RNM), are part of dynamics and political instability of the country. This panorama becomes still more serious by the tensions between the executive and the parliament in regard to their respective proposals of the Law of Hydrocarbons and to the delay in the decisions on this subject. The international organisms, mainly multilateral, have decided with the Government the postponement of the Paris Advisory Group until February 2005, to the expected of
the mentioned decision that supposes the generation of income and the reversion of the fiscal crisis that the country is going through.

2. Poverty, globalization, adjustment and the structural reforms in the case of Bolivia

2.1 General causes of poverty

Poverty is a subjective and relative valuation that does not have a specific definition, but rather, operatively it has different interpretations and approaches for its boarding for example the unfulfilled basic necessities (UBN), the line of poverty or the Index of Human Development (IHD). It is possible to affirm that poverty has multicausal factors that generate it and that cannot be considered their origin and incidence in a linear manner. They are complex processes and diverse historical factors (economic, social, and political) that can constitute the base or causes of poverty. In the Bolivian case, if we considered history as being long, we would have to go back to the product processes of the Spanish colonialism and to the unstructuring of the original societies. The causes of poverty can be found in the conquest passing through the colony to the present republican life that has been characterized by the imposition of a civilized project. Obviously, these processes have not been linear or peaceful. The resistance of the towns and communities to this "civilized project has been permanent and within the framework of approaches, proposals and cosmovisiones of the differentiated world and the life. The insertion of the country in the international market and the capitalist system as supplier of raw materials and within the framework of the asymmetries between the denominated "slow developed world" and or "the underdeveloped" are the structural factors that constitute the base for the causes and conditions of poverty that prevail in our countries. Within the


20 The indigenous towns and the farming communities, in the course of republican history, have maintained different forms and logics of resistance, interpellation, adjustment and mobilization before of the State and Society. The fight in defense of their rights has as reference diverse landmarks. In the short history they emphasize the mobilizations for freedom and the land during the second half of the forties, which later ended at the Revolution of 1952 and the Agrarian Reformation of August 1953. This reform was mainly centered in Valleys a Plateau. In low lands, they are an important reference the mobilizations during the decade of the nineties (initiated with the first “Marcha por el Territorio y la Dignidad” (March for Territory and Dignity). From part of the indigenous towns of Beni (which derived in the promulgation in 1996 from the denominated INRA Law with the consequent recognition of the Communitarian Territories of Origin (TCOs), and processes of recovering and degree. The indigenous territory is one of the most important vindications and conquests of the Bolivian indigenous movement. The different indigenous mobilizations have managed to consecrate their right in the Political Constitution of State (CPE). Art. 171 recognizes, respects and protects the social economic and cultural rights of the indigenous towns, specially those related to the their TCOs, guaranteeing use and sustainable advantage of their natural resources, identity, values, languages, customs and institutions. Nevertheless, these rights cannot totally be exerted due to the lack of political will of the authorities and, fundamentally, by the interests of historically hegemonic groups of the Bolivian Society on land property, which has come to form neolatifundism. With the promulgation of the Law of Popular Participation (LPP) in 1994 and the process of municipalization, the State arrives – like never before at all the borders of the national territory. This inevitable process is accompanied by one “modernization” process, which implies a tendency towards the control/homogeneization of the society. Nevertheless, pradoxically, the indigenous towns and farming communities take control of the process and different alternatives are opened, such as the effect/recreation of their usage and customs, within the framework of the own spirit of the LPP. In these last years, the indigenous movements have obtained important spaces of recognition to their social, territorial demands and exercise of their rights. The multiethnic and pluricultural character established in Art. 1 of the CPE; the recognition of its natural organizations (by means of legal function and position of agent) in the scope of the LPP and the TCOs in INRA Law; the establishment of Education Intercultural Bilingual (EIB) in the context of the Law of Educative Reform (LRE) of 1994, and the creation of a portfolio of State (Ministerio/Viceministerio) with competitions in the indigenous subjects and farmers, are samples of the advances and profits obtained by the struggles mobilizations of the farmers/indigenous towns and communities.
framework of the capitalist development, the Bolivian social formation registers in a delayed joint to this system. At present the country remains under the exporting primary model, with a extractivist mentality for the natural resources, with a high dependency of the resources of international cooperation, with low levels of internal saving, a concentrated and speculative financial system, a limited enterprise leadership, among other factors like the low levels of schooling and bad quality of the education, the asymmetries and inequity in the access to the resources, to the technological development, the knowledge and information.

2.2 Globalization, adjustments and reforms

In the Bolivian case the process of globalization with the application of the policies of structural adjustment cannot be dissociated. The development of the cybernetics, the technology, the communications and information, as well as the transnationalization and internationalization of the economy characterize the present developed world. With computer science and the development of the communications the concept of space and the time has been modified substantially. Distances are shortened and communications are made in real time. Also "One of the most surprising changes of this century is the speed whereupon agreements of free commerce are made: the FTA between Mexico, the United States and Canada; the MERCOSUR and other agreements that have just been signed between several Latin American countries. In some areas, well-known in Europe, regional integration goes beyond the reduction of tariffs to facilitate the interchange of merchandise; it implies the free circulation of people and messages, the joint elaboration of educative and communicational programs. In synthesis the map of the economic competitions is being redefined and national cultures, of the groups and interchanges between the countries and the region"21.

"Bolivia has been considered in the last years as a pilot country by the international cooperation. The policies decided in the international concert as the denominated consensus of Washington has been applied in the country.

By 2004, Bolivia will have accomplished twenty-two years of recovery of democratic liberties and nineteen in the application of the measures of structural adjustment.

In October 1982, through the fight and mobilization of the popular sectors led by what was then known as the unitarian and powerful Bolivian Workers Union - BWU democratic life recovers and a process with ample expectations of the citizenship is inaugurated to improve living conditions22.


22 After the military dictatorship of Garcia Meza and the successive facto governments between 1980 and 1982, the popular mobilization allowed again the recovery of democracy. The Government of the Gral. Guido Vildo, chosen as result of the 1980’s elections, summoned Congress. On October 5th 1982 congress chose Hernan Siles Suazo President of the Republic, at the head of the government of Unidad Democratica Popular (UDP), an alliance of left parties (MNRI, MIR, PCB, among other political forces). Dr. Siles won the national elections of 1980 and was prevented from assuming the Presidency by the bloody coup d’etat of July 17th, 1980 headed by Gral. Luis Garcia Meza. The government of the UDP historically faced persistent delayed demands of the social movements, the pressure from the private industrialists, the financial speculation and an adverse international economic context. The eighties were considered a decade of loss or of the crisis of the external indebtedness. After a period of prosperity of international loans and an easy indebtedness obtained, in an excessive way and, in many cases, onerous, by the governments of the region, mainly military dictatorships in the seventies- happened the period of the payments and amortizations of the contracted commitments, in a context of international crisis. The UDP gave continuity to the Capitalism of State, economic model that characterized the economy of the country since the middle of the twentieth century. Between 1982 and 1984, the South American countries were
Historically, the social movement in the country has reaffirmed its democratic spirit and the defense of the natural resources.

In 1985, after a deep economic, political and social crisis that derived in a hyperinflationary process measures of adjustment were applied, known as first generation reforms, oriented to restrain the hyperinflationary process and to initiate a stage of liberalization of the national economy. These measures allowed to reestablish the macroeconomic stability, to close the cycle of the capitalism of the state in the country and to inaugurate the stage of the model of free market also denominated as "neoliberal".

The application of these measures implied a high social cost due to the wage freezing, the nonregulated prices, the practice of free hiring and wage negotiation. Several factories were closed with the consequent dismissal of manufacturing workers. In addition, it had to face the fall of the price of tin, the main product of Bolivian export, in the international market, which meant the closing of the main state mines of the country and originated the layoff thousands of mining workers from their sources of work, this fact is known under the euphemism of the "relocalization". With the new model occurs a generalization in the development of the denominated "informal sector" of the economy and the massive incorporation of women, young people and children in the labor market, in precariousness condition and bad quality of the work.

"Bolivia is dying away from us," said the former President Víctor Paz Estenssoro on August 19th, 1985, during the promulgation of the Supreme Decree 21060, through which a step was taken towards the inauguration of the economy of free market "The Bolivian economy was then facing a critical situation: it dragged four years of negative growth, hyperinflation, a high fiscal deficit and external indebtedness... Supreme Decree 21060 established a type of real exchange and flexible, tariff measures to improve the income of the state companies, an increase on the price of fuels and a sole tariff for the import of goods... The reforms of first generation were implemented, those of economic liberation: the opening of markets, the transference of the state companies to private management and the financial reform with the closing of the state banks, Minero and Agricola23.

After the adjustment, in the nineties, a group structural reforms denominated second generation was impelled destined to the modernization of the State and the establishment of a new relation between the State and the Society. Among the main reforms from this period are the following:

i) modifications to the Political Constitution of Estado State (PCS), on the base of the agreements established between the main political forces of the country (February of 1992),

ii) Capitalization Law (1994, modality of privatization of the main state companies),


characterized by an increase in the level of prices and the decrease in the level of the product. The Bolivian case was the one with the greatest inflation in all South America. When Siles Zuazo initiated his mandate, the economy had initiated a negative process of growth of - 11.1% inn 1982 with an annual inflation of 296.5%

iv) Educative Reformation Law (1995),

v) Reformation of Pensions Law (1996),

vi) Agricultural Reform of National Service Law, known as the ARNS Law (1996).

The impulse to the set of public policies was centered mainly to promote the economic growth (to surpass the fragile economic stability with greater productive activity), to improve living conditions of the population within the framework of the democratization and to obtain a better insertion of the country in the international scope, within the framework of the concept and direction of the sustainable development.

Since the nineties a kind of excess or "oversupply" of reforms, expressed in different norms has been present in the country (laws and decrees) that - in many cases in spite of the processes of diffusion and qualification they have had difficulties in being totally assimilated and digested by the different parties (institutional - private and public- and social).

2.3 Adjustment, macroeconomic stability, growth and crisis

Since the application of the adjustment (1985), the Bolivian economy has been characterized by its stability although it has not reached the awaited growth (0.9% in average per capita in between 1986 - 2001, with a drop per capita from 1999 to 2003) neither a significant impact in the reduction of the poverty.

The efforts made by the country and the international cooperation to deal with the development in the country have not given the awaited results and, until now, it has not managed to revert the situation of poverty, social exclusion and economic and institutional fragility that, at the present, characterize the country. Bolivia maintains a high dependency of concessional external resources and the international cooperation.

Graphic 3

24 Aguilar, J. C. y Peres, J. A.” La Relación Entre el Financiamiento Sectorial Ampliado (SWAP) y La Descentralización en Bolivia.” European Center for Development Policy Management. La Paz, 2002.

Nevertheless, through the service of the external debt (interest and capital) Bolivia paid the sum of 2,756 million American dollars between 1970 and 1985 (for amortization of capital paid $US 1.403 million and for interests $US 1.353 million). Between 1986 - 2001 FOR amortizations it paid 2,455 million dollars and for interests 1,982 million dollars\(^{26}\).

**Chart 3**

**Gross National Debt (in $US million)**

<table>
<thead>
<tr>
<th>Years</th>
<th>Internal</th>
<th>External</th>
<th>Total debt</th>
<th>Debt /PIB (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>1.343</td>
<td>4.573</td>
<td>5.916</td>
<td>71.5</td>
</tr>
<tr>
<td>2000</td>
<td>1.576</td>
<td>4.460</td>
<td>6.036</td>
<td>72.0</td>
</tr>
<tr>
<td>2001</td>
<td>2.051</td>
<td>4.412</td>
<td>6.463</td>
<td>80.6</td>
</tr>
<tr>
<td>2002</td>
<td>2.170</td>
<td>4.299</td>
<td>6.469</td>
<td>83.0</td>
</tr>
<tr>
<td>2003</td>
<td>2.429</td>
<td>5.040</td>
<td>7.469</td>
<td>93.0</td>
</tr>
</tbody>
</table>


The behavior of the national debt during these last years shows, in general, an increase that up to 2003 represents 93 percent of the GIP. This increase is appraised so much in the external debt as, fundamentally, in the internal debt. A good part of this last one has had the purpose of covering the fiscal deficit, which main cause (around 5% of the GIP) is the reform and privatization of the pensions systems.

\(^{26}\) Businesses. Nineteen Years Later … io, cit., p. 5C.
Since the application of the adjustment the country has known a prioritized support from international cooperation. It is considered by several bilateral donors as a country of "concentration" and by the multilateral organisms (the IMF, BM, I.A.D.B., etc.) as a "pilot country". Several of the reforms and propose policies in the international agenda have been applied in the last nineteen years in the country. Nevertheless, a part of these has had a certain particular and very own "seal".

The dependency of the public investment with respect to the external financing is high, in the last twelve years (1990-2001), it has reached a 48.5% of the total investment (35% concessional credits and 14% donations) and close to 4% of the GIP.

It is considered that the protagonism of international cooperation, in the last years (1997-2002), was remarkably increased due fundamentally to the weakness and limitations of leadership from the Government of the Gral. Banzer (1997-2001) to the present, passing through the administrations of Jorge Quiroga and Gonzalo Sanchez de Lozada.

There has been diverse attempts to improve the levels of coordination between the Government and International Cooperation, mainly in about, on the one hand, to the preparation and accomplishment of the different Consultative Groups and, on the other hand, to the process in the fight against poverty (PRSP) that derived in the formulation of the Bolivian Strategy for The Reduction of Poverty (EBRP) through the National Dialogue 2000. Nevertheless, the levels of leadership from the Bolivian Government (at its different moments) has not yet reached the expected. A long or medium term integral vision does not exist, the appropriation (ownership) is weak and, given the limited levels of implantation of the proposals (EBRP and programs and projects), the monitoring systems do not
Chart 4

(The percentage is as the proportion of PIB)

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</tr>
</thead>
<tbody>
<tr>
<td>% of the Public inv.</td>
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<td></td>
<td></td>
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<td>55.1</td>
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As % of PIB

| INTERNAL RESOURCES | 2.95  | 4.27  | 4.43  | 3.42  | 3.69  | 3.68  | 3.53  | 4.09  | 3.43  | 3.55  | -     | -     | 3.70     |
| EXTERNAL RESOURCES | 3.52  | 3.62  | 5.01  | 4.92  | 4.87  | 3.99  | 4.32  | 2.85  | 2.50  | 2.83  | -     | -     | 3.84     |
| CREDITS           | 2.73  | 2.79  | 4.13  | 3.77  | 3.96  | 3.29  | 3.42  | 2.20  | 1.80  | 2.09  | -     | -     | 3.02     |
| DONATIONS         | 0.79  | 0.82  | 0.88  | 1.14  | 0.91  | 0.70  | 0.90  | 0.65  | 0.69  | 0.73  | -     | -     | 0.82     |
| TOTAL             | 6.47  | 7.89  | 9.44  | 8.33  | 8.56  | 7.67  | 7.85  | 6.94  | 5.93  | 6.38  | -     | -     | 7.55     |

Source: Own elaboration with SISIN – VIPFE data

(*) In the 2001 operations, including donations HIPC II de 1,9%

operate and if they, do so weakly, aspect that makes difficult the application of the approach of direction by results.

Since the second half of the nineties, several bilateral donors, inaugurated the proposal of the approach of sectorial support and gradually passed from the cooperation to projects aimed at programs. One stands out from these, in a beginning, the roll of the Swedish cooperation (ASDI) in this intention, followed by the Netherlands, Switzerland, and Denmark. In 1999 on behalf of the World Bank, the proposal of Comprehensive Development Framework (CDF) is launched and the impulse to its four principles (holistic vision or of long term, ownership, partnership and direction and guided by the results). Bolivia was considered the pilot country for the CDF and, in this context, it prepared an ordenadora* matrix of the national priorities, trying that the international cooperation impels its proposals and actions in this frame. “Nuevo Marco de Relacionamiento Gobierno-Cooperación Internacional Hacia el Siglo XXI” which was introduced at the meeting of the Consultative Group in Paris of June 1999. The principles of the NMR are framed totally within those of the CDF27.
After the adjustment and the impelled reforms, the Bolivian economy continuous small, fragile and vulnerable to the external shocks. It is mainly an exporter of raw materials, in constant devaluation, in spite of the present improvement of prices in the international market\textsuperscript{28}.

"Bolivia, structurally, continues being a country of primary economy, with exports originated in the sectors of nonrenewable natural resources, with a very weak industrial architecture and it has not managed to surpass its dependency of the resources of international cooperation which have always been the mattress that has allowed the performance since the Revolution of 1952, and those international resources have been lead to finance the public investment, mainly, and also to support the incapacity of the state from financing itself from the taxation of the economy\textsuperscript{29}.

According to official data, the rate of growth of the Bolivian economy had the following behavior in the last nineteen years:

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>Growth rate in percentage 1985 – 2004</th>
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<tbody>
<tr>
<td>1985</td>
<td>-1,70</td>
</tr>
<tr>
<td>1986</td>
<td>-2,60</td>
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<tr>
<td>1987</td>
<td>2,50</td>
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<td>1988</td>
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<td>4,27</td>
</tr>
<tr>
<td>1994</td>
<td>4,67</td>
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"Goal Programmed by the Ministry of Finance"


\textsuperscript{28} ECONOTICIAS. “Bolivia, La Más Pobre de Sudamérica.” La Paz, 16 de octubre del 2002. (Bolivia, The Poorest of South America)

\textsuperscript{29} Negocios: Grebe: Modelo “Sánchez de Lozada” No Resolvió Lo Central.” (Bussinesses: Grebe: Sanchez de Lozada: Did Not Solve The Central.”)
In an average, the growth of the economy did not surpass 3.5 %, percentage that is relativized even more given the rate of growth of the Bolivian population that places itself in 2.3%. The highest growth in the period appeared in 1991 with 5.27 % and the lowest in 1999, with 0.43%. The fall of the rate of growth coincides with the effects of the international crisis of 1998 as well as with its own internal one.

Among the unsolved problems and deepened by the adjustment there exists: a greater participation of women, young people and childhood in the labor activities and employment, mainly from the denominated informal sector that, generally, are of bad quality, conjunctural and low remuneration or income. The social exclusion and the weak policies of rural development and towards the indigenous towns. The social conflicts persist and the country continues with high levels of poverty. Under employment and unemployment are factors that have characterized the essence of the model, as well as the development of the mentioned informal sector with a participation of the work force in conditions of instability in the income and precariousness of the labor conditions. The rate of open urban unemployment is considered in 14%.
In the context of the countries of Latin America and the Caribbean, Nicaragua, Honduras and Haiti are among the four poorest. The problematic of the nourishing security and the rural development in Bolivia is critical. It is believed that 59% of the Bolivian homes do not have enough to cover a “minimum goods”. The extreme poverty or indigence affects 32% of the population, mainly in the rural and urban-marginal areas, affecting mainly women and children. The access of the homes to basic foods is limited by unemployment, under employment and the low income of the population in the urban areas and the low level of production and farming productivity and limited sources of nonfarming income in the rural areas.

Fundamentally, the internal supply of foods comes from the small Aymaras and Quechuas producers from the high-plain region and valleys. Nevertheless, the capacity of access, usage and advantage of the resources is one of its main limitations. Land possession is characterized as not being equitable. The farmers’ units with up to five hectares which represent 68% of the productive units of the country depend solely on the 1.4% of the total surface; this proportion corresponds to almost one third of the farming operations of the country has poses less than one hectare. Still more, it is suggested that during the two last decades in the fractioning of land in the high-plains would have generated an

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31 Minimum Goods, or family, is made up of consume goods of first necessities for one family unit which allows its reproduction.
average of approximately 16,000 small farms per year\textsuperscript{33}. To the problematic of land and water we must add a set of factors that affect negatively the behavior of the sector, like the limited road network, the insufficient work investment of productive infrastructure and support to the production and access to the technology and finally, the nonexistence of access to the financial services and suitable no financiers.

Besides displaying higher levels of poverty with relation to the urban area, the rural area has strong limitations in the access to services (health, education and basic services\textsuperscript{34}).

Another one of these manifestations of this situation of poverty is the migration of the rural population towards the cities, in search of better opportunities in the generation of income. In 1992 the urban population represented 57\% of the total population, this increased to 62\% by 2001, in a continuous process of urbanization that simultaneously affects the creation of areas of poverty around the main cities of the country\textsuperscript{35}.

2.4 Investment and decentralization

The main advances obtained with the application of the adjustment and the reforms have been linked, on the one hand, to the macroeconomic stability and, on the other hand, to the improvement of some social indicators, to the decentralization and citizen participation in the public decisions and, to a certain extent, to the institutionalization of some key organizations like National Taxes, the National Customs and the National Service of Roads\textsuperscript{36}. Although in this last aspect, the cost of the efforts of institutionalization of the public administration and the structuring of a career of the public administration through different programs supported by international cooperation as the Civil Service and later the Institutional Reformation Program has been elevated and without obtaining the awaited results. The institutional fragility of the public management in the country tends to be debilitated still more due, on the one hand, to the constant reconstructions of the organization of the Executive Power and, on the other hand, to the system of distribution of positions, denominated "political quota", between the governing parties and groups with power. The possibilities of institutional sustainability and career of public administration in this context are uncertain.

The new roll of the State, with the adjustment, and its diminution in the productive activities meant an increase of the social investment that grew from a 10\% at the beginning of the ninety to a 50\% of the total of the public investment by the end of the mentioned decade. In order to palliate the effects and social cost of the adjustment the denominated social funds for the generation of temporary employment as well as for the support to the infrastructure development specially the social one\textsuperscript{37}. The social cost was an increasing tendency in the last years. The last the five years, almost 40\% of the social cost was applied to the education sector particularly to cover teacher wages, 22\% to health, 11\% to basic cleaning and urbanism, 6\% to rural development and the rest to cover the pensions system. With the increase of the social cost and the process of decentralization, the main social

\textsuperscript{33} MAGDR. Nacional Agricultural Diagnostic. La Paz, 2000, p.10
\textsuperscript{34} MAGDR. Nacional Agricultural Diagnostic. La Paz, 2000, p.43
\textsuperscript{35} "Estrategia Boliviana de Reducción de la Pobreza." (Bolivian Strategy to Decrease Poverty)
\textsuperscript{36} Aguilar, J.C. y Peres, J. A." La Relación Entre …, op. Cit”.
\textsuperscript{37} In 1987, The Social Emergency Fund (Fondo Social de Emergencia, FSE) FSE was founded, to promote the generation of temporary employment and on that base continuity through diverse institutional modalities such as FIS, FDC, FONAMA, FDC took place and the present mechanisms of the PNC (Política Nacional de Compensación) through the Directorio Unico de Fondos (DUF) the FPS and the FNDR.
indicators have improved being the case of the diminution of the rate of infantile and maternal mortality, smaller rates of illiteracy and greater scholastic attendance, greater coverage of the basic services (drinkable water, sewage system, etc.), less incidence of the infectious diseases. Nevertheless, the level of social cost of the country is less compared with countries of the region, representing 35% of the public cost, still an inferior level to the average of Latin America (41%).

The decentralization began formally with the municipal elections of 1987, after interrupted decades. Although, the true process of decentralization in Bolivia receives impulse with the promulgation of the Popular Participation Law (LPP) in April 1994 which later was complemented in 1995 with the Law of Administrative Decentralization (LDA) and later, in 1999 with the revision of the Municipalities Law (LM).

With the LPP a model of eminently municipal decentralization and with an important emphasis in the organization of the society for its participation in the decisions on the allocations and actions of control in the local scope is implanted. This model displays serious limitations of decentralization in the intermediate level (departmental). The LDA seeks to complement the process of decentralization at departmental level, although it deals with a proposal of desconcentration of resources and responsibilities on the national level to the departmental prefectures. It defines the new attributions and functions of the departmental prefectures and tries to articulate the scopes national, departmental and municipal.

With the decentralization of the public management the participation of the municipal governments in the execution of the public investment has risen. Before the LPP (1994) it was 8%, increasing to 21% in 1999.

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39 On time to recognize in its article first legal the judicial personality of the Communities and Indigenous Towns, Communities Farmers and Meetings of Neighbors as territorial organizations of base: i) It amply the jurisdiction of the Municipal Governments (GMs) to all the province sections, that is to say, the municipality contemplates as much the urban area as the rural; ii) It amplies competitions and increases resources for the GMs. iii) transfers to the GMs the physical infrastructure of education, health, sports, micro irrigation and local roads for its respective administration, maintenance and renovation; iv) establishes the distribution of the resources of the tributary co participation (20% of the annual collections of the national rents) for the municipalities through the principle of the egalitarian distribution by inhabitant and like automatic device of transference; v) defines as its own municipal income the tax to the Presumed Rent of Proprietors of Goods (imposed to the rural property, the urban buildings and on automotive vehicles, motor–ships and airships), the patents and the taxes established by Municipal ordinance; vi) establishes the organization of the Committee of Monitoring on the base of the participation of the Territorial organizations of Base (OTBx), for the control of the GMs in the administration of the resources and execution of the plans; vii) establishes the municipal participative planning for the formulation of the Plans of Municipal Development (PDMs) and Annual Operative Plans (POAs). Official newspaper of Bolivia. Law of Popular Participation No. 1551. April 20, 1994.
Chart 6

Execution of the Public Investment, 1994 – 2001

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(percentage structure)

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<td>20.0</td>
<td>21.3</td>
<td>18.2</td>
<td>17.6</td>
</tr>
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</table>

Source: Own elaboration with VIPFE y VPEPP data

Note: National: It includes the execution of National projects (Ministries), Departmental: It includes the execution of Projects of the Departmental Prefectures and regional co-financing of the Investment funds, Municipalities: It includes the execution of Municipal Governments and Municipal Local Companies (SEMAPA, ELAPAS, AAPOS).

At present, more than 60% of the execution of the public investment is managed by the municipal governments and departmental authorities, an aspect that in principle should contribute to a better allocation of public resources, binding them to the demand through a greater participation of the civil society in the planning and execution of programs.

The results of the participation policies and decentralization are heterogeneous and unequal, depending on the municipalities. In general, it is possible to indicated that the balance is favorable. At the prefectures level, the observed results have been more negative than positive. The most benefited have been in majority the medium and small municipalities. The rural area has joined up to the municipal jurisdiction and the percentage of resources of the national budget and the national public investment destined to the municipal scope has been substantially increased.

Among the limitations to surpass are the following: i) the tendency to the plotiny or municipal fragmentation (from 304 municipalities at the beginning of process -1994-, at the moment there are 314 and with perspective of acknowledgement of more than 320); ii) limited technical and institutional capacities (the political changes and absence of the career of the municipal administration affect the institutional development and of human resources); iii) limited capacity of municipal investment, in some cases (mainly in the medium and small municipalities) and elevated indebtedness in others (mainly the large ones); iv) the municipal associations still are in initial process of consolidation, although experiences exist that allow to extend the municipal capacities and competitions, to take advantage of the common interests and economies scale. Bound to this aspect the recovery of the region concept becomes essential (municipal, departmental and national relation/articulation) in dealing with the municipal fragmentation; v) it is urgent to rescue a vision and concept of relation.

40 Information taken from www.gov.b, October, 2002
between the urban and the rural, where first, through intermediate cities and urban centers, grants services, support and linking with the rural; vi) in the urban scope, local participation, the metropolization and the demand for basic services and consumer defense, are subjects of high-priority; vii) limited levels and the advantage of concurrent investments between the prefectures and the municipal governments. It is precise a greater balance between the approach of demand and strategic supply, as well as a greater efficiency in the use of the resources public; viii) the sustainable management of the natural resources, the environmental management and the demands of the original and indigenous towns are topics that next to the problematic one of land, the hydric territory and resources are in the public and social agenda.

As priority in the public management identifies the urgent necessity to formulate a National Policy of Decentralization that defines with greater clarity the rolls and competitions of the different scopes (national, mainly departmental and municipal), the fortification of the institutional capacities of the GMs, and the impulse to the social control and control.

2.5 Persistence of the structural problems and crisis

After the application of the policies of adjustment and the reforms, the structural problems of the Bolivian economy persist. Bolivia continues under the exporting primary model characterized by the export of natural resources that is the base of currency generation of the country. That is the operation and export of hydrocarbons - mainly gas -, oily minerals and fundamentally Soya. With the process of capitalization/privatization of the main state companies (hydrocarbons, telecommunications, electrical energy, railroads and aerial transport) the direct foreign investment concentrates in natural resources and services, standing out like intensive investments in capital with limited degrees of generation of employment and reduced levels of incorporation of added value. The appropriation and excessive concentration of the economic surplus are in hands fundamentally of the transnational companies.

The first years of the capitalization process an important increase of the direct foreign investments of around 1,300 million dollars occurred, mainly in the heading of the hydrocarbons, the same ones that soon were lowering gradually. The initial expectations of the capitalization process were not fulfilled. The regulation system (supervisions) did not work nor fulfilled its roll of pursuit and control of the companies. It was not either achieves to reveal the process with the impulse of the system and market of values. The national management did not assume the waited initiative, it was displaced by the transnational capital and maintained a dependent and negotiating relationship with the state. The financial services were not modernized to the expected height, maintained a speculative and tie character with the companies.

At the moment, one of the more questioned measures by the population is the capitalization. In the case of hydrocarbons the majority demand is centered in the nationalization of hydrocarbons and its use, fundamentally of the natural gas, for the internal and industrial development of the country, without letting export in favorable conditions for the national income. The perception that remains in most of the Bolivian society is that the capitalization has meant a “despatrimonying” of our resources and assets, as well as the desestructuring of the companies and national capacities. On the other

hand, that has benefited a group from transnational companies that have concentrated in their hands the property, administration/handling of our resources and excessive control of the economic one\textsuperscript{43}.

As Villegas indicates, with the model implanted since 1985, it has been delegated to a great extent the generation of employment and income to the informal urban sector, the small producers and the farmers in the rural area. Labor Market that expresses precariousness: temporary job, extension of the labor day, high appraises of familiar participation, extending to the women and childhood, loss of social benefits and services and increase of open unemployment\textsuperscript{44}.

The social and political crisis is added to the economic crisis. The social mobilizations of the last years, specially those initiated with the "war of the water" in Cochabamba in 2000 and subsequent on September / October 2003 in La Paz, express a strong interpellation of the social movements to the State and society because of structural changes that allow the improvement of living conditions. The political system, the "agreed democracy" of the traditional parties and the free model market are questioned, within the framework effective international economy, under the consideration of which the development cannot be concerned, but developed is advocated "from inside, with economic and social actors who assure a trajectory long term and the attainment of objectives oriented to the elevation of the quality of life of the population\textsuperscript{45}.

2.6 The fight against poverty and tendencies

2.6.1 National Dialogue and the Bolivian Strategy for Reduction of Poverty (EBRP)

As opposed to the increasing poverty and to the international negotiations regarding aid to the external debt, Bolivia qualified to be considered as a country subject to the Reinforced Program of Relieve to the Debt*, in its second version (HIPC II, by its abbreviations in English). In this context, the Forum Jubileo 2000 was impelled in the country, within the framework of the "jubilee year: pardon of penalties and debts" sponsored by the Catholic Church in the international scope, like National Dialogue II, sponsored by the government, with a strong support and protagonism from international cooperation, in order to gather supplies for the elaboration of the Bolivian Strategy for Reduction of Poverty (EBRP)\textsuperscript{46}. From these experiences the Law of the National Dialogue – LDN- was promulgated (Law 2235 of 31/07/01) that institutionalizes the Dialogue and establishes guided dispositions to fortify citizen participation. The LDN includes the National Policy of Compensation (NPC), the establishment of the Sole Directory of Funds (UDF) with their two financial mechanisms:

Social Productive Fund (SPF), with no reimbursable resources and the National Fund for Regional Development (NFRD), with resources for credit\textsuperscript{47}. With the results from the National Dialogue 2000,
the government formulated the EBRP* that tried to be an instrument that defines the strategic guidelines of medium and long-term to face poverty. Also, together with the international cooperation the same one as much in its formulation as implementation and rating is appropriate (ownership) by the national actors through an ample participative process; their direction is by results and that benefit the poor men; and that has one active coordination with and between the donors.

"With the approval of the Bolivian Strategy for the Reduction of Poverty (the EBRP) by the directories of the World Bank and the International Monetary Fund in the 2000, Bolivia got to be one of the first countries in fulfilling the requirements of HIPC II and to benefit from the relieve to the debt committed to. The strategy was announced in the international circles as a good example of a Strategy For The Reduction of Poverty as far as content and process are concerned. However, in their two years of existence, the EBRP has journeyed a difficult road. Officially, the original EBRP continues effective, but the great majority of the Bolivians either do not know of its existence or they consider it a "dead" document. The implementation of the strategy (in an economic recessive and socially tense climate) has not managed to reduce the monetary poverty and few have confidence that the strategy can solve the economic problems of the country.

. ... the Bolivian experience with the EBRP has put in evidence weaknesses of the process of Strategies For The Reduction of Poverty establishing within the framework of the Strategies For The Reduction of Poverty to actually obtain its objectives, even in the medium term. The EBRP shares several of the deficiencies observed in strategies of other countries (for example, it does not manage to prioritize actions, there are preoccupations on the sustainability of the financing of the strategy, and it was not able to create ample appropriation of the EBRP on the part of the national participants). Nevertheless, the EBRP differs from other strategies by the span of National Dialogue 2000 and by the important role given to municipal governments in the strategy. The Bolivian case also stands out by the decision to institutionalize in the Law of the National Dialogue the distribution of resources HIPC II to the municipalities.

Under the administration of Sanchez de Lozada the Bolivian Strategy for Reduction of Poverty (EBRP) was reformulated and it appeared in October 2003 to the Consultative Group in Paris. At the moment, the government of Carlos Mesa impels the accomplishment of the National Productive Dialogue, with which the elaboration of a new strategy is expected. Within the framework of the Program Multidonor of Budgetary Support, the goals established by the Government for 2005 refers to: the formulation of the plurianual budget (budget for more than three years), to improve the measure of the cost by a poor to man and introduces in the budget the management by results, to obtain the transparency of the social expenditures and to fortify the fight against the corruption, the reduction of the cost of retirement to increase to the tributary levy and the reduction of the poverty.

The main observations and critiques to the fight against poverty can be synthesized in:

The process have been induced fundamentally from outside, and the different governments have not had enough interest, political will and leadership to assume and to take control of the process.


49 Ibidem., p.1.

50 La Razón. La Cooperacion Prmte.SUS111.5 million to the country. Newspaper La Razon, La Paz. October 29, 2004

51 Dialogues I and II were not assumed of high-priority by then President Banzer. It was vice-presidente Jorge Quiroga who by his relation with the “Cooperaracion Internacional” committed himself to the process and promulgated the LDN, but it was not either a factor for a real execution of the EBRP. Under the administration of Sanchez de Lozada, the process of reformulation of the EBRP was perceived more as a real instrument that guides the public management. The present government, being more “trapped” by the “the October agenda”, does not give samples either to assume as high-priority
The growth indicators, in the first EBRP, and of the economic, social political and surroundings that were anticipated were formulated in an optimistic and little realistic way.

It was not clearly and transparent indicated the framework of the restrictions for the resources the country faced in the medium term. Rather one considered the perspective of the availability of important amounts for the debt lightening and to other sources that would allow to finance the demands related to the reduction of the poverty. High expectations were generated on the short term actions to make, that soon could not to fulfill for diverse reasons.

The elaboration of the EBRP (as much in its first version as in the adjusted one) It does not sufficiently gather the demands expressed in the engaged process of dialogue. This meant an ample participation and mobilization of the actors, but the formulation of the EBRP (in its two versions) less did not have that considered to character as "vision shared" by the involved institutional and social actors. To which the loss of confidence of groups of the civil society is added in the process.

It is agreed that Bolivia is straggled on its way towards the goals of the Millennium to 2015 and in spite of the relative advances in the social area - education, health and basic cleaning - there is a straggler mainly in the economic-productive subjects. It is estimated that 110 thousand people to enter every to year underneath the line of poverty.

2.6.2 Social Expectations and interpellation of the social movements to the state and society

The results of the National Dialogue did not respond to the high generated expectations. The Forum as well as the National Dialogue implied a high participation discharge, mobilization and investment of social Energy from the actors. Nevertheless, this effort did not have correspondence with oriented public policies to resolve the main preoccupation of the citizens: employment, income, social access to resources and political inclusion.

The DUF and to their mechanisms (FPS-FNDR) did not have the awaited performance and they became excessively centralized, heavy, bureaucratic and with limited capacity of effective arrival to the local scopes/municipalities. The excessive politicalization and the lack of technical capacity of the most of municipalities to identify, elaborate and to execute projects, were from another causes of the expressed social disgust in the social movements.

The underlying approach, fundamentally in the first version of the EBRP, maintains a dual and dichotomizing character between economic and the social. While the macroeconomic policies framework in the adjustment and the reduction of the fiscal deficit, faces the poverty from the social point of view, with palliatives and without facing the structural aspects that causes it. As a result, a space is offer for the logic between the two dialogues involved: dialogues in auditoriums and at work shops work, with the agenda of the international soft poverty and support from the international cooperation (health, education, basic services, productive infrastructure, temporary and precarious employment), and the dialogue in the streets, with the agenda of the hard poverty (employment and

and with the sufficient political will the National Productive Dialogue and less to promote the process of the EBRP. Although, like in the previous cases, it tries to maintain a good relationship with the international cooperation concerning this process.

52 La Razón. (Newspaper). For the Advisor PNUD: in Bolivia inequality has been perpetuated.
income, land and territory, water and handling of hydric resources, gas and hydrocarbons, social and political inclusion). Face to face with the institutionalized dialogue, in October 2003, the social emergent movements burst, with a strong interpellation to the economic model, to the political system and mainly to the corruption, to the social exclusion, and to the democratic system itself.

The social movements have assumed that they only find answer to their demands and proposals through to their organization and to the direct action. The mobilizations of 2000 (April: Guerra del Agua en Cochambamba (War of the Water), and September: in Chapare and Altiplano la Paz) and, mainly, 2003 (September and October: in Warisata, El Alto and La Paz), with the fall of Gonzalo Sanchez´ government, It means a serious question to the model implemented 18 years ago. Paradoxically, in October 2003, while EBRP 2003-2007 was presented/displayed by the government in the Consultative Group of Paris, the poor mobilized themselves and burst in into the rural scope of the country, into El Alto city, and into slopes and streets of the of La Paz city. The forced resignation of Sanchez de Lozada and the presidential assumption of Carlos Mesa result in a constitutional and pacific exit assumed by the movements that have sent a clear signal of the urgency for a significant change in the country. This aspect forces a frank discussion/revision of the economic model and the political system.

The country is in a situation of "sense flexion and change" as in the sense of the development as in the contents of its democracy. This forces to look for new joint between both of them. Bolivia lives a complex momentum of questionable structural tendencies that initiates in the 80’s which involve democracy and the market economy valid in the country.

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2. POVERTY AND MICROCOMPANY

Study by Marcelo Zabalaga for INAFI

1. Antecedents of the micro company in Bolivia
The sprouting and the development of the micro company were initially studied in the eighties from the side of informality. The microindustrialists were assimilated to a kind of underground economy, thus, it was a little transparent and a little clear. The book "El Otro Sendero" (The Other Path) by Hernando de Soto explained this phenomenon as something which could and had to disappear under the influence from the magical pass of formalization, which did not consist on anything else but to facilitate the proceedings so that the unreliable became a formality.

From the statistical point of view, part of the micromanagers has also been classified within the category of "on their own" that is to say, non dependents. It is only in the decade of nineties that the category of micro company begins to be analyzed seriously and it is included as a kind of company, with its own characteristics within the group of companies of each country. At the present, if the productive structure of to country needs to be characterized, it is insoslayable unavoidable to speak of a micro, small, medium and large company.

In Bolivia, the micro company was traditionally very associated to the retailer sector, a sector that was gradually developed, to the same pace as that of the rural exodus shaped the cities after the agrarian reform. Although that measure distributed the land in 1952, thousand of farming families were leaving the rural area and incorporating to the secondary and tertiary sectors of the cities.

The lack of developed trade structures (including supermarkets among others) and due to the facility to concentrate in great areas hundreds and thousands of offerers, the municipalities allowed the configuration of "fields" or "markets" where thousands of retailers, mainly women, were conforming the dynamic retail sector of the commerce.

The insertion of Bolivia in the market economy, that has caused the formal expulsion of thousands of workers of the formal state and private economy, has accelerated the appearance of micro companies, many of them in the secondary sector, as part of precarious process of industrialization and as a survival strategy of the families who have been themselves deprived of the security that offers a formal employment and a stable salary.

The present chapter is divided into four parts. The first part presents the development that the neoliberalism has had in Bolivia, the second part shows what has happened to the employment, in the third part the development of the micro company is described and the fourth part is dedicated to show the importance that the micro company has acquired to respond to the job necessities of the poor and impoverished population of Bolivia.

2. The landmarks of the neoliberalism in Bolivia

The market economy, as we know it, was introduced in Bolivia in 1985, to initiate its backward movement only at the end of 2003, afterward a movement of resistance to the gas export in Chile, gave as a result the fall and exit of the president.

Since 1985 the five governments that have followed in power have maintained the model and, in some ways, they have deepened it. We shall take two of the most important presidential periods, both signed by the same party, National Revolutionary Movement (RNR) that due to its recent direction lost both objectives. The first period goes from 1985 to 1989 and the second one from 1993 to 1997.
2.1 1985 and the New Economic Policy

From 1952\textsuperscript{55} to 1985 the Bolivian development model was based on a State Capitalism, because the state participated directly in the productive and commercial process through hundred of companies.

This model had important results in growth terms. In the decades of 60’s and 70’s growth rates up to 5% annual were reached with a moderate inflation, to smaller ones of two digits.

Between 1978 and 1980 series of military coup d'etats were rejected by the population, and a left winged government was constituted in 1982, the Popular Democratic Unit, that lasted just three years.

This government was forced to shorten its mandate within a year, because of the uncontrol of the economy, an inflation that in 1984 had reached 2.170 percent and with the risk of reaching 20.000 percent in 1985, a productive apparatus in crisis and the loss of purchasing power from salaries. At its worse moment the minimum wage reached the equivalent to seven dollars monthly.

The new chosen government, headed by the Revolutionary National Militia dictated a decree that marks the beginning of the neoliberal period in Bolivia. That year, the measures of political economy, that were soon consecrated in the "consensus of Washington" and made their debut early in the Chile of the 70’s, were implanted in Bolivia almost in a indole manner, although there was a fifteen day resistance that made the government declare a state of siege, there was no bloodshed nor any deaths.

The facility by which the model introduced itself into Bolivia, a country that had, more than now, an extremely combative working class, had to do with the terrible management of the previous government and the inflation that degraded the salary day by day.

Therefore, the supreme decree 21060, dictated in August 1985, was perceived initially more like a series of steps to stabilize and reorganize the economy, than as the beginning of a new era for the economy and the national policies. Thus, its first and more visible success consisted of stopping the inflation, attaining that this one does not surpass 65% annually the second to year of its government.

The most outstanding aspects of this decree were the following ones\textsuperscript{56}.

Free hiring of the work force.

Free hiring and firing of workers is established, being the government the first to use this faculty. The decrease in the price of tin, the main income of nationalized mining, served as pretext under

\textsuperscript{55} In April 1952 there was a popular revolt which gave the Revolutionary Nationalist Movement the power. This party, taking care of the popular demands, put an end to the feudal structure of Bolivia and dictated three measures that change the configuration and the history of the country: The Agrarian reform that liberated the natives o semi colonial servitude from the configuration which had controlled them; the nationalization of mines that put an end to the barons of tin and the universal vote that allowed all persons to vote and not only the literate.

\textsuperscript{56} Eduardo Antelo (2000), La Razón (Newspaper) and others.
which the government dismisses or "relocates*" more than 23,000 miners. In addition, as part of its program of austerity it also laid off near 40,000 public employees.

At the same time, the public and private companies took advantage making adjustments of personnel, laying off*, in total, near 20,000 people.

Most of that contingent of near 100,000 people laid off, took advantage of the received indemnifications to open to small businesses in the great cities of Bolivia, increasing that way and in considerable manner the informal sector.

**Monetary and exchange policy**

Until 1985, the currency that prevailed in the country was the Bolivian "peso" that was transformed into the "Bolivian", eliminating six digits. The last bill emitted in "pesos" was of 100 thousand, which value soon dropped to 10 cents of a Bolivian.

The decree fixed to type of unique and floating exchange rate with relation to the dollar, established daily by the Central Bank, through operations of open market.

Likewise, 21060 D.S. authorized the conversion of gold reserves you reserve of free availability, facilitating the gold and the exchange rate.

**Commercial opening**

Free hiring and export of goods and merchandise were being establish, without obligatory nature to give currencies to the Central bank. From the dispersion of tariffs that went from 0% to 150%, a uniform custom rate of 20% to all products and tariff barriers plows were eliminated.

Two years to later, in 1987, measures of promotion to the exports were recover trying to make them neutral tax. This meant the establishment of mechanisms of tax return.

**Prices**

The decree deregulated the measures of price control, establishing the free supply and demand of prices of goods and services, excepting transport, energy and telecommunications prices.

Perhaps this was the most radical measurement of the New Economic Policy that meant a very important mentality change between the economic operators.

**Close of the Bolivian Corporation of Promotion**

The Bolivian Corporation of Promotion (CBF) canalized an important part of the industrial infrastructure state investment. After the 21060 decree promulgation, that institution was decentralized in the regional development corporations that finally were closed in the first
government of Gonzalo Sanchez de Lozada (1993 to 1997) and their goods were transferred to the prefectures of each one of the departments. The state industries and companies that depended on the CBF\textsuperscript{57} were privatized from 1989 to 1997.

In summary, the three more important measures that constitute **(or form**??) the New Economic Policy which began to rule and subsists in Bolivia today were the free fixing the price\textsuperscript{58}, the commercial opening and the beginning of the productive privatization state period.

2.2 The nineties, the enterprise resetting in Bolivia

During the following presidential period, from 1989 to 1993, led by the Left Revolutionary Movement, with Jaime Paz Zamora as President, in the line of the New Economic Policy two important measures were taken by his predecessor: a) all nonstrategic state companies were privatized b) dozens of risk shared contracts in the sector of hydrocarbons between the state company signed YPFB (Oil fields Fiscal Bolivians) and the foreign companies, starting up what was later going to be called the oil power.

In 1993 the Revolutionary National National Militia won the national elections once again, with Gonzalo Sanchez as President, who introduced a new generation of reforms to the state apparatus. These were the following;

vii) Capitalization Law (1994, privatization modality of the main state strategic nature companies)

viii) Popular Participation Law (1994, Bolivian model of decentralization)

ix) Administrative Decentralization Law (1995),

x) Educative Reform Law (1995),

xi) Retirement Reform Law (1996),

xii) National Agrarian Service Law, known as INRA Law (1996).

The most important of these laws was the end of Capitalization that constituted a means for privatizing the great state companies administration: LAB (air line), YPFB (hydrocarbons), ENTEL (telecommunications), (electricity) and FFCC (railroads)

This step was accepted by the Bolivian Congress and by part of the Bolivian population because it came along with three measures. First, there was the ability of the governing party to surround itself by ex-left-wing militants and even parties of left, to whom, in exchange for some positions in the state apparatus it induced to support its measures. Second, it was the introduction of the measure,

\textsuperscript{57} The CBF, created in 1954, was a seedbed or breeding ground for companies. They carried out state investments in the refining sugar, oil production, milk industry, cement plants, and others that allowed Bolivia to reach absolute levels of autosupply in areas that before 1952 was obliged to import.

\textsuperscript{58} Although it was not used in all its acceptance, the market, as conceptual category, began to play its roll of referee between supply and demand and between those who could acquire something and those who could not. The social responsibilities of the state were transferred to the entelechy of the market.
since it was not just a pure and simple sale of the strategic companies of the State, but that it summoned "strong" partners to invest considerable sums in Bolivia. Thirdly, the Revolutionary National Militia knew how to exchange with the groups interested in the Congress a law (Popular Participation) of decentralization of the resources of the State, by to another Law (Capitalization) of concentration of the national wealth into the hands of foreign companies.

The capitalization consisted of a formula that evolved from the premise that stated that finding a partner was worth more than finding a buyer. This way the Bolivian State bid on the society of the state companies, granting to the administration and 50 % of the actions of transnational firm that offered to invest a similar amount to the value in legal books of the state company. In this manner, in order to be able to have the control of the administration and 50% of the proprietary right it was necessary to offer the greater amount of possible additional money as a promise of an additional investment, to be executed in the following years.

This way, the air line LAB was capitalized by a Brazilian air line (VASP). Oil fields Fiscal Bolivians (YPFB) was broken down into several parts to be capitalized by partnerships of oil companies from the United States, France, Spain and United Kingdom, among which are included Maxus, Total, Repsol, BT and others.

ENTEL, telecommunications, was capitalized by an Italian company, STET. The electricity company was fragmented into four parts to be capitalized basically by companies from the United States and Spain.

Finally, the railway company (FFCC) was capitalized, in its two sections, by a Chilean company, White Cross.

The total compromised as investment for those five companies reached 1.500 million dollars.

In the same manner, during the last years of the decade of the 1990’s, there has been an increase in the arrival of Direct Foreign Investment (DFI)*, which dedicated itself to great extent to the purchase of portfolio instead of making new investments. This is the case of the state companies that become private companies with an important participation of foreign private companies and with little national private participation.

In the period from 1992 to 1994, the annual average investment in the country was near the amount of the 920 million dollars. In that period, the public investment constituted close to 57%, the national private investment 26% and the foreign investment a modest 17%. In that period, which was the end of the Paz Zamora administration and beginning of Sanchez de Lozada government, the excesses were still appropriate and were used by the national, public or private companies.

In the intermediate period from 1995 to 1996, in which the foreign companies were summoned by the capitalization of the Revolutionary National Militia, the annual average investment raised rose to near 1.120 million dollars, in other words, an annual increase of 200 million, almost all foreign. The public investment was reduced to 49% and the national private investment 17% of the total. Foreign investment doubled, reaching a safe 34% of the total investment.

59 The most well-known and evident case is the one of the Nacional Oil Industry Company. YPFB, that gives to the State Treasury of Bolivia near $US400 million annually. After 1997, the established oil industry companies have not given the state more than $US200 million from taxes.
But the most serious situation took place between 1997 and 2002, during the Hugo Banzer and Jorge Quiroga administration with the boom of capitalization. The total investment was almost duplicated (from 921 million in 1992 to 1,760 million in 2002) but, from the annual average of the total investment, the public investment was reduced to 34% of the total and the Bolivian private investment reached only 12% of the total. Foreign investment reached an excessive 54%.

In absolute numbers, the national public investment remained between 500 and 600 million annual dollars and the national private investment that has taken the worse part, dropped from 240 to 150 million dollars annually. In other words, the model has contributed to the Bolivian entrepreneurial globalization and it is raising serious doubts regarding his future existence.

On the other hand, the foreign private investment reached 900 million annual dollars on the average between 1997 and 2002, which means that in six years the foreign companies invested near 5,400 million dollars.

In summary, the national public investment has been increased by 4% between 1992 and 2002, private investment has decreased by 26% and the foreign investment has increased by 518%.

This phenomenon can be appreciated graphically:

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60 The movement against the Bolivian ALCA and, at the present, against the TLC with the United States, has its principal argument in the risks that the Productive Structure can have if an agreement like this is signed.
The leading class has not repaired suitably in the implications of this situation, since the more investment exists, the more excesses leave the country. How much profit it is possible for a foreign investor to hope to gain? By conservative means, between 8% and 10%. This means that the foreign companies gain and, surely they take to their countries of origin, a minimum of 430 to 540 million dollars annually. But, how much does the Bolivian economy grow annually? Theoretically, from 2% to 3% in Bolivian currency. This means that if we considered that the GIP or the Bolivian internal product gross is of approximately 8,000 million dollars, the additional wealth produced in our territory (for that reason it is called internal) would be from 160 to 240 million dollars annually.

As we can see, simplifying the model, the wealth (or the added value) increases between 160 and 240 million annually and the foreign companies take away between 430 and 540 million every year. Thanks to the capitalization and the foreign investment, the Bolivians become poorer every with every passing year.

Since 1996 the Bolivian GIP has not been able to diminish in dollar terms, which is very paradoxical: to more investments, less wealth in national territory.

This situation is due to the relationship between inflation and devaluation. Since 1995 the devaluation has been more important than the inflation, thus, the Bolivians receive less dollars every year and the economy devalues annually with relation to the dollar in a variable percentage between 3% and 6%.

In fact, the policy of the three parties that have been alternating the power from 1985, Revolutionary National Militia, MIR and DNA have consisted of facilitating the admission of the exporter, depressing the purchasing power of the Bolivians who receive salaries in national currency. While in 1998 the GIP per capita was of 1,057 dollars, in 2003 GIP per capita will have been reduced to 858 dollars according to projections conducted by their own government (see Budget 2003)
Therefore, the economy decreases in terms relative to the relation to the dollar, diminishing the purchasing power of imported goods of the national and facilitating exportation, due to a greater competitiveness by means of the reduction of expenses.

The last two years (2003 and 2004) the exports have surpassed the classic level of 1000 to 1200 million dollars, reaching a position of 1,500 million annual dollars, which had never been reached before.

In those conditions, without considering the micro companies yet, there has been a diminution of the number of companies, going from 8,200 to 6,700 in a ten-year-period. The distribution of the companies in 1995 was given by 10% of the large companies, 25% of medium-size companies and 65% by small companies. In 2003 the distribution of the 6,724 companies has been the following one:

- Large companies: 1,079 units
- Medium companies: 1,935 units
- Small companies: 3,710 units

On the other hand, it is estimated that the micro companies are positioned between 500,000 and 600,000 units, that is to say, almost 100 times more than the small, the medium and the large companies all together. Concerning employment, they also have a very important weight, because they absorb almost 70% of the manual labor in the country.
3. The new distribution of the employment

3.1 Growth of the population and income

In order to understand the way employment is distributed, in the first place it is necessary to know the evolution the population and its urban and rural distribution.

The Bolivian population has increased in the lapse of 25 years (1976 to 2001) to a rate of 2.3% annually, going from 4.6 to 8.3 million inhabitants in 2001. With that growth, between 1976 and 2004 it has practically doubled it has gone from 4.6 to 9.2 million inhabitants\(^{61}\). Nevertheless, the growth of the urban population has been much more important (4.07%), tripling itself in the lapse of 29 years, that is to say, going from 1.9 million inhabitants to 5.7 million between 1976 and 2004. The rural population has remained almost suspended with a 0.56% of annual growth, it has increased from 2.7 million to 3.1 million inhabitants.

Therefore, from 1976 to 2004 the urban population has corresponds to 41% of the total of inhabitants to 62%, as consequence of the urbanization processes that the Bolivian cities have undergone, not always correlated with quality of employment and new opportunities.

The statistics of the National Institute of Statistics (NIE) show that one of the most important causes for the rural exodus has been and continues being the income

\(^{61}\) According to the last census of 2001, the population for that same year was 8.3 million. The National Institute of Statistics (INE) estimates that the population during 2004 has already reached 9.2 millions of inhabitants.
The categories applied are those that the INE has adopted after several interchanges with the ONGs that has studied the Bolivian labor market, being one of them CEDLA\textsuperscript{62}, that since the decade of 1980’s has insisted on placing the microindustrialists in the semi enterprise or familiar labor market. It is considered that an employee is inserted in the semi enterprise field, if it dealing with a micro company that hires nonfamiliar work force, however if he or she works in the familiar field it means that the employee depends on relatives with whom he or she shares the house and/or the food. This fact explains the lesser income of the familiar workers, who at the same time, it is understood, dedicate the first years of their labor life to learn the familiar business.

On an average of rural income of 34 dollars a month, in the urban area it is possible to earn almost five times more, enough reason to leave the rural area and to try luck in the urban area.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
\textbf{Work Market} & \textbf{Dom} & \textbf{Fami} & \textbf{Semi} & \textbf{Emp} & \textbf{Est} \\
\hline
$\text{US / Month}$ & 50 & 96 & 92 & 92 & 92 \\
\hline
\end{tabular}
\caption{BOLIVIA: AVERAGE MONTHLY INCOME YEAR 2002}
\end{table}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
\textbf{MONTHLY AVERAGE INCOME IN DOLLARS YEAR 2002} & \textbf{Rural} & \textbf{Urban} & \textbf{Total} \\
\hline
Domestic & 50 & 96 & 92 \\
Familiar & 22 & 98 & 53 \\
Semi enterprise & 88 & 138 & 125 \\
Enterprise & 104 & 246 & 226 \\
State & 135 & 245 & 228 \\
\hline
TOTAL & 34 & 152 & 99 \\
\hline
\end{tabular}
\caption{MONTHLY AVERAGE INCOME IN DOLLARS YEAR 2002}
\end{table}

Source: Statistical yearbook 2003, INE, Bolivia

\textsuperscript{62}Centro de Desarrollo Laboral y Agrario
3.2 Activity Condition or employment

Always, according to the INE, on a population of 8.5 million inhabitants in 2002, there were 6.2 million people in Aging work (older than 10 years), it means 73%. From these, the amount economically active people were of 4.0 million inhabitants who were distributed of the following way:

<table>
<thead>
<tr>
<th>YEARS</th>
<th>1.999</th>
<th>2.000</th>
<th>2.001</th>
<th>2.002</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population</td>
<td>8.000.798</td>
<td>8.273.803</td>
<td>8.248.404</td>
<td>8.547.091</td>
<td>100%</td>
</tr>
<tr>
<td>Percentage</td>
<td>8.273.803</td>
<td>8.248.404</td>
<td>8.547.091</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>PEA</td>
<td>3.802.361</td>
<td>3.820.208</td>
<td>4.099.151</td>
<td>4.046.536</td>
<td>47%</td>
</tr>
</tbody>
</table>

Employed | 3.637.893 | 3.637.048 | 3.884.251 | 3.824.938 | 95% |
Unemployed | 164.468 | 183.160 | 214.900 | 221.598 | 5% |

Dismissed | 108.835 | 140.796 | 168.757 | 177.006 | 80% |
Applicants | 55.633 | 42.364 | 46.143 | 44.592 | 20% |

Although the population increase in those four years was 7%, the employed population increased increased only by 5%. Therefore, It is evident that the increase of the unemployed has been larger, in this case 35%. The comparison between rural and urban area is illustrative enough.

Urban employment

In the urban area there was 5.3 million in 2002, from which 75% constituted the Working Age population and 44% the economically active population (PEA)
BOLIVIA: ACTIVITY CONDITION, URBAN AREA

<table>
<thead>
<tr>
<th>YEARS</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban Population</td>
<td>5.035.535</td>
<td>5.268.526</td>
<td>5.148.771</td>
<td>5.330.045</td>
<td>100%</td>
</tr>
<tr>
<td>PEA</td>
<td>2.173.700</td>
<td>2.259.792</td>
<td>2.356.504</td>
<td>2.320.060</td>
<td>44%</td>
</tr>
<tr>
<td>Employed People</td>
<td>2.017.044</td>
<td>2.091.175</td>
<td>2.156.250</td>
<td>2.118.436</td>
<td>91%</td>
</tr>
<tr>
<td>Unemployed People</td>
<td>156.656</td>
<td>168.617</td>
<td>200.254</td>
<td>201.624</td>
<td>9%</td>
</tr>
<tr>
<td>Dismissed</td>
<td>102.580</td>
<td>129.464</td>
<td>160.174</td>
<td>162.890</td>
<td>81%</td>
</tr>
<tr>
<td>Applicants</td>
<td>54.076</td>
<td>39.153</td>
<td>40.080</td>
<td>38.734</td>
<td>19%</td>
</tr>
</tbody>
</table>

It is evident that unemployment is much larger, reaching 9% that year. For the year 2004 CEDLA considers an estimated unemployment of 14%.

A comparison made between both last figures census, shows on the other hand that while in 1992 from each ten unemployed half were dismissed (looking for work because they have lost the previous one) and the other half applicants (looking for a job for the first time), in 2001 from each ten unemployed there were eight dismissed ones, that is to say four dismissed for each applicant.

Rural employment

In 2002, in the rural area, there were 3.2 million inhabitants, who 70% were classified as population with working age(PET), and 54% as PEA. This means that there are more children under ten years old in the rural area, but in spite of having lesser contingent available for working, there are many people that work or look for a job in the rural area.
As it will be illustrated, it is logical that unemployment will be reduced, since most of the rural inhabitants have a job, although it is precarious and part time. With the rural exodus, even situations have been found that it is difficult to find manual labor for some communal or collective works. Besides, the rural inhabitants have several work alternatives that are not only the farming, but also temporary job inside and outside the zone of house, the commerce and the crafts. Anyway, the average of hours worked is less in the rural area, thirty-eight hours per week, in contrast to forty-seven hours per week in the urban area in 2002.

3.3 Employment by gender

Finally, in this first approach to employment, the distribution of employees by gender shows a relative similarity between the urban and the rural areas. The following chart illustrates such characteristic.
BOLIVIA: OCCUPIED POPULATION BY GENDER

<table>
<thead>
<tr>
<th>Years</th>
<th>1.999</th>
<th>2.000</th>
<th>2.001</th>
<th>2.002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>3.637.893</td>
<td>3.637.048</td>
<td>3.884.251</td>
<td>3.824.938</td>
</tr>
<tr>
<td>Men</td>
<td>2.000.496</td>
<td>2.032.182</td>
<td>2.128.402</td>
<td>2.160.158</td>
</tr>
<tr>
<td>Women</td>
<td>1.637.397</td>
<td>1.604.866</td>
<td>1.755.849</td>
<td>1.664.780</td>
</tr>
<tr>
<td>Men</td>
<td>55%</td>
<td>56%</td>
<td>55%</td>
<td>56%</td>
</tr>
<tr>
<td>Women</td>
<td>45%</td>
<td>44%</td>
<td>45%</td>
<td>44%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Urban</th>
<th>2.017.044</th>
<th>2.091.175</th>
<th>2.156.250</th>
<th>2.118.436</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>1.130.212</td>
<td>1.167.692</td>
<td>1.162.875</td>
<td>1.166.458</td>
</tr>
<tr>
<td>Women</td>
<td>886.832</td>
<td>923.483</td>
<td>993.375</td>
<td>951.978</td>
</tr>
<tr>
<td>Men</td>
<td>56%</td>
<td>56%</td>
<td>54%</td>
<td>55%</td>
</tr>
<tr>
<td>Women</td>
<td>44%</td>
<td>44%</td>
<td>46%</td>
<td>45%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rural</th>
<th>1.620.849</th>
<th>1.545.873</th>
<th>1.728.001</th>
<th>1.706.502</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>870.284</td>
<td>864.490</td>
<td>965.527</td>
<td>993.700</td>
</tr>
<tr>
<td>Women</td>
<td>750.565</td>
<td>681.383</td>
<td>762.474</td>
<td>712.802</td>
</tr>
<tr>
<td>Men</td>
<td>54%</td>
<td>56%</td>
<td>56%</td>
<td>58%</td>
</tr>
<tr>
<td>Women</td>
<td>46%</td>
<td>44%</td>
<td>44%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Source: Own elaboration with INE data, 2003.

This situation offers an important change in relation to beginning of the decade of 1990’s, when only 38% of the work force was constituted by women. It is evident that there has been a greater incorporation from the women to the labor market, in as much effect of a better preparation as of the need to improve family income incorporating new members of the household into the labor world.

3.4 Main occupation

As far as the distribution of the population according to the labor market, the amounts from the INE allow us to see the importance of the micro company that is determining for employment.

Between 1985 and 1989 more than 100,000 people were laid off from the formal sector of the economy (public and private sector) being all left out of the formal labor market, being state or enterprise. Until 1985 the phenomenon of own counts had been basically reduced to the commerce sector. From that year on a strong incursion of the informal in the secondary sector takes place, giving space to the fortification of the artisan shops of microindustrialists who begin to replace the finished product imports, mainly as far as clothes is concerned.
In 1992, an investigation\textsuperscript{63} showed that in spite of the appearances, 92% of the clothes sold in the markets of La Paz and the El Alto came from the micro companies of production of both cities. We say in spite of the appearances because almost all those clothes appeared with foreign trade marks (made in Taiwan, Brazil, Chile, etc.); nevertheless, the clothes was made in situ, but it applied as strategy the use of nonnational brands, since there is a preference force for "the foreign" among the national consumers.

This means that the micro company, in its growth, has contributed to a substitution of imports of consumable goods. This growth has allowed, with concomitant form, the growth of the microfinances as the next chapter will illustrate.

The importance of the micro company, in number it is determining in the employment, as much in the urban area as in the rural. In the national scope we can see the following figures.

\begin{tabular}{|c|c|c|c|c|}
\hline
Bolivia: Main occupation according to work market & 1.999 & 2.000 & 2.001 & 2.002 \\
\hline
Total & 3,637,893 & 3,637,048 & 3,884,251 & 3,824,938 \\
\hline
Domestic & 68,392 & 94,563 & 118,470 & 89,504 \\
State & 248,468 & 269,142 & 289,765 & 267,363 \\
Familiar & 2,399,554 & 2,404,089 & 2,520,102 & 2,438,015 \\
Semi enterprise & 386,344 & 320,060 & 390,367 & 502,214 \\
Enterprise & 535,134 & 549,194 & 565,547 & 527,841 \\
\hline
\end{tabular}

\begin{tabular}{|c|c|c|c|c|}
\hline
Percentage distribution according to work market & & & & \\
\hline
Domestic & 1,88\% & 2,60\% & 3,05\% & 2,34\% \\
State & 6,83\% & 7,40\% & 7,46\% & 6,99\% \\
Familiar & 65,96\% & 66,10\% & 64,88\% & 63,74\% \\
Semiempresarial & 10,62\% & 8,80\% & 10,05\% & 13,13\% \\
Empresarial & 14,71\% & 15,10\% & 14,56\% & 13,80\% \\
\hline
Total & 100,00\% & 100,00\% & 100,00\% & 100,00\% \\
\hline
Microempresa & 77\% & 75\% & 75\% & 77\% \\
\hline
\end{tabular}

If we assumed that employment in the family sector and in the semi enterprise sector is derived from the micro company, 77% of the workers of Bolivia owe their job to this size of company.

However, the business sector and the state sector barely absorb 14% and 7% of the employment respectively. The Domestic sector is referred to the work by domestic employees or housework, which in Bolivia ascend to the far from negligible number of 89,000 people, mostly women. This situation would explain the woman-man desbalance that exists in the rural area, where there are more men than women in the proportion of 93 women to each 100 men. In other words, the male index is of 107.

**Urban Micro companies**

Employment in the urban area is concentrated in the companies of the familiar or semi enterprise type. The relative importance reaches 64%, being left in the companies (it is understood small, medium and large) 21%. The State contributes with an 11% of absorption of workers.

<table>
<thead>
<tr>
<th>Bolivia: Main occupation according to work market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban area</td>
</tr>
<tr>
<td>Domestic</td>
</tr>
<tr>
<td>State</td>
</tr>
<tr>
<td>Familiar</td>
</tr>
<tr>
<td>Semiempresarial</td>
</tr>
<tr>
<td>Empresarial</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage distribution according to domestic market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
</tr>
<tr>
<td>State</td>
</tr>
<tr>
<td>Familiar</td>
</tr>
<tr>
<td>Semi enterprise</td>
</tr>
<tr>
<td>Enterprise</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

| Microcompany | 63% | 61% | 61% | 64% |

Source: Own elaboration with INE data
It is worth mentioning that 93% of the people who work in the Domestic sector do so in the urban area. It is evident, in the rural area very few people use domestic service, as much as because of the cost as by the way of living.

**Rural Micro companies**

In the rural area it is not very precise to speak of "micro companies" referring to the farming parcel or the economic farmer unit. The concept of micro company as well as the category of "informal" have been elaborated and discussed in an urban scope; thus, it is not possible to be transferred mechanically and easily to the rural area.

Nevertheless, the statistics have made an effort to standarize the workers' treatment according to the work market, because of this we present the figures in the same form as for the urban area.

As already explained in the previous chapter, Bolivia is a predominantly indigenous country, with a 64% of the openly bilingual population (Spanish and a native language) or "monolingüe" (a native language). Most of the indigenous population lives in the rural area, cultivating small land spaces, mainly in a family manner, from 1 to 7 hectares.

### Bolivia: Main occupation according to work market

<table>
<thead>
<tr>
<th></th>
<th>1,999</th>
<th>2,000</th>
<th>2,001</th>
<th>2,002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>1,620,849</td>
<td>1,545,873</td>
<td>1,728,001</td>
<td>1,706,502</td>
</tr>
<tr>
<td>Domestic</td>
<td>8,104</td>
<td>6,183</td>
<td>9,158</td>
<td>6,143</td>
</tr>
<tr>
<td>National</td>
<td>39,873</td>
<td>44,830</td>
<td>43,891</td>
<td>41,639</td>
</tr>
<tr>
<td>Familiar</td>
<td>1,433,641</td>
<td>1,394,377</td>
<td>1,502,670</td>
<td>1,452,745</td>
</tr>
<tr>
<td>Semi-enterprise??</td>
<td>75,694</td>
<td>58,743</td>
<td>85,536</td>
<td>129,694</td>
</tr>
<tr>
<td>Enterprise</td>
<td>63,537</td>
<td>41,739</td>
<td>86,746</td>
<td>76,281</td>
</tr>
</tbody>
</table>

### Distribution percentage, according to labor market

<table>
<thead>
<tr>
<th></th>
<th>1,999%</th>
<th>2,000%</th>
<th>2,001%</th>
<th>2,002%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>0,50%</td>
<td>0,40%</td>
<td>0,53%</td>
<td>0,36%</td>
</tr>
<tr>
<td>National or state</td>
<td>2,46%</td>
<td>2,90%</td>
<td>2,54%</td>
<td>2,44%</td>
</tr>
<tr>
<td>Familiar</td>
<td>88,45%</td>
<td>90,20%</td>
<td>86,96%</td>
<td>85,13%</td>
</tr>
<tr>
<td>Semi-enterprise??</td>
<td>4,67%</td>
<td>3,80%</td>
<td>4,95%</td>
<td>7,60%</td>
</tr>
<tr>
<td>Enterprise</td>
<td>3,92%</td>
<td>2,70%</td>
<td>5,02%</td>
<td>4,47%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total</th>
<th>100,00%</th>
<th>100,00%</th>
<th>100,00%</th>
<th>100,00%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro companies</td>
<td>93%</td>
<td>94%</td>
<td>92%</td>
<td>93%</td>
</tr>
</tbody>
</table>

Source: Own elaboration with INE data

The enterprise work absorbs only 4% to 5% of the total rural employment, specially in the low or tropical zones of Bolivia, where agricultural companies produce of Soya, cotton and sugar, mainly destined to exportation.
4. The development of the micro company

The structural reforms carried out by the successive governments since 1985 have had as a background a constant migratory process from the country to the intermediate and later, from these to the main cities, forming a picture of neighborhoods and villas that were growing quickly. Bolivia, until the end of the eighties, was preponderantly rural. Since 1987 there is more urban population than rural.

The greatest population increase has taken place in the cities of El Alto (more than annual 6%) and of Santa Cruz (10%) where, almost explosive, conditions of urbanization, but also of unmannerliness are generated.

El Alto is a city that has been constituted mainly with pendular migratory contributions from the farming population “Aymara” that lives near the Titicaca lake. Many of the inhabitants of El Alto conserve their rural properties and cultivate them, and take care of them during the agricultural periods, alternating with micro enterprise activities in the city. El Alto is the city that has the greatest number of micro company per inhabitant. It is estimated that 90% of the companies in this city are micro companies.

Santa Cruz is a city on the eastern part of Bolivia, barely 600 meters above sea level that established as part of the political population of the Spanish colony, but began grow like a large city after the National Revolution of 1952. During the first two decades (1950 and 1960) the contribution of national capital to develop to this agricultural zone and the royalties of 11% on oil operation allowed Santa Cruz to become the second city of Bolivia, with great potential of rural growth as economic. The department of Santa Cruz is the one that has the largest GIP by inhabitant. In this department is concentrated, contrary to El Alto, the largest number of large companies by inhabitant.

The micro company had always existed, reduced to the poor migrants of the central-urban zones of the cities; nevertheless, from year 1985 there is an important development, due to a great extent to the necessity of the tens of thousands of people who lose their jobs with the reduction of the state apparatus and the expulsion of 23,000 miners from the nationalized mines.

With the reconstruction of the Bolivian textile enterprise, where it is clear that the great companies are under the tuition of transnational companies, with a slight supervision from the Bolivian State through Supervisions of each branch, the medium and large national companies with insolvency problems, the only sector that has continued growing is the micro enterprise one.

It is necessary to consider that in front of the medium and large companies that require investments of 50,000 to 600,000 dollars by job, the micro companies do not require more than 1,500 to 5,000.

64 El Alto is a city in the Altiplano, it neighbors with La Paz, Capital of Bolivia and its airport has one of the highest altitudes in the world, 4000 m.s.n.m.

65 The crucean bourgeoisie and the institutions of this region are more inclined to the medium or large merchant, thus they welcome national and foreign companies. After the conflicts of February and October 2003, several companies located in El Alto or in La Paz have decided to be transferred to Santa Cruz.
This difference justifies the efforts that need to be done in fomenting the establishing of micro and small companies, although the income difference is practically from a simple one to double one. The familiar and semi enterprise average income activities in the urban area are of 118 dollars per month, in contrast to an average of 245 to 250 dollars that an employee can earn monthly in the state or in a firm.

It is in this line that since mid 1990 diverse efforts to support the micro enterprise activity have begun to unfold.

The most frequent have consisted on supporting the fortifying of micro financial institutions that lend to micro and small producer. It is so that an average of ten Private Financial Funds have been constituted in Bolivia, in addition to Bancosol, in the area of organizations supervised by the Superintendence of Banks and they have fortified a dozen of ONGs specialized in the credit concession and other financial services to the small urban and rural producer.

In fact, the "Globalization and Microfinances" survey carried out by Sergio Antezana in this same volume shows that since 1997 the only financial organizations that have grown and even improved their portfolio quality are the microfinance. There is no doubt that in spite of the indebted organizations which want to modify the credit conditions and somehow have succeeded by doing that the interest rate bend towards a lower rate, the microfinanciers will continue growing, though, at a lesser and sustained pace than during the 90’s, due to a certain point of saturation which the market has reached.

It has been estimated that the ONGs beneficiaries and the microfinanciers amount to near 450,000 clients. This is already an excessive amount, considering that in the urban area there can be 600,000 micro enterprise economic units and in the rural area a little more than 1,5 million farmers. On a total of 2,0 million potential clients a number adapted of micro enterprise clients has been usually considered that 25% are bankable or bancarizable, thus an adequate amount of micro enterprise clients would not have to exceed 500 or 600,000 clients.

A second type of efforts to support the microindustrialists has consisted on the generation of technical, support and qualification services. One of the most structured, although still has not given conclusive results, has been the creation of a support structure in qualification, technical attendance, commercialization and even sales export sustained and financed with BID resources from 2002.

Like this initiative, others are arising, with the clear intention to contribute to solve the unemployment problem and the lack of population income, even during the Bánzer administration (1997 to 2002) a Vice Ministry of the Microcompany was created that has developed series of activities so that micro companies are even created in areas where it was unthinkable that they could be present. For example, there is a tendency to contract micro companies and no longer people for road maintenance, this means for repairing and building the stone streets and highways.66

In the same manner, the creation of micro companies like the environment conservation, sanitation, tourism, culture and other services which were originally not destined to be taken care of by small companies.

66 It is noteworthy that during the first administration of the neoliberal period (1985 to 1998) the MNR created an Emergency Social Fund (FSE) that was determined in creating manual working positions, not qualified for the paving of hundreds of kilometers of streets and roads.
This way, once the transnational companies took charge of the strategic sectors of the economy, it gives the impression that they are no longer requested. It is as if all the effort that had been requested to them is to come with the heading of "foreign investment", with which it was assumed automatically that this title was enough so that the employment and wealth are being generated automatically or, at least, if not immediately, on a term.

And since it is assumed that the national companies have been left static, there is now an overturn in a particular effort in the incentive to the micro companies so that they are the ones that solve the problem. That is to say, they are commended the task of generating employment that neither the transnational nor the national companies generate.

5. The micro company as an answer to the crisis and the poverty

In the mentioned growth conditions of the sector and development micro enterprise of the Bolivian economy Is the micro company an answer to the crisis?

Perhaps it would be more appropriate to consider two other questions:

Is the Bolivian crisis is a supply crisis?

Or it is rather an employment crisis?

As it often happens when similar situations are brought up in the economy of the developed country, the Bolivian economic crisis is mainly a supply crisis, that is to say, there are sufficient products; in fact, it hundreds and thousands of companies have had to shut down operations since 1998 because of lack of demand.

In other words, since 1998 a reversion of the economy surplus flow with the insertion of transnational companies has taken place. It has been shown that the foreign companies take twice as much from what the economy produces. The PIB Bolivian grows annually to a rate of 200 to 250 million dollars; nevertheless, the installed foreign investors in our territory take from 400 to 500 million dollars.

In those conditions there is not any employment creation, but rather employment destruction. It is estimated that the expatriation of cash through dividends transference and other less transparent forms, causes the destruction of 3,000 to 4,000 jobs every month. This amount is compensated partly with the employment creation, mainly in the informal sector of the economy (micro companies); nevertheless, there is a negative balance on 1,500 to 2,000 jobs placements, between 18,000 and 24,000 less positions.

Then, is the micro company an answer to the crisis of shortage of demand? Partly yes, in the same way that the employment crisis is being resolved with all kinds of formal and informal jobs.

Nevertheless, the employment creation in the family and semi enterprise sector does not solve the supply crisis due to the low remuneration that the workers of the informal sector receive.

At present, there is a clear conscience in the opinion of certain Bolivian progressive sectors in the sense of the state and private companies handling and mainly foreign hands has been transferred in
exaggerated form. This way there have begun to arise hints of a new competition from the micro company and the small company, that wish to get involved in those markets that were clearly state like the electricity and the production of certain foods like milk.

Nevertheless, the conditions to compete are not the same ones. When the state companies were established, during the 1950’s and 1960’s, they were opened to unattended markets ;thus, they developed certain monopoly and they were to positioned themselves without difficulties. Now that they belong to foreign capital, they benefit from that goodwill or “business fund” because they have their brand, the market and certain tradition in the suppliers and consumers market.

Will the micro and the small companies be able to compete with those companies? It is clear that it is not going to be easy and we believe there is no giving-up in planting a reversion on certain number of companies , though not to state property, but to less private forms of property . Collective forms of property, with private administration could be more suitable solutions for the Bolivian economy, mainly because in that way the excesses could be retained in the interior of the country and stop provoking this shortage of resources that has been present for several years.
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3. GLOBALIZATION AND MICROFINANCES IN BOLIVIA

Study by Sergio Antezana for INAFI
1. The development of the microfinances in Bolivia

One of the characteristics of the Bolivian micro finances, is that the institutions involved in this system are private (with and without profit purposes). As previously mentioned in the document, in 1985 Bolivia goes from an economic model of state capitalism to one of free market, in which the private institutions have a greater roll in the generation of the economic activity. It is due to this change that the micro company grows, among others, from the initiatives of those employees who were laid off from the public sector.

Therefore, the micro finances manage to grow sine on one a side exists many state ex-employees who start private micro enterprise activities (productive and of commerce), due to a shortage of jobs and, because the state initiates its retreat from the financial activities (the Bank of the State, the Mining Bank and the Agricultural Loan Bank). This convergence between unfulfilled demand and nonexistent supply causes that several Non-governmental Organizations (NGO’s), initiate micro financial activities to take care of this sector.

Almost logically a question comes forth: Why did not the banks take care of this niche of market? According to Maclean and Virreira (2000) the main causes are the following:

1. These clients did not possess the minimum conditions of formality (financial information in standardized format, registry of commerce, unique registry of contributor and others) neither previous financial experience, nor could they prove experience in their activity and they did not have a market known by the banks;

2. The cost of these operations is very superior to the cost of the traditional banking operations. While an credit official of a small commercial bank handles in average $US 1, 25 million in portfolio, an official from Banco Sol, handles only $US 0, 12 million;

3. These clients did not have real guarantees; those that had real estate, did not have the documentation in order and their machinery was not susceptible to be considered as guarantee;

4. The banks did not have a credit technology that adjusted to the necessities of the clients who in addition were not aware of them.

The lack of interest from the commercial banks in this one sector permitted that different NGO’s get involved with the financial activity. Many of those enter “without interest in the financial sector” per se", but in specific social sectors: women, farmers, producers and others.

The term “micro finances”, describes something more than the otorgacion of financial services in small scale. In Bolivia, the cooperatives of saving and credit have been supplying small credits for almost four decades, reason why it is worth the trouble to make an additional detailing. It is possible to differentiate between a small scale credits from a micro credit one by the type of guarantees used:

---

67 In many cases with the money obtainend from his liquidation and his lay off.
68 Elabora with information from 1993 (Maclean and Virreina 2000., p.25)
69 From an interview to one of the founders of the ONG FIE. She mentioned that one of the first credit funds that the institution managed was one destined to exiled politicians.
"the first program of micro credit in Bolivia under innovative guarantees, as is the case of the supportive group, began at the beginning of the decade of the 80’s. This it was impelled by the Confederation of Private Businessmen of Bolivia, the Calmeadow Foundation and by ACTION International, those that promoted the creation of the Foundation for the Promotion and the Development of the Micro company (PRODEM) in 1986"(COVER PRO, 1998, p. 9).

The fact of applying innovating outlines of guarantees, that allow the access on the credit to people without assets, or real estate like collateral of the credit, is really the characteristic that differentiates a micro credit from a small scale credit for consumption.

The process of development of the micro finances, cannot be separated from the cooperation that was received from diverse countries that contributed funds (with donative character or soft loan) for the development of this activity, as much for portfolio as for administrative expenses. These resources aimed at the sustainability (at least in the short term) of those institutions. Bolivia imported micro financial models of the Asian experience and later it adapted them to the reality of the country. Although, in 1978 Ecumenical National Action of Development is created (ANED), one of the most active micro financiers of the rural area, still then there could be no mention of micro credit until 1986 when, as already mentioned, PRODEM initiated their activities.

The credit activity was accompanied by complementary activities such as the technical training, countable qualification and other services that formed part of the development paradigm of the moment. The paradigm denominated "beneficiaries" the receivers of the credit and aimed at not applying high financial costs to them. The experience was, in general, poor: high indebtedness and in some cases loss of the lent resources; nevertheless, these experiences allowed to perfect the methodology of otorgacion of the credit and to deepen the knowledge of the practices and necessities of the attendant segment. The development of the credit technologies allows greater product diversity: associative credit, supportive group, individual credit and communal banks.

The support approach to the productive sector is based on the logic that the productive activity (micro enterprise or farming) generates employment, growth and therefore it is an exit to the conditions of poverty. Later investigations and studies of the micro enterprise sector will make notice that it is the women that, since they do not possess real guarantees, were more marginalized from the financial system and that some of them did not have a training that allows them to initiate a productive micro enterprise activity. Parallely, the approach of equity becomes a world-wide phenomenon and it is so that the credit to women begins to grow as percentage of the portfolios. This coincides with the fact that the women work mainly in the commercial sector and that this has an earning power greater than the productive sector and therefore it can pay greater interest rates in a shorter term (Antezana, 2004).

By the end of the eighties, the market was characterized (in general) by nonspecialized institutions, that practically did not offer any kind of publicity or promotion of any type but they had a line of clients whose demand was not possible to satisfy with the amount of resources available for portfolio. In this o first stage are created and consolidated practically all the financial NGO’s that would be

70 That it can be similar as far as amount is concerned, but very different in collaterals and source of payments.
71 One of the most used modalities for working financing services was the Rotatory Funds, for more thorough information, see: Milligan, W (1994). “Once Razones Para El Posible Fracaso de Un Fondo Rotativo “ Eleven Reasons For The Possible Failure of a Rotatory Fund.” Bolivia: COTESU - CID.
72 Many times; because of a shortage of liquidity, funds were not released, something unheard of nowadays.
denominated as financial NGO’s\textsuperscript{73}. The following chart, presents the date of creation of the main institutions of the sector:

**Chart No 1: Micro financial Institutions**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Year founded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asociación Nacional Ecuménica para el Desarrollo (ANED)</td>
<td>1978</td>
</tr>
<tr>
<td>Centro de Investigación y Desarrollo Regional (CIDRE)</td>
<td>1981</td>
</tr>
<tr>
<td>Centro de Fomento a Iniciativas Económicas (FIE)</td>
<td>1985</td>
</tr>
<tr>
<td>Crédito con Educación Rural (FFH CRECER)</td>
<td>1985</td>
</tr>
<tr>
<td>Servicio Financiero Rural (SARTAWI)</td>
<td>1985</td>
</tr>
<tr>
<td>Fundación para la Promoción y Desarrollo de la Microempresa (PRODEM)</td>
<td>1986</td>
</tr>
<tr>
<td>Fundación para Alternativas de Desarrollo (FADES)</td>
<td>1986</td>
</tr>
<tr>
<td>Instituto para el Desarrollo de la Pequeña Unidad Productiva (IDEPRO)</td>
<td>1988</td>
</tr>
<tr>
<td>Programas para la Mujer (PROMUJER)</td>
<td>1990</td>
</tr>
<tr>
<td>Fundación Boliviana para el Desarrollo de la Mujer (FUNBODEM)</td>
<td>1990</td>
</tr>
</tbody>
</table>


The increase of demand, causes the need to establish a micro financial institution financier (IMF) which operates in a sustainable way and extends the scale of operations. This allowed the creation of the Banco Solidario, which was a project undertaken by PRODEM in 1988 and culminated in 1992 with the foundation of the bank (FUNDA PRO 1998). BancoSol is the first Bolivian institution specialized in microfinances, with aims of profit and regulated by the Superintendencia de Bancos y Entidades Financieras (SBEF).

During this first stage one of the main dilemmas consisted of defining the level of the interest rates. Regarding this matter, there were two currents: 1) to fix the lowest rates possible, but covering operative costs and 2) to fix higher rates, with the following argument: “what concerns the client is the access and not the cost, reason why the rate can be high”. The shortage of donation funds\textsuperscript{74} and the debate on the rate permitted the concept to receive "market rates", although, it was not specified that it meant exactly this, nor which was the level of rate in these conditions (less effort was made in analyzing the "market rate" in monopolizing conditions, something common in the rural areas).

Two points mark the difference between the eighties and the nineties: 1) the credit stops been "directed" and it begins to manage the concept of “free availability”, which shows that the client is the one who must define the destiny of the resources and 2) it is defined that the interest rate must serve to cover the operative, financial costs, risks of exchange and costs of opportunity. The creation of

\textsuperscript{73}Since they specialized in the granting of credit.

\textsuperscript{74}This occurred, in part, because the European nations re-directed the resources that were normally for South America, to Eastern Europe, in crisis since the eighties.
Banco Sol somehow summarizes these conditions, since it is an institution with profit motives that lend a high percentage of its portfolio to retailers with high interest rates. Banco Sol is one of the first experiments of "Upgrading" at world-wide level.

The main challenges for Banco Sol were those that offered daily information to standardize the procedures in which credits were given and to adapt to the regulation of forecast and calculation of default. The beginning of the nineties showed the high capacity of growth of the micro financial institutions and demonstrated the necessity of greater control on the funds granted by the international cooperation. In order to obtain this intention the formula of micro financial institutions regulated by the SBEF but with a requirement of capital smaller than one from a bank since many NGO’s showed interest in becoming financial intermediaries, but did not have the sufficient capital to conform a bank.

In 1995, the D. S. 24000 is approved and creates Fondos Financieros Privados (FFP), financial institutions with smaller capital requirement, abilities to attract savings and constituted as stock companies with profit aims.

The following chart shows the customer growth of the micro financial system.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Annual</td>
</tr>
<tr>
<td>BancoSol</td>
<td>24.865</td>
<td>44.832</td>
<td>61.864</td>
<td>63.336</td>
<td>71.745</td>
<td>76.216</td>
<td>81.555</td>
<td>21.9%</td>
</tr>
<tr>
<td>FIE</td>
<td>nd</td>
<td>nd</td>
<td>6.310</td>
<td>10.994</td>
<td>14.039</td>
<td>22.086</td>
<td>20.848</td>
<td>34.82%</td>
</tr>
<tr>
<td>Caja Los Andes</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Nd</td>
<td>3.074</td>
<td>8.640</td>
<td>34.883</td>
<td>236.8%</td>
</tr>
<tr>
<td>PRODEM</td>
<td>7.622</td>
<td>12.181</td>
<td>9.974</td>
<td>18.309</td>
<td>27.484</td>
<td>38.248</td>
<td>47.130</td>
<td>35.5%</td>
</tr>
<tr>
<td>AGROCAPITAL</td>
<td>173</td>
<td>382</td>
<td>868</td>
<td>2.615</td>
<td>3.960</td>
<td>4.028</td>
<td>4.436</td>
<td>71.7%</td>
</tr>
<tr>
<td>ANED</td>
<td>nd</td>
<td>nd</td>
<td>18.473</td>
<td>25.350</td>
<td>27.387</td>
<td>34.731</td>
<td>41.803</td>
<td>22.6%</td>
</tr>
<tr>
<td>CIDRE</td>
<td>306</td>
<td>328</td>
<td>355</td>
<td>584</td>
<td>646</td>
<td>590</td>
<td>555</td>
<td>10.4%</td>
</tr>
<tr>
<td>CRECER</td>
<td>nd</td>
<td>nd</td>
<td>Nd</td>
<td>6.324</td>
<td>8.501</td>
<td>12.868</td>
<td>42.6%</td>
<td></td>
</tr>
<tr>
<td>FADES</td>
<td>nd</td>
<td>nd</td>
<td>1.323</td>
<td>2.430</td>
<td>2.928</td>
<td>3.511</td>
<td>29.962</td>
<td>118.1%</td>
</tr>
<tr>
<td>FUNBODEM</td>
<td>-</td>
<td>136</td>
<td>213</td>
<td>421</td>
<td>507</td>
<td>1.237</td>
<td>1.358</td>
<td>58.4%</td>
</tr>
<tr>
<td>IDEPRO</td>
<td>2.586</td>
<td>3.571</td>
<td>5.538</td>
<td>7.494</td>
<td>7.721</td>
<td>10.017</td>
<td>14.538</td>
<td>33.3%</td>
</tr>
<tr>
<td>PRO MUJER</td>
<td>-</td>
<td>-</td>
<td>2.073</td>
<td>5.940</td>
<td>9.246</td>
<td>14.226</td>
<td>18.923</td>
<td>73.8%</td>
</tr>
</tbody>
</table>

75 Something almost unthinkable by the micro finance institutions at that moment.
76 But it must meet all the requirements from the up-dated regulation.
77 FIE transforms from ONG to Fondo Financiero Privado en 1997.
78 Primer Fondo Financiero Privado, constituted from the contribution by ONG PRO CREDITO and other constitutions without profit aims and cooperation agencies.
It is clearly represented in chart 2 the strong growth of the micro financial institutions during the nineties. The growth of the micro financial system was 44% annual in regard to customers. Caja los Andes and FADES are the institutions that were able to grow faster during this period; nevertheless, practically all the institutions grow to annual percentage near 40%. This period is characterized by the strong expansion of the portfolios, the increase of customers and the main consolidation of the Miffs.

Although, it is possible warn that the Banco Sol was the largest IMF in the market, the participation of this institution is diminishing as other institutions are increasing their customer coverage and portfolio; the portion in the market that the Banco Sol diminishes is more than 50% at the beginning of the nineties to 26% by the end of that decade, although this MFI continued growing annually by 22% during the period. It is worth mentioning that the rural coverage is due mainly to the work of ANED, PRODEM, FADES, SARTAWI and CRECER, whereas the rest of institutions work mainly in urban markets.

The growth of portfolio of these institutions in the same period, also has some achievements that we must mention: PROMUJER multiplied by fifteen times its portfolio; Caja Los Andes by six times; IDEPRO and FIE tripled it; Banco Sol, FADES and ANED doubled it.

On the other hand, the financial conditions of the international cooperation funds changed: they became scarce and expensive. The paradigm of the moment promulgated that the MFI’s be regulated, since this would offer them two of growth: 1) Since NGO’s were not qualified to attract public saving and to place that money in credit; then, the regulation would allow them to attract savings not only from the wealthy sectors of the population, but from the poor sectors as well, and 2) As NGO’s did not have a legal form to attract private investors and to add them to their capital, which FFPs were able to do

The NGO’s that decided to enter under the legal modality of FFP to the financial intermediation were: PRO CREDITO that conformed Caja Los Andes FFP in 1995, FIE ONG which conformed FIE FFP in 1997, ANED, DIACONIA - FRIF, IDEPRO, UNITAS, FADES, and CIDRE which constituted Ecofuturo FFP in 1999 and PRODEM ONG that conformed PRODEM FFP that began to operate in 2000 and was the last case of ONG in transforming itself into FFP. The regulated micro financial system has had an important growth from the creation of the Banco Sol and the conversion of several NGO’s in FFPs. The following chart shows the participation of the regulated and not regulated sector in the portfolio of the micro financial system:

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79 Although, initially these funds were almost a “lost fund”, while the institutions grew, it became clear that it was necessary that they be not financial donations, but obligationss with interest rates near the internacional interest rate, with the condition that the money be used as funds for microcredit.
As the previous graph shows, to December 2003 the portfolio of the regulated micro financial institutions was equivalent to 77% of the total disbursed by the Bolivian micro financial institutions. The participation of this type of institutions has been increasing partly by the conversion of several NGO’s in FFPs, but in addition because these institutions have increased the average amount of credit per client as can be demonstrated in the following graph, that shows the percentage relation of clients between regulated and not regulated institutions:

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80 It includes information from: Banco Sol, Caja Los Andes, Eco Futuro, FIE, PRODEM, ANED, CIDRE, FADES, CRECER, AGROCAPITAL, DIAKONIA, FONDECO, FUNBODEM, IDEPRO, PRO MUJER, and SARTAWI.
The regulated financial institutions have 77% of the portfolio to December 2003, but they only have 50% of the clients in similar period; of a total of almost 350,000 clients, practically half belongs to not regulated institutions and other half to the non-regulated ones, showing that the average credit of the regulated institutions is greater.

2. Comparative balance between the financial micro financiers and other organizations

The law Not 2297 “Normativa de Fortalecimiento y Supervisión Financiera”, promulgated on December 20th, 2001 regulated the financial activity in Bolivia. The law defines that its scope of action refers to the activity of the general deports of deposit (warrant), the financial renting (leasing), the factoraje (factoring), the benefit of auxiliary financial services, check emission and credit cards and the activities of financial intermediation: to receive money in form of deposits or loans for the placements of credits.

Within the activity of financial intermediation, the law defines the constitution of the following types of institutions: Banks, Savings and Credit Cooperatives (open, communal or labor), Mutuals of Savings and Loans and Private Finance Funds. At present exist nine national banks, three foreign banks, seven FFPs, twelve saving and credit mutuals and twenty-two saving and credit cooperatives regulated by the SBEF. Following is a chart that shows the characteristics of the traditional financial or micro financial institutions.

**Chart No. 3: Characteristics of constitution by type of institution**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Fiscalized</th>
<th>Type of institution</th>
<th>Source of the capital funds</th>
<th>Minimum Capital required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>Yes</td>
<td>Limited Company (SA)</td>
<td>Capital contributions and capitalized utilities</td>
<td>2,000,000 DEGs</td>
</tr>
<tr>
<td>FFP</td>
<td>Yes</td>
<td>Limited Company (SA)</td>
<td>Capital contributions and capitalized utilities</td>
<td>630,000 DEGs</td>
</tr>
<tr>
<td>Mutual</td>
<td>Yes</td>
<td>Civil Association without profit aim</td>
<td>Contributions, excess capitalized and contributions</td>
<td>300,000 DEGs</td>
</tr>
<tr>
<td>Cooperative</td>
<td>Yes</td>
<td>Limited-Liability Company (SRL)</td>
<td>Contributions, contributions from, cooperator partner and capitalized utilities</td>
<td>100,000 DEGs</td>
</tr>
<tr>
<td>NGO</td>
<td>No</td>
<td>Foundation or Civil Association sin fines de lucro</td>
<td>Contributions, contributions from, foundation members and capitalized utilities</td>
<td>No limit exists</td>
</tr>
</tbody>
</table>

Source: Banks Law No. 2297. Own Elaboration.

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81 It is worthwhile to emphasized that the previous financing enteties and banks law (No.843 take in consideration the ONGs existence as financing enteties without supervision by the SBEF, but recognized by law as financial service offenters.

82 Cooperative or association that can only perform transacctions with their partners are referred to as Comunal or Labor. Generically denominated as closed cooperatives.

83 The information included is only about savings and loan open association (or cooperative) whose operations are regulated. It includes the ONGs, in spite of being excluded by the law, since they are microfinance entities.
As it is illustrated, the Mutuals and the NGO’s are institutions without profit aims whose capital must be provided by founding partners, donations or surplus capitalized surplus since these cannot be distributed. In contrast the Banks and the FFPs are institutions with profit aims.

All the financial institutions are regulated by the SBEF, except for the closed cooperatives and the NGO’s. This because the regulation approach looks for protection for the public’s savings and the NGO’s and closed cooperatives, are not qualified to operate with this service.  

The banks have the greatest amount required as minimum capital, which has relation with the amount of permitted operations, as well as the type of risk that these operations entail. The following chart displays information on the type of operations that can be made according to the law of banks and effective financial organizations:

**Chart No 4: Operations allowed by type of Institution Cooperative**

<table>
<thead>
<tr>
<th>Inst./Services</th>
<th>ONG</th>
<th>Cooperative</th>
<th>Mutual</th>
<th>FFP</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>To grant credits at any term.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>To receive deposits in saving and current accounts at a term and at sight.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>To emit and to place mortgage certificates, chairs and bonds</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>To rent safe deposits boxes</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>To make drafts and to emit payment order in the country or in foreign countries</td>
<td>Only drafts</td>
<td>Only at a national level</td>
<td>Only at a national level</td>
<td>✓ 85</td>
<td>✓</td>
</tr>
<tr>
<td>To emit traveler's checks and credit cards</td>
<td>Only credit cards</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Storage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Law Not 2297. Own Elaboration

As it is demonstrated in both of the previous charts, beside the banks the FFPs are the institutions that have the greatest requirement of capital and the greatest possibilities of conducting financial operations. They are qualified institutions to attract savings from the public, to make drafts at national level, to emit checks and credit cards. The cooperatives are the regulated institutions, that can perform the least number of operations, which is related to the required minimum capital to the same ones that it is equivalent to 5% of the capital required to the banks and nearing sixth of the capital required to the FFPs.

84 Though the the norm has opened the possibility that ONGs can receive the savings, under the modality of an association with regulated entities, there are no expeiences about the topic yet, that allow impact evaluations in the institutions as well as in the public.

85 Operations abroad are allowed, unless it concerns foreign trade.
Recently, the norm has defined that the drafts and the currency exchange, are not services controlled by the SBEF, reason why these services can be made by the NGO’s or the closed cooperatives, without breaking the law.

3. The contraction of the formal finances and the stability of the microfinance

The Bolivian financial institutions in general, have had a strong correlation with the performance of the economy. The contraction and expansion of the financial system, are necessarily bound to the profits of the national economy. Following is a graph with information of the assets of the banking, mutual system and of the private financial funds, as representatives of the micro financial system.

![Graphic No 3: Assets by type of Institución](image)

Source. Elaboration: Own.

The previous graph reflects how the assets of the banking institutions have been diminishing year after year between December 1998 and June 2004, being the reduction of the banking system of almost $US 2,000 million. Whereas the assets of the mutuals have practically stayed constant, the one of the FFPs + Bancs has increased practically every year, from 140 million of $US in December 1998 to more than 403 million in June 2004. This growth of the assets is a reflection of how the performance of the economy influenced in the financial system. The following graph shows the same relation, with respect to the portfolio:

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86 The banks have assets ten times greater than the Mutuals and FFPs, reason why a double scale is used that allows to analyze the tendency of this variable in a same graph. “Banks” do not include Banco Sol. “FFP + Banco Sol” includes information of Banco Sol, FIE, Caja Los Andes, PRODEM. Eco Futuro y Fortaleza (FFP) that works with the microfinancial sector. Created in September 2002). It has been used solely information of FFPs which works in microfinances and information has been excluded from Fa$til, Fondo de Comunidad y Acceso, which does not operates as microfinance. It has not include information from cooperatives because regulated cooperatives can become regulated so they unsestabilize the indicators of this type (kind) of institution.

87 The information from Banks and FFPs + Bank Sun, has been handled in the same way to the assets information, to only reflect the contribution of the regulated microfinancial institutions. The information of ONGs to june 2004 still is not available.
While the portfolio of the banking system diminishes sensibly in the analyzed period, the one of the micro financial institutions grows every year. The diminution of the portfolio of the banking system is of almost $US 2,000 million, similar to the diminution in active-duty. On the side of FFPs + Bank Sun, the growth is constant, from $US 113 million in 1998 to $US 326 million in June of 2004. The diminution of the portfolio of the NGO’s between 1999 and 2000 is due to the creation of PRODEM, that carries a $US 22 million portfolio from the NGO’s to the FFPs. Nevertheless, in spite of this fact, the portfolio continues growing from $US 78 million to $US 84 million between 1994 and 2004.

In the ranking of portfolio elaborated by the SBEF to December 2003, there exist three MFI’s located among the fifteen institutions with a greater portfolio in the financial system: the BancoSol is located in the tenth position, Caja Los Andes in the twelve* and PRODEM in the fourteenth (Baldivia, 2004).

The Mutuals also diminished their portfolio by approximately more than $US 50 million. Diminution of assets and of portfolio are due to the crisis of economy in general, but as it is possible to demonstrate, micro financiers decided not to decrease as far as the portfolio is concerned, instead they increased almost 10% a year, which is low compared with 43% of growth of the micro financial system between 1992 and 1998, reason why the effect of the economic crisis can be demonstrated.

The following graph presents the information of default of each system:
The default of the financial system had, in general, an increase between 1998 and 2003, being the banks the most affected by this phenomenon. The default of the banks increased from less than 5% in 1998 to 17.5% in 2003; the one of the mutuals increased from 9.2% to 14.7% in 2001 and later diminished up to 11.9% in June 2004. By the end of the 2003, the financial NGO’s obtained a 10.9% default, whereas the FFPs strongly controlled their default between the 2001 and the 2003 and managed to reduce it up to 4.2%. As it has been demonstrated the MFI’s in Bolivia have better control of the default than the traditional financial institutions, although their customers are extremely vulnerable to the economic cycles, since in a high percentage, they are informal merchants.

The following picture, shows the liabilities with the public by type of institution.

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88 Liabilities with the public include: obligations with the public at sight, in savings account, on terms, restricted and charges for obligations with the public.
As it is possible to be demonstrated on the presented/displayed information, the micro financial organizations portfolio grew and diminished their default in spite of the crisis years that the country lived (by the end of ninety and beginnings of century XXI) and increased the liabilities with the public of $US 74 million to $US 220 million. The NGO’s increased their portfolio slightly; and they managed to diminish his default between 2000 to the 2003, but this one still is elevated compared with the FFPs one that is lowest of the system.

The mutuals practically maintained their liabilities with the public and his total level of assets. In spite of diminishing his portfolio in $US 50 million, they managed to diminish the default level between 2002 and June 2004, but the level of the default is still elevated: 12%. The banks, diminished their assets, its portfolio and increased their default, in the same period they diminished their liabilities with the public in more of $US 1.150 million, part of this amount was removed out of the country and a smaller portion, moved to another type of institutions: FFPs and Sociedades Administradoras de Fondos de Inversion (Administrators of Investment funds) (SAFIs) mainly.

4. Impact of the Free Trade Agreement (FTA) in the Bolivian micro finances

The Greater problematic referring to the Free Trade Agreement (bilateral or regionals) is in the negotiation of the terms for rising the protections to the strategic sectors of each country, because these sectors have too much power to negotiate these protections (tariff or for tariff). On this point, Bolivia is one of the countries that protects its industry the less. As regard to direct subventions as in commercial barriers (tariff or for tariff). "Countries as Bolivia not only eliminated their commercial barriers to a point that they were lesser than those of the EE. UU. but also they cooperated... eradicating the culture of the cocaine "(Stiglitz, 2002, p. 99), one of the main headings that absorbed the relocated "manual labor from the 1985 reforms.

89 The increase in the portfolio would have been greater if PRODEM ONG would not have been transformed into PRODEM FFP.
After the negotiations of the ALCA failed, the United States decided for negotiations for free trade agreement (TLC) bilateral with Colombia, Ecuador and Peru. At the moment Bolivia only participates in these negotiations as an observer. The three most conflictive points of this TLC negotiation are: 1) Release of barriers to commerce, 2) the dealing with the foreign investment and 3) the possibility of patenting genetic material and the uses derived from this.

As far as the first topic, Bolivia has a tariff policy that only discriminates consumer goods with capital goods. The first ones have a 10% tariff and the second ones 5%, that's why many analysts agree that the trade balance with EUA would not become substantially more deficit by the commercial liberation and the impact to small agricultural producers would be minimum as far as imports replacing local products, except, probably, in the case of wheat.

It has been seen that there exists a great probability that the opening from North American market generates an important exporting dynamics in the manufacture (textile and jewelry mainly), but maybe this benefit would reach in greater measure the great companies; nevertheless, sub hiring experiences have existed as in the case of the ATPDEA which have allowed that small and medium companies obtain growth and generate employment. From this process micro finances which have rendered to this sector have also benefited.

Something similar, but in a lesser degree, can happen with the wool of camelidae; the biggest problem of this sector is that it does not fulfill the animal health norms because the SENASAG) National Service of Sanidad Agropecuaria (Servicio Nacional de Sanidad Agropecuaria) is not working in a forceful way on the subject, which restricts this material exportation. On the other hand, Bolivia does not have an industry that can processes the camelidae wool, for this reason it is imported and processed in Peru for its preparation, this increases the costs and reduces competitiveness to the sector.

The FTA between EUA and Mexico (that is very similar to which it is negotiate with the Andean countries), specifies that in case of controversies, the resolution of the dilemma occur in panels of international arbitration, this puts a transnational company at the same level that a country has. The treatment to the foreign investment was defined by Bolivia in the Law of Investment of 1992, the one that specifies that the foreign investor will be treated like national, that's why this point does not imply greater conflicts in the referring thing to the TLC, in addition to it is necessary to emphasize that Bolivia has signed series of bilateral treaties having consolidated this kind of treatment.

The consolidation of patents on unknown products at world-wide level already has caused controversies; we can mention the case of the Cupuazú in Brazil. There exist many fears of patenting products of farming origin (Amazonian and Andean) and that the commercialization of the

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90 Unlike to what could happen if the borders are open to the neighboring countries with which there exist many potencial risks, since Argentina as well as Chile, Brasil and Peru, have greater productivity than Bolivia in corn, rice, fruits from the valley and the oil production.

91 Which expiration date is December 2006.

92 Mention can be made the “Guerra del agua” (The Water War) case. Betchel invest in Aguas del Tunari through a subsidiary called: International Waters, constituted in Caiman Islands previous to the outcome of the “Guerra del Agua”, International Waers change its address from the Cayman Islands to Holland, country with which Bolivia signed a Bilateral Treaty on the subject investments in 1996, which allows Bechtel to demand conciliation in the International Center for the Adjustment of Differences Center. In order to extend information see: Tunupa, Bulletin No.17.

93 Brazil discovered that a Japanese company: Asahi Foods had patented the cupuaçu and that the producers had to pay for the use of this name in order to be able to sell products derived from the same one. This discovery brought to light more than 50 cases of other patented products. For more details, see: Tunupa, Bulletin No.17.
derivatives can be prohibited or regulated through patents of exclusive use. Although, the problem is of an ample magnitude and importance, the portfolio percentage in products of the micro financial institutions unknown at world-wide level is very low and it is very improbable that this problematic one strongly affects the Bolivian micro financial sector.

5. The answer of the poor

When the economy reaches a deceleration in its growth, the productive and commercial activities of the clients were affected and many of them put in risk not only the capacity of the clients to pay the acquired credits, but in general, the capacity of micro industrialists to generate income.

Beginning in 1999, associations of debtors were formed which obtained public notoriety, showing a diversity of problematics that were not being taken care of by the SBEF, like excessive charges and bad credit recovery practices, on part of some financial institutions (not all micro financiers). The existence of the associations of debtors is linked to following the three factors:

a) The appearance and excess of personal loans credit and the nonexistence of a common power station of risks

The first institutions in operating with consumption credit are FFP Accesso, of Chilean capitals and Credi Agil, a credit program of consumption coming from a Bolivian bank. Between 1996 and 1998, the consumption credit was increased remarkably; many of the institutions working in this subject went after specifically clients of micro financiers, offering them mainly greater amounts of credit. This derived in the overindebtedness from some of them, those that became default and they could not accede to new financing for being categorized as risky clients in risks center of the SBEF. By the end of 1998, Accesso FFP had 70,189 clients, whereas the Banco Sol had 81,555. By the end of 1999, Accesso had problems and only had 35,264 clients, whereas the Banco Sol had 73,073. It is evident the speed by which Accesso FFP began to fall and also deteriorating its portfolio. On the other hand, there existed localities in which the NGO’s operated in a simultaneous way to the regulated organizations, but only the last ones reported to the borrowers to the of risks centers of SBEF; some clients took advantage of this asymmetry of information between institutions and they lent-borrow from the non-regulated to pay to regulated and vice versa. Without knowing it and in some cases without wanting it, the institutions went on overindebting the clients. At the moment a bureau of credit information is been developed, in which information of both types of institution will be obtained, reason why the problem will be able to be corrected or be attenuated in the medium term.

b) The deceleration of the economy and the customs reform as of 1999.

The customs reform put a change in the Bolivian policy with respect to the informal commerce. Contraband was strongly controlled and this affected sensibly many clients who belonged to the retail commerce where a great contingent lives direct or indirectly of the informal commerce. The customs control caused increases on indebtedness and it affected particularly such markets as Oruro and Patacamaya.

c) The bad application of technologies of group credit issues in the rural zones.

The bad application of group credit technologies occurred in the search for an increase of the portfolio in a fast way in many urban and rural micro financial institutions. The concept of joint and shared in common guarantee is based on the acceptance on the part of the client, to pay in case a member of
the group does not pay, but for this there must be ties of confidence and in some cases even of relatives. This concept was not respected by some institutions since the groups were formed by the institutions and not by the clients. When a client failed the rest of the group did not accept to pay the credit since it was a member who they did not know and that had been introduced in the group by the institution.

At the beginning of 1999, a hunger strike placed notoriety to a group of debtors. But it is not until the middle of 1999 that is created the first Debtors Association (AD). It begins in the city of the El Alto, but it quickly expands its coverage to the rest of the country. The government and the gremial institutions of financial institutions, recognize its existence and in October 1999 they sign the first “Agreement Framework” between the Asociación de Pequeños Prestararios, ASOFIN, FINRURAL and CrediAgil, with the mediation of the SBEF. This mentioned organization did not obtain results in its negotiations and later it was dissolved, being some of its leaders accused of fraud.

The first mobilizations were conglomerated of debtors of all types: debtors of savings and credit cooperatives, of personal loans, micro financiers and state banks already closed, like the Banco Agrícola, that no longer granted credits but it looked for a way recover past due accounts that was left when it had closed. Also, a few cases of clients from the traditional financial system were included who had had, problems of repayment and whose credits exceeded by much on the average credit of the micro financial institutions.

The government dictated the “Ley de Condonación de Deudas de bancos estatales ya liquidados”, which on one hand affected the cohesion to the movements; but on the other hand, offered hints of a possible condonation to clients from private institutions, which affected the availability to pay in some rural areas. Nevertheless, the account debtors associations, beyond having obtained condonations, had put in evidence the bad practices of recovery of the credit of several financial institutions, as much as the NGO’s, as cooperative of savings and credit and FFPs. The following bad practices were denounced:

- “Anatocismo” Collection of interest on nonpaid interests, which is prohibited according to the law of Banks;
- The taking of machinery or guarantees of clients, in spite of no existing normative that made such actions legal;
- To make the recovery of the credit with offensive systems: painting the word debtors on the wall of the houses, taking mariachis at night, taking personal from the institution to stand in the front door of the business of the client, with a signboard that indicates that the client is a debtor and some other practices of that nature.

Salinas, Anatezana and Jitton (2001) mentioned two concepts of guarantor according to field work in the rural area. One which is that close guarantor (relative in almost all the cases) who bases his support on a solidarity concept, whereas “the other people’s” guarantor (usually nonfamiliar, but a friend) is he whom has confidence, but has the capacity to exert pressure on the one guaranteed, so that he must be the one who has to pay.

It was stated, for example, the following “falencia”: members with very heterogenous amounts of credit; when the one of greater amount did not pay, the rest of the group, could not cover their debt.

The Association of Specialized Financial Organizations in Microfinance (ASOFIN) is the gremial association of the microfinancial institutions regulated (Banco Sol and FFP: PRODEM, FIE, Eco Futuro, Fortaleza and Caja Los Andes) and one ONG (AGROCAPITAL).

The Association of Financial Institutions for the Rural Development (FINRURAL) mainly groups to ONGs financial (FADES, ANED, FONDECO, SARTAWI, FFH CRECER, CIDRE, DIACONIA - FIRF, IDEPRO, PRO MUJER and PRODEM) and a few cooperatives.
In 2001, these mobilizations recompose and emerges the “Organización de Deudores a Nivel Nacional” (ODN). This group took the Superintendencia de Bancos y Entidades Financieras with dynamite on July 2nd of that year and subscribed a second agreement on July 4th with ASOBAN\textsuperscript{98}, ASOFIN and FINRURAL, thanks to the mediation of the Defensor del Pueblo, the Asamblea Permanente de Derechos Humanos, the Conferencia Episcopal Boliviana and the same SBEF. This agreement defined that a “small debtor” was he whose original personal credit was for an amount equal to or less than $US 5,000\textsuperscript{99}. + A year after the agreement was signed, the following is the evaluation of the results obtained by the clients inside and outside the association (Marconi, 2004)\textsuperscript{100}:

- The mentioned unions have not received any documented complaint that verifies anatocismo\textsuperscript{*} practices, unilateral reprogramming or practices that contravene legal dispositions?

- The ODN gave lists of clients to the financial institutions outside of the agreed term and in many cases with incomplete or wrong information\textsuperscript{101}. The total of presented cases does not surpass 0.5% of the total of clients attended by then by the micro financial institutions. "In average, for each presented case of a client registered in the ODN. 25 independently presented cases have been registered, to the margin of the ODN" (Marconi, 2004, p. 32\textsuperscript{102}). What this proves that there existed many cases, but that the ODN did not have the total confidence and representativeness on the part of the clients.

- Inside the conciliation process of debts, 30% of the cases presented by the ODN have been solved, whereas the cases presented by an independent way, have an index of resolution of 95%.

The debtor associations have proliferated; in 2002, the following associations existed at least (Marconi, 2004, p. 33): 1) Debtors or Borrowers at National Level, 2) Force of debtors at National Level, 3) Debtors Organization in General, 4) Debtors Ex-BBA, 5) Union of Borrowers debtors Mutual La Paz and 6) The Debtor and Borrower National Association. As it can be demonstrated, the associations were created not only around micro financial organizations but around banks (ex-BBA) and mutuals.

All this series of movements, have raised question on the real impact of the microfinancial sector on the clients. FINRURAL, through the program Imp-Act of the Ford Foundation has made an exhaustive measurement of impacts\textsuperscript{103} in the following institutions: PRO MUJER, TO GROW, DIACONIA FRIF, Future Echo, FADES and FIE. The impacts found in these institutions are:

\textsuperscript{98} ASOBAN is the Association of Bolivian Banks
\textsuperscript{99} In a comparative manner, it must be mentioned that SUS 5,000 is more than five times the GIP Bolivian per capita.
\textsuperscript{100} Reynaldo Marconi, author of the text is also executive director of FINRURAL.
\textsuperscript{101} It can be pointed out that from the reported cases, 59% belonged to institutions of credit for consumption 12% to clients associated to FINRURAL and 16% to clients associated to ASOFIN. Another percentage belongs to 1) wrong information 2) clients who did not give their consent to be included in this list, 3) people that did not have credit with the entity reported, 4) people with credits already fined and 5) clients with effective credits who were included solely through the promise condonation of the ODN.
\textsuperscript{102} Marconi, op cit., p. 32
\textsuperscript{103} The methodology used contemplated a transversal-type of study. A comparison was made between a sample of clients with seniority of no less than two years and a control group.
The level average of investment in assets of the economic units with credits of a IMF is superior to the same indicator of the control group (TO GROW, PRO MUJER, DIACONIA - FRIF, Eco Futuro, FIE and FADES);

- The average investment in work capital was larger in the clients than in the control group (in DIACONIA - FRIF, TO GROW, FADES, Future Echo and FIE);

- Greater amount average of sales with relation to the group control (in PRO MUJER DIACONIA - FRIF, Future Echo and FIE);

- Average amount of sales input with respect to the group control (in PRO WOMAN, TO GROW, Future Echo, FADES and FIE);

- Larger monetary value of the assets by home with respect to the group control (in PRO MUJER, TO GROW, DIACONIA - FRIF, FADES and FIE);

- Greater percentage of clients that during the last year refracted or extended and/or improved the access from their home to basic services (in PRO MUJER, TO GROW, DIACONIA - FRIF, Future Echo, FADES and FIE);

- Greater percentage of people that increased their income during last year (in FADES)

- Statistically significant correlation between larger number of credits, greater antiquity of the client and improvements in the education of members of the household (in FADES, Future Echo, DIACONIA - FRIF, PRO MUJER and TO GROW)

- Statistically significant correlation between larger number of credits, greater antiquity of the client and greater income and repairs in the home (in FIE, FADES);

- Statistically significant correlation between greater number of credits, greater antiquity of the client and greater education, better nourishing practices and of prevention of diseases in the home (in GROWING and PRO MUJER)

It is possible to noticed that the most important impacts (health, feeding and education) appear in the MFI’s with methodologies of credit related to qualification activities: TO GROW and PRO MUJER. In a great amount of cases it has been demonstrated that the increase in the income of the clients occurs because these obtain the credit in opportune way and can take advantage of the same one to obtain better businesses, being this a great impediment of the economic units that do not accede on the credit and being this fact one of the greater impact justifications of the MFI’s in the customer.

6. The new micro financial necessities at time of globalization

The development of the micro finances in Bolivia, has demonstrated that the people of limited resources have capacity to even pay loans with high interest rates; nevertheless, the credit is not the only solution to the problems of financing of this customer, and from no point of view, it is the only exit to the poverty.

As the credit services have been developed, it has been demonstrated the diversity of necessities that are not being covered by the traditional financial system. At the moment, the work is focused on
the development of the following financial services for to the same customers at whom it is aimed with micro credit:

1. Saving. – El Fondo de Fortalecimiento del Sector Productivo (FONDESIF), is a state institution that has worked supporting the expansion of the cover of financial services and at the moment it coordinates the work of the Program of Mobilización de ahorro Popular (MAP), whose objective is to develop methodologies that allow to receive savings from clients of limited resources. The distribution of clients of the financial system by the end of December of the 2003, was the following one:

**Chart No 5: Clientele of the finance system by type of institution to December 2003**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Banks</th>
<th>Mutuals</th>
<th>CACs</th>
<th>FFPs + BancoSol</th>
<th>NGO’s</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of clients</td>
<td>152,493</td>
<td>24,606</td>
<td>58,938</td>
<td>169,983</td>
<td>178,278</td>
<td>584,298</td>
</tr>
<tr>
<td>with credits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of clients</td>
<td>26,10%</td>
<td>4,21%</td>
<td>10,09%</td>
<td>29,09%</td>
<td>30,51%</td>
<td>100%</td>
</tr>
<tr>
<td>with credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of clients</td>
<td>547,930</td>
<td>295,291</td>
<td>381,657</td>
<td>191,319</td>
<td>0</td>
<td>1,416,197</td>
</tr>
<tr>
<td>with savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of clients</td>
<td>38,69%</td>
<td>20,85%</td>
<td>26,95%</td>
<td>13,51%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>with savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SBEF Elaboration: Own

As it can be demonstrated, the micro financial system occupies practically 60% of the credit clientele; nevertheless, it only occupies 13.5% of the saving clientele. The mutuals and the cooperatives, posses reduced percentage of clientele on the active side (portfolio), but wait on 47% of the account holders of the system, which seems to show that the FFPs have not operated their potential as financial intermediaries, and less effort has been made on serving their credit customer with services of deposit.

2. FADES has developed a system of turns on a national level, and take advantage of all the urban and rural coverage of the institution. It is noticed that there exists an important neglected market of migrants that still has familiar connections with its zones of origin. Additionally, FADES experiments with the collection of services (water, light and others) in the countryside, where there is no regulated financial institutions that serve this. The commissions by these services, contribute to the sustainability of the institution, the one that before leaned exclusively in the income by interest rate. On the other hand, it is a valuable service for a great contingent of people.

3. At the moment ANED supplies leasing services to producers of the rural area, which allows to offer investment loans in machinery to clients without collateral since leasing replaces the guarantee of the client, by a machinery that is rented with option to purchase. One of the problems that ANED has found in the implementation of this service, is that when the client does not exert his option of purchase, the machinery does not have a market of second hand that allows to obtain some profit for

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104 ONG Financier with close to sixty agencies, rural mainly.
105 ONG financier with an important rural coverage.
ANED. The norm defines that leasing only can be offered by an institution with profit aims and exclusive turn, reason why ANED analyzes the possibility of conforming this type of institution.

4. The Program of Support to the Financial Sector (El programa de Apoyo al Sector Financiero (PROFIN) from the Swiss Agency for the Development and the Cooperation (COSUDE) is developing and testing with pilot projects, the viability to offer services of micro warrant. It has recognized the necessity by this service in at least the area of quinua, coffee and rice, but the institutions that supply the service in Bolivia, are not interested in the micro financiers market, reason why there is the possibility to develop these services with NGO’s for rural coverage. As in the case of leasing, what this service is looking for is to innovate in the type of guarantees to use with clients whose cash flow allows repayment. The reach of the law with respect to the warrant, defines that only institutions with profit aims and unique turn can operate in this market, reason why it will be necessary to try to adapt itself to the norm in the medium term.

5. The capital risk is perhaps the financial alternative product on the credit of larger development in Bolivia. It consists in contributing financing in form of capital corresponding to stock (or debt subordinated in some cases) running the risk with the business and obtaining benefits solely when the business obtains them. CIDRE, PRODEM, PRO CREDITO and RURAL PRO have been working in the supply of this service for at least two years. The located disadvantages have been: 1) it is a very expensive service for micro industrialists, 2) the informal clients do not have balance that allow to locate their patrimony and thus to enter the contribution of the bottom of capital risk and 3) when becoming partner of the company, runs risk of which this does not fulfill the payment of taxes or social benefits, in which case, the bottom of capital risk is also responsible for this breach, which implies an additional risk to the one of the business

As it is possible to be demonstrate, the services that are developed look for two aims:

1. To diversify the guarantees that the client can present to obtain financing. This is because the overindebtedness of the last years, demonstrated that guarantees did not exist on the credits106 and that many micro industrialists could present guarantees that were not contemplated in the supply of micro credit;

2. To adjust in a better way the flow of the client resources. The leasing as well as the capital risk allows that the payment of the client is not constant but that it varies in function to the flows of generation of income. In addition, the opening to services of savings and auxiliary financial services, allows a better adjustment to the demand of the clients in its search to diversify risk and of diminishing the vulnerability to the variability of the flows of generation of income.

In spite of the development of the new micro financial services, still the greater challenge up ahead is lowering the interest rates by micro credit, since these still are elevated and they do not allow the access to the service on the part of clients with productive activities of low yield; for this is necessary that the MFI’s:

1) diminish financial expenses which at the moment they incur and to manage to obtain resources of a smaller cost,

2) manage to diminish their administrative costs via efficiency or by means of the scope of economies of scale and/or

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106 Solely the characteristic that allowed the development of microcredit jus as it did.
3) Be successful in generating greater income with the same infrastructure. This can be obtained introducing new services, like the auxiliary financial services, for example. In August 2004, BancoSol obtained financing of stock-market from New York, when it headlined the portfolio through Blueorchard, a specialized Swiss financial organization in the micro financial sector; the firm JP Morgan invested in the process. BancoSol obtained $US 5 million in a seven -year term with fixed interest rate, which demonstrates the low perception of risk in the market. This type of innovations as far as the financing for institutions dedicated to micro finances shows the ample range of possibilities that are being opened and that would allow to extend the terms and to diminish the interest rate for the micro credits (Romero, 2004).

The cover of the Bolivian micro financial system is significant if it considers the geographic dispersion and the lack of road infrastructure and telecommunications. The total of clients of the micro financial system is of almost 350,000 people, which is equivalent to 4% of the total population. The alternative sources of anchorage as found by Banco del Sol they can allow a strong growth of the sector, same that has demonstrated its ability to grow still at moments of crisis, when the traditional financial institutions diminished their assets, portfolio and liabilities, besides to increase its past due accounts.

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107 On the average Bolivia has eight inhabitants per square kilometer, but there exists many areas where the density is less than one inhabitant per square kilometer.
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8. LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ALCA</td>
<td>Acuerdo de Libre Comercio de las Américas</td>
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<tr>
<td>ANED</td>
<td>Acción Nacional Ecuménica de Desarrollo</td>
</tr>
<tr>
<td>ASOBAN</td>
<td>Asociación de Bancos de Bolivia</td>
</tr>
<tr>
<td>ASOFIN</td>
<td>Asociación de Entidades Financieras Especializadas en Microfinanzas</td>
</tr>
<tr>
<td>ATPDEA</td>
<td>Andean Trade Promotion and Drug Erradication Act</td>
</tr>
<tr>
<td>BBA</td>
<td>Banco Boliviano Americano</td>
</tr>
<tr>
<td>CIDRE</td>
<td>Centro de Investigación y Desarrollo Regional</td>
</tr>
<tr>
<td>DIACONINA FRIF</td>
<td>Fondo Rotativo de Inversión y Fomento</td>
</tr>
<tr>
<td>EUA</td>
<td>Estados Unidos de Norte América</td>
</tr>
<tr>
<td>FADES</td>
<td>Fundación para Alternativas de Desarrollo</td>
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<tr>
<td>FFH CRECER</td>
<td>Crédito con Educación Rural</td>
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<tr>
<td>FFP</td>
<td>Fondo Financiero Privado</td>
</tr>
<tr>
<td>FIE</td>
<td>Centro de Fomento a Iniciativas Económicas</td>
</tr>
<tr>
<td>FINRURAL</td>
<td>Asociación de Instituciones Financieras para el Desarrollo Rural</td>
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<tr>
<td>FONDECO</td>
<td>Fondo de Desarrollo Comunidad</td>
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<tr>
<td>FONDESIF</td>
<td>Fondo de Fortalecimiento del Sector Financiero y Apoyo al Sector Productivo</td>
</tr>
<tr>
<td>FUNBODEM</td>
<td>Fundación Boliviana para el Desarrollo de la Mujer</td>
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<tr>
<td>FUNDA PRO</td>
<td>Fundación para la Producción</td>
</tr>
<tr>
<td>IDEPRO</td>
<td>Instituto para el Desarrollo de la Pequeña Unidad Productiva</td>
</tr>
<tr>
<td>IMF</td>
<td>Instituto Micro Financiera</td>
</tr>
<tr>
<td>MAP</td>
<td>Programa de Movilización de ahorro Popular</td>
</tr>
<tr>
<td>ODN</td>
<td>Organización de Deudores en General a Nivel Nacional</td>
</tr>
<tr>
<td>ONG</td>
<td>Organización no Gubernamental</td>
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<tr>
<td>PRODEM ONG</td>
<td>Fundación para la Promoción y el Desarrollo de la Microempresa</td>
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<tr>
<td>PROMUJER</td>
<td>Programas para la Mujer</td>
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<tr>
<td>SAFI</td>
<td>Sociedad Administradora de Fondos de Inversión</td>
</tr>
<tr>
<td>SARTAWI</td>
<td>Servicio Financiero Rural</td>
</tr>
<tr>
<td>SBEF</td>
<td>Superintendencia de Bancos y Entidades Financieras</td>
</tr>
<tr>
<td>SENASAG</td>
<td>Servicio Nacional de Sanidad Agropecuaria</td>
</tr>
</tbody>
</table>

ALCA  Free Trade Agreement Commerce of Américas  
ANED Ecumenical National Action of Development  
ASOBAN Association of Banks of Bolivia  
ASOFIN Association of Financial Organizations Specialized in Microfinanzas  
ATPDEA Andean Trade Promotion and Drug Erradication Act  
BBA Bolivian Bank American  
CIDRE Regional Search and development center  
DIACONINA FRIF Rotating Found of Investment and Promotion  
EUA the United States of North America  
FADES Foundation for Alternatives of Development  
FFH TO GROW Credit with Rural Education  
FFP Financial Bottom Deprived FIE Center of Promotion to Economic Initiatives  
FINRURAL Association of Financial Institutions for Rural Development  
FONDECO Bottom of Development Community
FONDESIF Bottom of Fortification of the Financial Sector and Support to Productive Sector
FUNBODEM Bolivian Foundation for the Development of the Woman
COVER PRO Foundation for Production
IDEPRO Institute for the Development of Productive Element IMF Institution Financial Micro MAP
Program of Mobilization of Popular saving
ODN Organization of Indebted in General at National Level NGO non Governmental Organization
PRODEM ONG Foundation for the Promotion and the Development of the Micro company
PROMUJER Programs for Woman
SAFI Society Administrator of Investment funds
SARTAWI Financial Service Rural
SBEF Financial Supervision of Banks and Organizations SENASAG National Service of Farming Health
PART III

CASE STUDY: NICARAGUA

4. POVERTY AND GLOBALIZACIÓN IN NICARAGUA

Study by Marcelo Mayorga for INAFI
1. Economic and Social situation of Nicaragua

1.1 Introduction

As of 1990, Nicaragua initiated a stabilization process and structural adjustment oriented to liberalize the market, facing the main imbalances and to lay the foundations for growth.

The Commercial opening was prioritized, reducing the limitations to the imports and eliminating the taxes on the exports.

The state assumed the roll of facilitator and regulator of private activities, causing the infrastructure investments and the social development. The key elements that were taken into account to impel the growth consisted of:

- To consolidate the relative macroeconomic stability
- To reinforce the external opening and
- To foment direct foreign investment.

The degree of opening of a country reflects its level of liberalization and indicates its receptivity before the economic flows and is determined by the regulatory frame derived from the national policies that it facilitates or from the difficulties for the income of capitals and merchandise from the outside.

The international scale calculation of an opening index reveals that Nicaragua fulfilled decisive steps towards the liberalization of its economy during the decade of the nineties.

Although, in 1985 the country signed the Convenio sobre Régimen Arancelario y Aduanero Centroamericano (Central America Agreement on Tariff Regime and Customs), to reduce the burdens to the import and to modernize the systems of commercial and customs norms in the isthmus, the process of external opening really began in 1991 and it was made agile after the publication of the “Ley de Justicia Tributaria y Comercial” (Law of Tributary and Commercial Justice), in June of 1997.

From the legal reforms, Nicaragua has on the lowest tariffs of Central America, which obligates the national companies to compete with foreign companies. To this we must add the negotiation of the “Tratado de Libre Comercio”(Free Trade Agreement) as complementary forms to advance towards an effective insertion in the globalization.

As a result of two decades of low investments, there still it exists an inadequate infrastructure in energy, transport and communications. The demand for energy has increased, and also the generation capacity. Nevertheless, the sources have been modified. In 1990, 60% of the used energy was generated by means of renewable hydroelectric and geothermal sources. In 2002, only 22% had that origin, the rest was produced by thermal and gas sources, increasing the vulnerability of the country before of the rises of the prices of petroleum.
After a decade of deadlock the global GIP and per capita registered progresses as of 1994. In 1999 a growth of 7%, which later decayed in the subsequent years. In 2003, the economy grew 2,3%, the GIP to per. Capita, 112 grew 1.5%.

As far as the growth of the rest of the Central American countries, Nicaragua is located today thirdly, with respect to the other countries.

The changes in the economic policies of the last decade, have followed one another on a productive structure that has stayed relatively constant. The farming sector continues being the motor in terms of the gross internal product (PIB), of the occupation of (PEA), and the currency generation by export.

<table>
<thead>
<tr>
<th>Chart 1. Annual Growth of the Real PIB in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central American Countries</td>
</tr>
<tr>
<td>Costa Rica</td>
</tr>
<tr>
<td>El Salvador</td>
</tr>
<tr>
<td>Guatemala</td>
</tr>
<tr>
<td>Honduras</td>
</tr>
<tr>
<td>Nicaragua</td>
</tr>
</tbody>
</table>

Source: World Bank, Cepal and calculations of the I.A. D. B

1.2 Present Economic Situation+

The Nicaraguan economy showed signs of recovery in 2003, that took shape in a growth of the gross internal product of 2,3 percent. In spite of different adverse elements all related to the budget and political changes, a positive result was observed.

The commercial deficit of the first semester of 2004, increased $586,6 million, greater by $70.5 million more than in 2003. Among the principle factors the following stand out:

- The Increase in the prices of petroleum and derivatives
- Greater volume of imports, consumer goods and capital, product of a greater economic activity and international cooperation.

The deficit in current account of the balance of payments was slightly inferior to the one from 2002 and was equivalent to the 20.8% of the GIP.

The balance of trade with Central America has improved with respect to the previous year, with exception of Honduras, due to the conclusion of the sovereignty law.

The exports of merchandise in this period were of $379,7 million representing an increase of $75,8 million with respect to the 2003. The farming product exports were of $151,5 million, superior by 36,6% with respect to the 2003. The coffee, peanut, cattle standing and the sesame showed a
greater performance, whereas the banana tree and the tobacco on leaf diminished 26 and 31 percent respectively, by smaller harvested area and diminution of the performances.

In the commercial area, the Free Trade Agreement between the United States and Central America was signed, creating more jobs in the free duty zones. To the external inputs coming from cooperation and external investment during the last years, it is necessary to add the income originating from family remittances, estimated in $337.4 million in 2001, $376.6 million in 2002 and $421.7 in 2003 according to data of the Cepal.

In 2003, the amount of remittances, is+ 10,2% of the GIP, 26,2% of the imports, 69,8% of the exports, 83,6% of the Gross International Reserves, and four times more the Service of the Debt.

| Chart 3. Remittances from workers in $US$ Millions & % |
|-----------------------------|----|----|----|
| Years | 2001 | 2002 | 2003 |
| Total Remittances | 337.4 | 376.6 | 421.7 |
| As percentage of PIB | 8.4% | 9.4% | 10.2% |
| As % from imports | 22.2% | 26.5% | 26.2% |
| As % from Exports | 55.8% | 67.1% | 69.8% |
| As % Gross Internacionals Reserve | 88.1% | 82.9% | 83.6% |
| Debt Service No. of times*** | 2 | 3 | 4 |

Source: BCN Principle Economic Indicators

Other obtained income come from, tourism, net exports of the free zone, external cooperation and the private capital.

In January 2004, the directories of the IMF and AID, approved the document that endorses the arrival from Nicaragua to the culmination point, to consider that it had fulfilled the established conditions in the Point of Decision.

It is important to indicate that Nicaragua has been receiving temporary relief to the service of the external debt in the frame of initiative HIPC since January 2001, the temporary relief ascended to 99,2 million dollars in 2001, 224,3 million dollars in the 2002 and 233,8 million dollars in the 2003.

**Investment and External Cooperation.**

Due to the guarantees that the new normative frame assumes and to the incentives which result from their application, the flow of capital that enters Nicaragua has increased and it has been diversified in the last decade. The official policy establishes ample freedom for the foreign investment and the remission of utilities.

In order to stimulate the transference of capital and technology, they have subscribed more than nine bilateral agreements of promotion and protection of the investments with the Republic of China (Taiwan) in 1992, with Spain in 1994, with Denmark and the United States in 1995; while in 1996, with the United Kingdom and Germany and, in 1998 with France and Argentina.
More than thirty-seven agreements of investment have been subscribed, from which more than half have been approved by the MIFIC, corresponding to the headings of communications, services, energy, banking, tourism, mining, wood and shrimp operation. With these measures Nicaragua endorses a fifth part of its total investment with base in external sources. The total investment Source: represented 30.9% of the GIP in the 2001, 20% of the GIP in 2002, and the 17.3% of the GIP in 2003.

The External Debt

Of the forty-one countries catalogued as poor and highly indebted by the IMF and the World Bank, Nicaragua belongs to the group of eight nations for which the weight of the external debt is considered untenable. According to the main macroeconomic indicators of the Central Bank, the balance of the external debt in million dollars to 2003 is of $6,595.8, alleviated in January 2004, with $3,267 million dollars.

Structural Reforms

Finally, in the area of structural reforms the following stood out: the law of public indebtedness, the civilian service and administrative career, the relation of the central government with the municipalities was rationalized, the programs related to the fight against the poverty were studied in depth, in the network of social protection and the privatization of ENITEL concluded and the plan of liquidation of assets received by the originating BCN coming from banks intervened in 2000 and 2001, it remains pending the approval of the law judicial career.

1.3 Productivity and Competitiveness: keys for the Insertion in the world market

The economic and political impacts undergone by Nicaragua in the last quarter of the last century have been very important. In these conditions recovering the economic growth constitutes an arduous task.

Due to several reasons the country continues facing obstacles to compete:

- There exists an inadequate infrastructure in the energy sectors, transportation and communications, as a result of two decades of low investments.
- Only 11% of the road network is paved and 42% is passable only during the dry season.
In telecommunications there have been important advances, but it continues occupying the last place in Central America. Also, it ranks far enough from the developed countries that have 502 lines for each 1000 inhabitants.

The financial market lacks efficiency to gather capitals and to assign them to the productive investment.

The shortage of enterprise competition, the fragility of its organizations; the weakness of the legal system and the corruption decrease the capacity of the productive sector to obtain a successful performance.

The insufficient qualification and training of the labor force reduce its productive potential; the tariffs on basic services such as water, electricity and fuel are greater than in the neighboring countries.

In the provision of Electrical Energy there are also interregional differences. The index of electrification in the capital is of 70% and in the Atlantic Coast 18%.

The analyzed elements repel in the conditions of competitiveness in all the sectors.

1.4 The social sector and infrastructure

Health

The health services have come deteriorating, to such an extent that the hospitals and health centers do not count on the technical supplying of neither medicines nor equipment to fulfill their task with efficiency. This alarming situation happens in the urban zones, mainly in Managua, from which we can infer that the situation in the countryside is doubly alarming.

| Chart 6. Health Sector . Relation between Human Resources and Technicians with Population |
|-----------------------------------------------|------------------|------------------|------------------|
| **Years** | **2000** | **2001** | **2,002** |
| Population in thousand | 5070 | 5208 | 5,347 |
| Doctors in the health system | 2019 | 2067 | 2,066 |
| Doctors / population (each thousand inhabitants) | 0.04% | 0.04% | 0.04% |
| Dentists | 239 | 243 | 245 |
| Dentists / population (each thousand inhabitants) | 0.00% | 0.00% | 0.00% |
| Professional Nurses | 1544 | 1531 | 1,550 |
| Professionals Nurses / population (Each thousand inhabitants) | 0.03% | 0.03% | 0.03% |
| Nurse Assistant | 4496 | 4496 | 4,386 |
| Assistant / population (each thousand inhabitants) | 0.09% | 0.09% | 0.08% |
| Number of hospitals | 31 | 32 | 32 |
| Number of hospitals / population | 0.001% | 0.001% | 0.001% |
| Number of Beds | 5052 | 5023 | 5,031 |
| Number of Beds /population | 0.100% | 0.096% | 0.094% |
| Number of health position | 841 | 849 | 869 |
| Health position / population | 0.02% | 0.02% | 0.02% |

Source: INEC – MINSA Principle Health Indicators
In the health sector, systemic problems exist that inhibit the effective delivery on the part of the public health services sector outside the urban areas. Two areas that have much space for improvements are the management of health personnel, which is very inclined towards urban attention, curative and based in hospitals; and, there is not sufficient emphasis in the most effective model in terms of costs of rural, preventive attention and based in the community. Nicaragua’s health system needs to change from a system impelled by materials to a system impelled by results.

As far as the human resources are concerned for each thousand inhabitants, the sector health depends on: doctors 04%, odontologists *00%, professional nurses, 0.03%, aids of infirmary, 09% in 2000 and 2001 and 08% in the 2002, hospitals 001%, number of beds 094% in the 2002, health centers, 0.02%.

### Education.

While Nicaragua exhibits a low rate of compared illiteracy to the countries of low income, the population has an average of only few years of school and there exist great disparities of educative achievement, the illiteracy is of 19% among the total population older than ten years of age, but it is of 41% among the rural people who live in extreme poverty, also the rural poor older than ten years have completed only two years of school, compared to the national average of 4.9%. To have few years of schooling reflects problems rooted on access and quality of the educative services deeply. The low technical quality of teachers, the poor conditions in more than half of all the classrooms of primary and a chronic shortage of didactic materials partly explains the high indexes of repetition and desertion before the fourth grade, especially in the rural areas where these problems are acute.

The low quality of education derives itself more from: (i) the low quality in the formation of teachers before beginning to teach, (ii) inadequate training, (iii) approximately one third of primary teachers is not authorized, and (iv) low rates of retention of good teachers, due to the low level in wages. Poverty also contributes to the low academic results, more than half of all the children who leave school do so for economic reasons. This combination of factors has the consequence that in the rural areas, one third of the children in extreme poverty of age for primary school does not attend school, compared to only 9% of the nonpoor ones.
In the urban areas, the scholastic supply does not seem to be the main barrier to the attendance in school, 84% of the children in extreme poverty that do not attend a school mentioned here are economic problems as the reason. In contrast, while the factors of the demand are most important, in the rural areas (48% of the children in extreme poverty point out economic problems as their reason for not attending); also, these are important factors on the side of the supply (distance, few teachers and the fact that the grade desired is not available, are the reasons for a 30% of the nonattendance). Lack of interest as a reason not to attend a school seems to be a problem that predominates in all the groups of poverty in the urban areas.

**Infrastructure.**

**Road network.**

Only 11% of the road network is paved and cobblestone, 42% is passable only during the dry season.

<table>
<thead>
<tr>
<th>Departments</th>
<th>Type of Surface (Kilometers)</th>
<th>Paved</th>
<th>Stone</th>
<th>Pavement</th>
<th>Dry Season</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
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<tr>
<td></td>
<td>ALL Season</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Estelí</td>
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</tr>
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<td>62.2</td>
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<td>301.5</td>
<td>373.1</td>
<td>841.2</td>
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<td>Nueva Segovia</td>
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<td>681.3</td>
<td>1253.9</td>
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<tr>
<td>León</td>
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<td>234.2</td>
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<td>Chinandega</td>
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<td>324.7</td>
<td>155.7</td>
<td>295.5</td>
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<td>957.4</td>
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<td>956.0</td>
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<td>157.8</td>
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<td>242.0</td>
<td>356.6</td>
<td>774.4</td>
<td>824.3</td>
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<td>Jinotega</td>
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<td>48.3</td>
<td>272.7</td>
<td>600.2</td>
<td>344.5</td>
<td>1272.3</td>
<td>6.7</td>
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<td>250.1</td>
<td>532.2</td>
<td>1045.0</td>
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<td>RAAN</td>
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<td>48.1</td>
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<td>2.7</td>
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<tr>
<td>RAAS</td>
<td>1.1</td>
<td>79.4</td>
<td>98.2</td>
<td>278.0</td>
<td>48.1</td>
<td>504.7</td>
<td>2.7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>138.0</td>
<td>1956.9</td>
<td>2885.0</td>
<td>6058.2</td>
<td>7993.9</td>
<td>19032.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Fuente: Dirección General de Vialidad MTI
The independent houses, denominated houses, are those that predominate as much in Nicaragua in the urban scope as in the rural one. The type of house does not allow to infer the quality of the same ones, but it is evident that there is a set of deficient houses, urban as much rural, those considered as improvised.

Few houses are in good state. This situation is more worrisome in the rural area where the good houses represent only 10%. No great differences appear in the regions, with exception of Managua, the only one in surpassing by twelve points to the bad houses.

The criteria used in rating the houses, has been based on the state of storage and maintenance of material used for walls, floors and roofs declared by the informant and by means of direct observation.

2. General causes of Poverty

2.1 Introduction

In Nicaragua, in spite of the great amount of fertile land available, there is hunger and rising poverty in the agricultural families. The development model has reduced historically our countries to a roll of cheap producers of raw material for the great industry (nourishing and technological), forcing to us to produce for the world market at low costs and they obtain it, among other means, paying very little for the manual labor.

Another one of the structural causes of poverty has been the high concentration in the property of the resources and the existing wealth in general in the country.

As a result of this logic these small farmers become impoverished and are at the mercy of the markets. We can explain it in this sequence:

2.1.1 The market forces them into the monoculture of nonnecessary products for the family consumption, with which they become dependent of their sales, which prices start being interesting.

2.1.2 After a while private global companies begin to pressure the drop on the prices, because when they accumulate large amounts they can control the supplying in the markets. For example, if they
retain products in their warehouses, they cause an ascent of prices and if they put them on the market massively the prices drop.

2.1.3 The farmer can not manage to cover his production costs with his salary and he becomes impoverished. His small property undercapitalizes.
2.1.4 This dynamics makes the farmer move to worse lands or, to live in hillsides, or the suburbs of the cities. It takes away his property and it impoverishes him and the environment that surrounds him.

In addition to the exogenous causes, other characteristics can be distinguished to the internal mainly because the poverty tends to be concentrated in groups with similar social-economic conditions and they are possible to be related to many characteristics of the family and the household in which they live. For example 78% of the poor in Nicaragua, are located in the rural areas and 76% of the poor families have five or more members. In the same manner, the rural families tend to have more children than the urban families.

2.2 Internal causes of the poverty in Nicaragua

- Geographic Location
- Number of members and ages in the family
- Education
- Characteristics of the home
- Family assets
- Agricultural Labor

a) Geographical Location.

Poverty and the extreme poverty have a strong regional component. To live in the Central region, compared with the Pacific, is associated with lower levels of consumption. Although, this regional prejudice can be explained, partly, by its historical delay, the drop of the prices of the coffee probably played an important role in the bad economic performance of the Central region. Even though the total effect of the diminution of the prices of the coffee may not have been registered completely in the 2001, since this was the first year of the crisis. The Central region is not the only one where poverty increased during period 1998-2001.

This had special relevance for the rural poor who depended on the wage-earning agricultural labor from the coffee, which annually generates a third of the agricultural employment. For the urban families, the large size of the family and the location are also associated with a smaller well-being; in fact, only the urban families in Managua, have well-being levels significantly higher, compared to urban families in other cities.

The changes in poverty between 1998 and 2001 varied substantially by regions. Poverty fell more than 10 percentage points in the rural area of the Pacific, followed by less spectacular reductions in the rural areas of the Atlantic, Pacific urban and Central urban. At the same time, there was certain deterioration in Managua and the rural Central region dependent of the coffee.
In this last chart, families of small earth proprietors, devoid of mobility, experienced significant losses in their income and the enrollment of primary education, as a result of the abrupt fall of world prices of the coffee. Although the recent increase of the rates of poverty in the central rural region did not compensate totally the obtained substantial gains in the middle of 1990’s (1993-1998), this demonstrates the high degree of vulnerability of specific populations facing the impacts of the basic product market.

Contrasting with this, the great diminution of the rates of poverty in the rural region of the Pacific is explained, probably, by the effect income like, result of the reconstruction efforts post the Hurricane Mitch. The tendencies of the extreme poverty widely reflected the pattern of change observed for the poverty in general, with a reduction of 14.5 percentage points in the rural region of the Atlantic and a significant increase of 5.7 percentage points in the Central rural region.

<table>
<thead>
<tr>
<th>Year</th>
<th>National Urban</th>
<th>Rural Urban</th>
<th>Nacional Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
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<td>1,323.0 810.0</td>
<td>178.2 631.8</td>
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</tr>
<tr>
<td>1998</td>
<td>2,303.4 797.4</td>
<td>1,506.0 834.6</td>
<td>199.6 635.0</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>2,385.5 914.6</td>
<td>1,470.9 783.4</td>
<td>188.3 595.1</td>
<td></td>
</tr>
</tbody>
</table>

Source: Nicaragua EMNV 1993,1998,2001. (a) The Extremely Poor people are included in the “Total of Poor People”, thus, the “Extremely Poor” is a subgroup from the total of the “poor People”

In this last chart, families of small earth proprietors, devoid of mobility, experienced significant losses in their income and the enrollment of primary education, as a result of the abrupt fall of world prices of the coffee. Although the recent increase of the rates of poverty in the central rural region did not compensate totally the obtained substantial gains in the middle of 1990’s (1993-1998), this demonstrates the high degree of vulnerability of specific populations facing the impacts of the basic product market.

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<table>
<thead>
<tr>
<th>Year</th>
<th>National</th>
<th>Urban</th>
<th>Annual Change</th>
<th>Urban</th>
<th>Annual Change</th>
<th>Rural</th>
<th>Annual Change</th>
</tr>
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<td>1993</td>
<td>50.3</td>
<td>31.9</td>
<td></td>
<td>76.1</td>
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<td></td>
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<tr>
<td>1998</td>
<td>47.9</td>
<td>-2.4</td>
<td>-1</td>
<td>30.5</td>
<td>-1.4</td>
<td>-0.9</td>
<td>-7.6</td>
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<tr>
<td>2001</td>
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<td>-2.1</td>
<td>-1.5</td>
<td>28.7</td>
<td>-1.8</td>
<td>-2</td>
<td>64.3</td>
</tr>
</tbody>
</table>

Source: Nicaragua EMNV 1993,1998,2001. (a) “Total of Poor” in this report includes the extremely poor; thus the extremely poor are a subgroup from the Poor people. (b) The incidence measured by the Index of Count (Po) is the part of the population whose total consumption falls under the line of the poverty © The annual change is calculated as the geometric average for three to five years.
b) Ages and Size of the Family.

The smaller size families enjoy higher levels of consumption. As in the nonpoor and moderately poor families, one of the basic characteristics associated to the extreme poverty is the size of the family. From 1998 to 2001, the families of the panel who went from a moderate poverty to an extreme one, increased the size of their families from six to seven members; in two of three families with an additional member, the increase is associated with the birth of a new member. The evidence indicates that the greater size of the family is strongly associate with smaller levels of consumption.

The demographic changes are closely associate to the changes of the conditions of poverty. The homes with fewer members have less probabilities of being poor and enjoy greater levels of consumption. In addition, the presence of young children (under five ) is bound to a lower consumption. Between 1998 and 2001, entering poverty was associated with an increase of members in the household, of these, in average, two thirds due to the birth of a child .

The families who entered poverty showed an increase of one fifth in the number of members of the family (of 4.8 to 5.8 members). In as much, in average, the families who left poverty almost showed a fall of one fourth in the number of members of the home (of 6.5 to 5.3 members).

c) Education.

The role of the education is crucial in the increase of levels of well-being in all household groups, as much in rural areas as urban. Any level of education, particularly in the women, is associate with greater well-being. The families who have been able to leave the poverty have a greater education, in average, than those that fall behind or those that fall into poverty.

Education is also important in the familiar consumption. Where there is a woman with primary education, the familiar consumption per capita is 10% higher; where there is a woman with secondary education, more than 20%; and where there is one with higher education, the family consumption is more than 25% per capita (Davisy Murgai, 2000). In nonpoor families, only the secondary and higher education is associated with higher levels of consumption. Therefore, the education of the woman is clearly a policy of increase of the well-being.

When the families have more educated members, the consumption is greater. In addition, the education of the woman has a greater effect than the education of the man in the increase of the well-being, and is highly significant.

Also, the illiteracy of the mother affects in one fifth the probability of scholastic attendance among the children of extreme poverty. The illiteracy of the woman is also an critical factor associated to maternal mortality, which in 2001 appeared with 125 for each 100,000 births, been one of the highest numbers in Latin America.

The officially recognized rate of illiteracy is the following one: At a national level 20.5%, men 20.7%, women 20.3%, in the urban sector 12.3% and the rural sector 32.8%. 

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d) Characteristic of the Houses.

The condition in which the houses are, at a national level and according to the classification: bad, regular and good, is as following: Urban, 25.6% bad; 43.5% regular, and 30%, good; in the rural area 39.1% bad; 50.9% regular and 10% good. The bad quality of the materials increases the probability of being poor from 22% to 44%.

The family house with a bad quality of construction material has a probability of 22% of being poor, this percentage is increased to 73% if the house has 5 construction materials of bad quality.

The predominant material in the walls, is the stone quarry with 43.6% in the urban area and of wood 34.3% in the rural area. As far as the floor, the predominant material is mosaic or tile in the urban area and in the rural area earth floor with 63.8%.

The presence of electricity, water, telephone, more bedrooms by person, and better construction equipments is associated to lower levels of poverty. The houses with telephone service have a probability of 30% of being poor, the one with electricity 16% and those with water 7%. Where rooms per persons in concerned, no significant relation was found.

Electrical energy is present in 91.3% of the urban homes and the 40.1% in the rural homes, the percentage of homes with telephone service is of 21% in urban areas and 1.6% in the rural areas, according to the water sources. The greater percentage comes through a pipe system from outside the urban house 44.9% and from public or deprived well in the rural area with 36.2%.

The houses registered in the public registry are associated to a lower poverty of a 7%. According to the possession form, 82% at an urban level are home owners, in the rural area 80.6% own of home, those considered in this classification, are those with or without deed and amortizing. The rest, rented, borrowed, and others.

e) Family Assets.

The families who have a vehicle for transportation associate to lower poverty. The ownership of their own vehicle, car, or motorcycle, is associated to a reduction of 34% of poverty. Only 7.9% of the urban families have vehicle and 2.4% in the rural area.

Almost the total of the homes, possess radio-cassettes, or sound equipment with a 81.7% at urban level and 77.5% at rural level, irons with 80.6% in the urban and 35.5% rural, TV urban 77% and 30.6% rural, stoves 57% urban and 10.9% the rural.

f) Agricultural Labor.

Dedication to the to agriculture, can be related to poverty, but the families with income of more than 25% coming from this activity have one lower probability in becoming poor (14%), but the dependency or agricultural wage-earning work is associated to more poverty with 16%.

According to results expected, the higher the percentage of the members that work in the family, the lower is the probability of being poor by 37%.

Families who work small land parcels of (0.1 to two have.) They have a higher probability of being poor (11%), and families that work more than five hectares of land have a lower probability of being
(13% to 21%). Medium size parcels (2-5 h.) were not perceptibly related to the probability of being poor.

The primary sector has been identified as an important contributor to the growth of the economy and the reduction of the poverty in Nicaragua, particularly in the rural areas, where most of the poor live.

Traditionally, Nicaragua has been a country with a large primary sector as proportion of the GIP, of about 20 percent in 2000, but, slowly, it has been losing importance while other sectors grow in dynamic form and contribute to the rural areas. The primary sector has also generally occupied a considerable part of the economically active population, 38 percent in 2001.

Conclusions.

1) The strategies to reduce poverty must be directed to the rural regions and the urban areas of the Pacific, and the center of Nicaragua, the departments with high percentage of extreme poverty, can be seen in the following chart

![chart](chart.png)

<table>
<thead>
<tr>
<th></th>
<th>Extension of Extreme Poverty (%)</th>
<th>Estimated Amount of Extremely Poor People</th>
<th>Rural Extremely Poor People (%)</th>
<th>Gap of the Extreme Poverty (%)</th>
<th>Gap of the Extreme Poverty US$1998 (thousands)</th>
<th>Proportion Of the gap of The National Extreme Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>RAAN</td>
<td>43.7</td>
<td>79,173</td>
<td>92.0</td>
<td>20.3</td>
<td>7,817</td>
<td>13.3</td>
</tr>
<tr>
<td>Jinotega</td>
<td>37.0</td>
<td>89,533</td>
<td>92.2</td>
<td>12.6</td>
<td>6,485</td>
<td>11.0</td>
</tr>
<tr>
<td>Río San Juan</td>
<td>36.3</td>
<td>25,369</td>
<td>86.7</td>
<td>12.1</td>
<td>1,793</td>
<td>3.0</td>
</tr>
<tr>
<td>Madriz</td>
<td>37.1</td>
<td>39,695</td>
<td>85.7</td>
<td>11.3</td>
<td>2,572</td>
<td>4.4</td>
</tr>
<tr>
<td>N. Segovia</td>
<td>34.1</td>
<td>55,151</td>
<td>68.2</td>
<td>10.3</td>
<td>3,534</td>
<td>6.0</td>
</tr>
<tr>
<td>Boaco</td>
<td>32.8</td>
<td>44,787</td>
<td>86.9</td>
<td>10.0</td>
<td>2,891</td>
<td>4.9</td>
</tr>
<tr>
<td>RAAS</td>
<td>30.8</td>
<td>83,109</td>
<td>76.5</td>
<td>9.7</td>
<td>5,592</td>
<td>9.5</td>
</tr>
<tr>
<td>Matagalpa</td>
<td>31.9</td>
<td>121,852</td>
<td>83.4</td>
<td>9.5</td>
<td>7,736</td>
<td>13.1</td>
</tr>
<tr>
<td>Chontales</td>
<td>29.4</td>
<td>42,253</td>
<td>68.9</td>
<td>9.2</td>
<td>2,819</td>
<td>4.8</td>
</tr>
<tr>
<td>Estelí</td>
<td>23.4</td>
<td>40,636</td>
<td>70.0</td>
<td>6.8</td>
<td>2,500</td>
<td>4.2</td>
</tr>
<tr>
<td>Chinandega</td>
<td>20.9</td>
<td>72,924</td>
<td>64.0</td>
<td>5.5</td>
<td>4,041</td>
<td>6.9</td>
</tr>
<tr>
<td>Rivas</td>
<td>20.3</td>
<td>28,427</td>
<td>83.9</td>
<td>5.2</td>
<td>1,529</td>
<td>2.6</td>
</tr>
<tr>
<td>León</td>
<td>19.0</td>
<td>63,736</td>
<td>71.4</td>
<td>4.9</td>
<td>3,484</td>
<td>5.9</td>
</tr>
<tr>
<td>Granada</td>
<td>17.0</td>
<td>26,203</td>
<td>62.6</td>
<td>4.3</td>
<td>1,414</td>
<td>2.4</td>
</tr>
<tr>
<td>Carazo</td>
<td>15.5</td>
<td>23,047</td>
<td>64.4</td>
<td>3.8</td>
<td>1,203</td>
<td>2.0</td>
</tr>
<tr>
<td>Masaya</td>
<td>14.3</td>
<td>34,482</td>
<td>60.1</td>
<td>3.4</td>
<td>1,756</td>
<td>3.0</td>
</tr>
<tr>
<td>Managua</td>
<td>3.6</td>
<td>39,194</td>
<td>15.7</td>
<td>0.7</td>
<td>1,713</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: EMNV 98 and Census 85

2) The number of children, and adolescent years increases the probability of being poor.

3) The governmental programs to improve the access and the information to the services for family planning must be a priority.
4) The education continues being one of the best ways to fight against poverty in Nicaragua. The efforts that the government for a primary and secondary education for all the Nicaraguan poor must be supported.

5) The basic home services the construction material are highly related to poverty.

6) The household assets, especially in rural areas, provide the efficient tools to leave poverty situation that concerns us.

7) Micro credits can have a strong impact in Nicaragua in the situation of poverty that occupies to us.

3. Characteristics of Poverty

We want to indicate three important characteristics:

- From the Political point of view.
- From the economic point of view, and
- In the scope of the International Relations, and Technology.

3.1 Political.

This phenomenon brings with itself the democratic development of the societies. In the case of Nicaragua, that went through a period of destruction in the decade of the 80’s, in which the direct damages generated by the war ascended to $1,200 million, which is equivalent to three years of our present exports, in addition to indirect damages that amounted to $16,000 million, losses that are not only quantified in monetary and physical terms, but at a level of operation and efficiency of the economy, as well as in the culture of labor.

With a fragile economy, Nicaragua has initiated the journey towards the construction of a democracy, that makes the dream of the Nicaraguans a reality, looking for the overcoming of an unequal diffusion of opportunities and its compensation of the globalization between the countries and the people, been necessary the readjustment of norms, institutions and structures of government, to the changes of the environment.

3.2 Economic.

In the economic aspect, the inequalities increase and the breaches widen, the distance between the rich countries and poor is increasing and Nicaragua like a third or fourth world country is growing and it does not escape to the commercial movements, the currents of investment, flows of information and levels of income.
We assisted the input of foreign capitals, that reinforce the domination of the industrialized countries and the transnational companies, while intercontinental networks of interchange are constituted that accelerate and multiply the financial flows, commercial and cultural in all the planet.

3.3 International relations and Technology.

The changes that are expected, must be important and substantial, the increasing interdependence has created a more opened international system. Nicaragua participates regionally in the CAFTA along with nine countries from the Central American area and from the Caribbean. That commercial opening, has been the beginning for its insertion into the global currents. Symbols of the new era, the Internet and the communication networks that use cellular and satellite telephones, instantaneously connect at any moment actors located all around the Earth.

<table>
<thead>
<tr>
<th>Chart 15. Nicaragua and Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>The network of Internet has more than 20,000 users.</td>
</tr>
<tr>
<td>The basic telephony has grown from 54,280 to 205,000 service lines from 1993 to 2003.</td>
</tr>
<tr>
<td>The cellular telephony at 2003 reached 467,000 users.</td>
</tr>
<tr>
<td>While in the United States the cost of a computer was lower than a monthly payment of a secondary professor. In Nicaragua the same professional would have to apply a larger amount from his/her annual salary to acquire the same equipment.</td>
</tr>
<tr>
<td>More than 70% the homes have at least a radio or tape recorder as means of information reception.</td>
</tr>
<tr>
<td>In Managua the electrification is 70%, whereas the Atlantic Coast is 18%.</td>
</tr>
<tr>
<td>2% of the homes have a personal computer.</td>
</tr>
</tbody>
</table>

Source: Data from ENTEL and ENEL.

4. Impacts of the Globalization and Poverty

The effects that are felt more from globalization through the policies impelled by the government since 1990 are the following:

a) The unemployment caused by the reduction of the public employment from 285,000 to 85,000 jobs between 1990 and 1998, with significant reductions in the Ministries of Defense and Education and with the disappearance of the National Corporation of Companies of Public Sector (CORNAP) that conformed the “Area Propiedad del Pueblo (APP)”, due to a lack of supply from the Productive Sector.

- Migration from PEA to other countries. The migration as a source of remittances. The migration is an important strategy of survival for the rural and urban poor homes. The international migration goes more towards Costa Rica, Honduras and El Salvador, mainly following the seasons of harvest.

- The internal migration has been towards urban Managua, cities or rural areas during the season of harvest.
The total PEA went from 1,507,200 in 1996 to 1,695,400 in 1999, that is an increase of 188,200 or 12.48% according to data from the BCN, whereas the formal employment according to the "Instituto de Seguridad Social", went from 227,615 in 1997 to 286,363 in 1999, that is 58,748 new jobs or 25.8% reason why unemployment increased by 129,452 (7.63% more on the PEA).

b) Establishment of the customs-free area Zones.
Taking advantage of the low cost the manual labor and the high unemployment, many industries of frank zone regime have settled in the country and they have been constituted in one of the main official answers to unemployment.

c) Reduction of the purchasing power of wages as effect of the continuous adjustments of the tariffs by public services and the monetary devaluations.

- Privatization of the basic services, that generally bring positive advances. In the case of Nicaragua the context of privatization was applied; since they did not enjoy a strict control that defended the interests of the population.

- Minimum Goods
  - There is an out of proportion tendency as far as the breach between the average basic wage and cost of the minimum goods.
  - While in 1991, the monthly average wage allowed to cover 92% of the minimum goods, calculated then in about 802 córdobas, in the 2002, it just barely covered one fourth part of the value of the products.
  - The minimum goods, according to the government, are calculated in about 2,441.65 and according to independent sources in 3,000.(INEC, Price and Monthly Cost of fifty-three products for Managua, to June 04), as of March 2004, the minimum goods, grew 0.5% and from March to June 2004, it grew 2.1%

d) The closing of small and medium companies as an effect of the commercial opening, with its consequent impact in the employment.

e) The restriction of the public cost, necessary to revert the high fiscal deficit, has implied the reduction of the added demand.

f) The concentration of the credit in the commercial sector and other activities of short term do not support an efficient reconversion of the productive sector nor a fast orientation pro exporting.

- Privatization or closing of the Nationalized Banking, fortifying the Private Banking
- Non-Financing for the farming activities
- Increase of the micro finances companies
Financing for commerce, industry and services.

g) The shortage of long term credit and the high interest rates, results of the market action.

h) Increase of the universities and the demand for education.
   - Access to new technologies in services and production.

i) Diversification of the service sector, and extension in variety and type of products, and an increase of the informal sector.

j) Increase of the levels of poverty and misery
   - The unequal access of the population to the benefits of the economic opening and to the new technologies of communication is deepening the breach between rich and poor, as well as between the inhabitants of the city and those from the country, the men and the women.
   - The inequality of income surpasses fifty-six times the levels of the European countries, this difference affects significantly, the quality of the education, levels of nutrition, access to the basic services and of infrastructure that are necessary for a fair development.

5. Globalization and the future of the Economy

Nicaragua has begun to enter the international market, but its economic position is fragile. Its vulnerability is observed in the imbalances of the trade balance and payments, the shortage of diversification and volume of exports, and the concerned dependency of technologies and imported supplies, everything which limits its initiatives and capacity of decision.

At the same time in the internal scope, the unequal access of the population to the benefits of the economic opening and to the new technologies of communication is deepening the breach between rich and poor, between the capable and trained people and those who lack such capability and formation, between the urban inhabitants and the rural ones, the men and the women, the young and the elder.

Before this challenge of double exclusion, the future on the economy depends on the concretion of the following basic proposals, to facilitate the development of the country, within the framework of the globalization.

Foreign investment must bring more efficient technologies, greater levels of training and superior capacities of export.

- To take advantage of the opening of the country to increase its competitiveness.
- To promote regional integration.
- To improve the infrastructure of the country, to extend and to diversify its productive capacity and exportation. The improvement of the infrastructure cannot be concentrated in the capital,
rather to extend to the entire country, reducing the breaches that in infrastructure terms divide to the different regions.

- Territorial integration is a fundamental step for social and economic integration.

- To fortify the educative system, extending its coverage and improving its quality. The international migration moves more towards Costa Rica, Honduras and El Salvador, mainly following the seasons of harvest. Thus, the role of superior education is basic by its double character of formation of capacities and creation and diffusion of technology.

- To fortify institutional the political frame of the country. The governability, than a mere additional factor, appears then as a condition for the progress.

- The development must be a planned process that harmonizes potential advantages and risks, and not as a result of external and internal pressures.

- At the same time, human security increases as a consequence of the other parameters, but also it deserves to be fomented directly with programs destined to reduce the vulnerability of the poor.
5. POVERTY And MICROCOMPANY

Study by Marcelo Mayorga for INAFI
1. The Nineties, The Return to The Market Economy

At the beginning of the decade of the 90’s, Nicaragua drew up the goal to transform its economy characterized by a strong state intervention, with serious structural problems and serious macroeconomic imbalances of hyperinflation, a fall of the GIP, and excessive external debt, in a market economy, with a regulating state and a leading private sector in the investment and the growth.

The profits obtained during this period have been important in several aspects:

- The hyperinflation was controlled and the inflation lowered to levels of a single digit after reaching levels of five digits.

- Important structural reforms began among which stand out, the privatization of an important sector of the economy.

- A deep financial reform was carried out. The estatizacion of the economy included the farming production, the industrial production and the sector of the commerce and services. As far as the financial activity, this one was nationalized 100%.

- Important advances in the opening of the economy were obtained, incorporating each time more and more the participation of Nicaragua in the regional and extra regional markets.

In spite of the remarkable advances that the country has obtained, important challenges in the macroeconomic, social and of governability areas exist.

In effect, the GIP has diminished its rate of growth and its growth has been insufficient to elevate significantly the income per capita, to cause the reduction of poverty, and to recover the lost territory during the previous twenty years. The GIP Per capita has undergone important drops in 1997, 2001 and the 2002 and rest of the years the growth has been quite low.

Another relevant task the country has had to face in its return a market economy, has been the recovery of the governability and the state of right, which seriously were affected during the last years of the previous decade. On the other hand, from the financial point of view, the country faces important and serious restrictions for the financing of its development and power to leave poverty. The most relevant are described next:
Reduction of the Fiscal Deficit. The excessive fiscal cost has forced the government to resort repeatedly to the financing of the Central Bank. In addition, the bankruptcy of several banks, whose consequences, have had to be palliated resorting to the internal indebtedness and the reduction of the credit for the private sector.

The deficit of the public sector\textsuperscript{108} has been financed with a substantial amount from donations and external loans.

Near the end of 2002, the country agreed with the IMF the PRGF (Poverty Reduction and Growth Facilities). This agreement laid the foundations for the conduction of the economic policy for following the three years. Until the month of August 2003, the IMF has made three evaluations in relation to the fulfillment of the established goals in the decided macroeconomic program. In the three revisions, it has been concluded that the country has remained within the PRGF, which will allow it to reach the final phase of initiative HIPC.

Reduction of the Public Indebtedness. The total national debt, in 2002, ascended to US$7,5 thousands of million (300\% of the GIP). In this setting, the indebtedness policy arrived at its two fronts: the internal debt and the external debt.

The internal debt, US$1,6 thousands of million, has been worrisome by its elevated amount of interests and maturation in short terms.\textsuperscript{109}

The external debt, US$3.3 thousands of million, has been reduced in a significant way recently. Nicaragua reached the floating point of the HIPCs (Países Pobres Altamente Endeudados) at the end of 2003 and product of that, in January of present year 2004, the external debt, that reached US$6.4 thousands of million, was reduced in US$3.1 thousands of million.

To improve the levels of competitiveness and production. The country requires to improve the quality of its farming products and the competitiveness of its production in general. The lack of transport infrastructure, storage, and energy, limits the growth that the productive sector can have.

\begin{center}
\begin{tabular}{lcccccccccc}
\textbf{PIB per-capita (rates of growth)} & 95 & 96 & 97 & 98 & 99 & 00 & 01 & 02 & 03 \\
\hline
4.1 & 1.3 & (0.9) & 2.8 & 1.9 & 2.7 & (1.0) & (2.8) & 0.6 \\
\hline
\textbf{PIB to 1994 prices 1994 (rates of growth)} & 5.9 & 6.3 & 4.0 & 3.7 & 7.0 & 4.2 & 3.0 & 1.0 & 2.3 \\
\hline
\textbf{Annual inflation} & 11.1 & 12.1 & 7.3 & 18.5 & 7.2 & 9.9 & 4.8 & 3.9 & 6.5 \\
\end{tabular}
\end{center}

The fiscal deficit increased to 9,12 and 9\% del PIB in 2000, 2001 and 2002 respectively. “Heavly Indebted Poor Countries Iniative.” Decrease Debt Initiative of Poor Highly Indebted Countries.\textsuperscript{108}

The principal elements of this debt are the negotiable investment certificate (CENIs) and the Bonos de Pago for Indemnización (BP) for confiscated properties. Between 2003 and 2005, the government would have had been facing important payments by the concept of principal and interests on this debt if it were not for a negotiation with the principal creditors.
An important element in the increase of the competitiveness is the modernization of the structure of the public sector, reducing the "cost-pai's" significantly and making the state most agile and efficient. It is also important to fortify the capacity of the public sector for the execution of the development programs.

To close the deficit of the external sector. The present situation of the external sector is a source of instability for the macroeconomic handling. The deficit in trade balance is of almost thousands US$1,0 millions. The increase of the exports propped up by the possible extension of the markets is urgent, among others, for meat, sugar, shrimp, and coffee and hopes that the participation of Nicaragua in the agreements of CAFTA (Central America Free Trade Agreement) that the country signed recently, contributes to that objective.

The integration from Nicaragua to the rest of Central America also constitutes an essential step to the extension of its markets. Two important initiatives that the country is actively persecuting are road integration within Plan Puebla Panama (PPP), and the program of electrical interconnection (SIEPAC).

2. The New Distribution of The Employment

In the mid eighties logic of operation of the work market was put in evidence, consequence of the economic crisis that the country faced in which the low wages paid in the formal sector were factor that induced many people to leave their formal employment to introduce itself in the informal sector. Later, in the nineties, the economic policy applied within the framework of the program of structural adjustment meant an important reform of the public sector, including the drastic reduction of the state employment, to which the impact of the commercial liberalization was added which repelled negatively in the industrial sector causing the closing of a considerable number of companies that for competitiveness reasons had to close their operations. The Nicaraguan population found in the shortage of employment one of its main problems. While the PEA grew by more than 500,000 people between 1990 and 1999, the occupation absorbed hardly a little more than 400.000, that is a little more the 80.0%. The rate of open unemployment grew at the beginning of the decade, but it has diminished during the last years.

The slow reactivation of the formal private sector does not manage to absorb the increasing force of work that it looks for to get itself up to the labor market. Until 1985, the formal and informal sectors generated employment in similar measurement. As of that date, the second overtook clearly the first, as much in the rural area as in urban . In the country, the deficiency of productive resources, the insecurity on the possession of the property and the lack of credit and technical attendance are factors that explain the increasing abandonment of the agricultural operations. In the city, the

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110 It refers to the cost of doing business in the country.
111 This deficit reaches levels of 25% of PIB and it is financed with external credits, donations and familiar remittances.
112 The amount of public employees that had reached 285.000 at the end of the 80’s diminished dramatically to about 70.000 in 1998.
structural effects of the economic liberalization, structural reforms and the farming migration have increased the availability of manual labor over the capacity of absorption of the formal labor market.

In the graphs "PEA" and "Total Employed PEA l" it is observed how the PEA has been increased in its proportion over the total population that has grown a 12% with respect to its participation in the total population in 18 years from 1985 to the 2003. In the last three years it grew by 3.2% percent per year, greater than the growth of the population and the GIP. The percentage of occupation experienced a reduction of 99 in 1985 as product of the causes that are indicated above, but it has experienced some degree of recovery from 2000 to 2003. The population concerned grew during this period to an average rate of 2.6% per year.

The official data for 2003 and successfully obtained by INEC\textsuperscript{113} indicate that the rate of occupation\textsuperscript{*} reached 92.2%, a smaller number than the 94% registered in the survey of November 2000.

Open unemployment\textsuperscript{114} was 7.8 percent, 1.8 points over the number obtained in 2000, a coherent result with the deceleration of the GIP that went from the 4.2 of growth in 2000 to 2.3 in 2003. Under employment increased its participation on the PEA to 46.5%, after having marked 42.2% in 2000, 4.3% of growth. Under employment leagues together to the economic and social development, affecting the organization of the production, its composition, and other characteristics of the economy. The lack of work, forces to look for occupations of low productivity and levels of income to survive.

\textsuperscript{113} The numbers come from the “Survey of Homes for Measuring Urban and Rural Employment” made by INEC with colaboracion from Ministry of Labor.

\textsuperscript{114} The employed and unemployed population includes all the people who do not have a job, but they are available and are actively looking for a job.
In triennium 2000-2003, the balance of the work force showed a growth of 7.9% in the number of employed, although the percentage of employed of the 2000 in relation to the PEA was of 94% and in 2003 it was reduced to 92.2%. Full time employed\textsuperscript{115} represented 45.7% of the national population economically active, inferior to the 51.9% of 2000. This concept still diminish in absolute terms when lowering from 998,0 to 968,0 thousands, 6,2 percentage points, product of an economy that is not supplying sufficient positions plenary sessions. The informal\textsuperscript{116} sector continued being an important source employment, providing work in 2003 to an amount of 13,4% of the employed, while the formal sector employed 33,9% of the PEA, the participation of the informal sector reached 66,1% in the total of employed with registered relation to the 62,9% after 2000. The generated employment was of 153 thousand of positions in the triennium, increasing 3,2 points, which indicates deterioration of the quality of the employment, considering that this group is excluded from the social security and the labor code. As corollary of this situation, the formal sector experienced a reduction of 4,1 percentage points.

<table>
<thead>
<tr>
<th>Chart 17. Balance of Labor Force</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>TOTAL POPULATION</td>
</tr>
<tr>
<td>PEA</td>
</tr>
<tr>
<td>Total Employed</td>
</tr>
<tr>
<td>Occupied plenary</td>
</tr>
<tr>
<td>Forma Sector</td>
</tr>
<tr>
<td>Informal Sector</td>
</tr>
<tr>
<td>Agriculture, Forestry and Commerce</td>
</tr>
<tr>
<td>Commerce, Restaurant and Hotels</td>
</tr>
<tr>
<td>Sevíc. Communal, Soc. y Personal</td>
</tr>
<tr>
<td>Manufacturing Industry</td>
</tr>
<tr>
<td>Construction</td>
</tr>
<tr>
<td>Transportation, Storage and</td>
</tr>
<tr>
<td>Finance and Insurance</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>Open Unemployment</td>
</tr>
<tr>
<td>Sub /Employment/ Part Time</td>
</tr>
</tbody>
</table>


\textsuperscript{115} The full employees are the ones who work at least with a normal schedule, earn the same or more than minimum wage and achieve an equal or superior productivity to the minimum defined.

\textsuperscript{116} “Informal sector” refers to the one that the companies have where there are from one to five employees, in contrast to the “formal sector”, which is the one in the companies that have between six or more workers.
The informal employment has been constituted in the main adjustment gear of the labor market before the insufficiency of the formal occupations. The informal activity has acted like a shock absorber of the effects of the reduction in the employment, derivatives from the economic crisis and the programs of structural adjustment, although its quality is often low and it is equivalent to some form of under employment. In the informal employment there exist inequalities of gender and by area of residence, being women and the rural inhabitants the ones who enjoy the least of employment and who perceive the lowest income.

The predominant perception of those involved in regard to their businesses is that they are producing less and less due to the lack of favorable credit, the vivacity of the competition and the lack of clients. In the last years, the organizations of nonconventional credit have unfolded concerted efforts to grant to the informal workers joint credits and to provide them with qualification in the managing of money, with diverse successes.

The development of the informal sector is not limited to the urban scope, but that extends to the countryside. Forty-two percent of the homes of Nicaragua have some independent type of business or nonfarming activities. Two thirds are made by a single person. Three quarters are located in the urban zone and the other fourth in the rural area.

Impelled by their chronic poverty, the small farming units have implemented strategies of survival, searching for way of diversifying their resources in the primary sector and complementing them with other sources that help them solve their difficulties. Nowadays, it is common that they do informal labor of small artisan industry, commerce and services. The income generated by these additional jobs, often commercialized by the women, allow to maintain the farming production based on the land and to obtain from it the foods that guarantee a minimum of nourishing security for the families.

The farming sector generates 27% of the GIP and offers employment to the 31,2% of the PEA of 2003, while the country concentrates a great part of sanitary and educative deficiencies observed in the country. The importance of the producers, male and female, in the Nicaraguan land, its structural disadvantage related to its rural location, and their crucial paper in the nourishing production and the migratory movements, suggests the necessity of a more careful examination of their situation.

In the last decade, in spite of its increase, the rural employment has not been sufficient to offer occupation to the entire PEA still less to the women, leaving 30% of them without occupation. The Nicaraguan farming production comes mainly from small and medium units that combine crops such as corn, beans, the sorghum, coffee, the “musáceas” and some cattle activity, in a familiar strategy of aversion to the risk and the climatic vulnerability. With few variations, the produced farming goods in these farms are the same that were produces decades ago. (Neira, 1999).

The lack of access to a piece of land to produce is a subject of preoccupation in a country where its participation in the national PEA is so important and where 75% of the exports come from the economic activity of the rural sector. Of the total of the homes with farming activity, only 56% have
their own property and 44% of the homes rent land to produce. The absence properly legalized and registered documentation and the corresponding instances continue being a subject that could be preventing the possibilities of investment in the country. According to EMNV 98¹¹⁷, only 52.9% of the properties declared as owned by their owners have a deed, 22% do not have no type of document, 13.6% have titles of agrarian reform and the remaining 12.2% corresponds to other modalities.

The programs of technical assistance and technological transfer of the governmental organisms are aimed mainly to the medium and large enterprise sector, leaving neglected the work of the families in the production units of small scale.

The lack of competitiveness is in general a problem that affects the farming producers. The high production costs and the lack of roads and power infrastructure are factors that affect the low productivity and lack of competitiveness of the sector (INCAE, 1999; Neira, 1999).

During the period 2000-2003, a total of 143,3 thousand new jobs were generated, being the economic activities with greater participation, agriculture, forestry and fishing with 31.2% of the communal and personal PEA, commerce and restaurants with 24.5%, services with 23.4% and manufacturing industry with 14.4% of the total of the PEA. The agricultural sector as well as the construction, suffered a drop in their participation in 2003 with respect to the 2000. Communal, Social and Personal commerce, Restaurants and Hotels and Services increased their participation. The greatest contribution to the generation of employment in the triennium came from two sectors that grew altogether in a 14.9 and 21.2% in the 2003 with respect to the 2000, these were Transportation and Others. The construction sector decreased in more than 8% and the sector of agriculture, the one with a greater participation, had a modest growth of the 2.4%.

¹¹⁷ Encuesta de Medición del Nivel de Vida. (Survey on the Measure for Standard of Living) INEC. (Nicaraguan Ministry of Statistics and Census) MITRAB (Ministry of Labor)
Age and Gender in the PEA

The Nicaraguan PEA presents a similar tendency to the one of other Latin American countries: the demographic structure incorporates groups of women and young people in age to work while the economic crisis impels the families to add greater number from members to the work market. Under this double population and social impulse, the demand for employment grows with increasing speed.

As a result, an increasing participation of the feminine, adolescent and infantile force takes place in the labor market. Between 1993 and 2001, the feminine population increased its economic activity in an average of 10% in all the country, with increases of 15 and 13% in the cases of the Central and Atlantic regions respectively.

The growth of the occupied feminine population between 2000 and 2003, was of an annual average of 4.1%, 2.5 times the corresponding one of the occupied masculine population of 1.6%, which indicates the dynamics of this feminine population to integrate itself to the labor market. In the last years the growth experienced by the feminine PEA of 4.5% per year, almost duplicated the one of the men, 2.5%. In 2003, the women have been able to constitute 35% of the occupied PEA, over the average of 30% of the region.

In the same manner, 51% of the adolescents (male and female) between 15 and 19 years and 20.2% of the children of ages between 10 and 14 years, participate in the economic activity. A study corresponding to the end of 1998 revealed that this aspect constitutes the main preoccupation of 70% of the consulted ones. According to the surveys of homes of the MITRAB, the rate of unemployment of the adolescents and young people of the urban area between 15 and 24 years of age is twice as high as the one the adults between 25 and 49 years. In addition, the young people, when they manage to get a job, have generally, precarious employments and badly remunerated. Its vulnerability in sub occupation terms is clearly visible.
Young people are frequently excluded from the formal labor market, due to the absence of programs of professional formation easily accessible and that the exigencies raised by the employers correspond with their profile. Also, they have fewer possibilities than the adults to initiate activities on their own account due to a lack of goods, experience and access to credits. The encouraging perspective absence can impel them to take refuge in delinquency, drug addiction, the alienation and social conflict in general.

The sector has been struggling to gain its space within the PEA and it is like this that we see that all of its ranks of age display an increase in their participation in the economic activity. Those of greater growth were indeed those from 15 to 24 years of old and the adult from 55 to 64. Those 60 to 64 years old, who grew by more than 10% and up to 16% in their participation in the economic activity in relation to their participation eight years before, in 1993.

Almost a 9% more of the children between 10 and 14 years old were integrated to the economic activity in that period of 18 years. Although the Political Constitution orders the right of the children to be protected against labor operations and risk of any activity that can be harmful for their health or development and that interferes with their education, infantile labor has one long tradition in Nicaragua, especially in the country.

The lack of sufficient familiar income, the abandonment of the parents and the deficiency of stimuli to perceive the advantages of the education, take the young generations to enter the labor market at early ages. The infantile work harms their opportunities to enjoy a healthy life and to accede to the education, simultaneously it severely mortgages the human capital and the future well-being of the society.

3. The Enterprise Composition in Nicaragua.

The criterion most generalized for the classification of the companies, is the amount of the workers who work in them. According to this criterion, the different official organisms related to the sector have elaborated their statistics. The Central Bank, based on the same criterion of the amount of employees, classifies the companies in seven layers:
1.- Estrato I: from 1 to 3 workers,
2.- Estrato II: from 4 to 9 workers,
3.- Estrato III: from 10 to 20 workers,
4.- Estrato IV: from 21 to 30 workers,
5.- Estrato V: from 31 to 40 workers,
6.- Estrato VI: from 41 to 50 workers and
7.- Estrato VII: from more than 50 workers

MIFIC has delivered efforts to obtain a definition of the different layers from micro, small and medium companies and after some discussions it seemed that an approach exists that establishes a stratification of the companies thus:

1) Micro companies: Economic units of production, commerce or services of between one and 10 workers, assets by value of up to US$75,000, maximum annual sales of US$120,000.00, with traditional techniques and processes and one of simple organization.

2) Small Company. Economic unit of production, commerce or services of between 11 and 40 workers, assets of between US$75,000.00 and US$300,000.00, annual sales by volume between US$120,000.00 and US$480,000.00, with degree of technological capacity and formal organization.

3) Medium Company. Economic unit of production, commerce or services of between 41 and 100 workers, assets of between US$300,000.00 and US$750,000.00 and annual volume of sales of between US$480,000.00 and US$750,000.00, with technology and process of organization under an explicit productive strategy and with capacity of enterprise management.

On the other hand, the MIFIC makes a stratification included in the chart "Classification of the Companies. Generated number and Uses." which indicate that a total of 153,712 companies of different sizes as far as the number of workers who work in them, the total of their assets works in the country, etc. Sixty-four percent of this number, an important majority, a total of 98,363, are enterprise units characterized by being unipersonal companies or that work with a single employee.

In that layer they are reflected an amount of companies constituted by workers by their own account who find, to give a solution to the problem of the lack of employment, the accomplishment of an activity that normally consists of the offer of its services for the accomplishment of different activities or of the taking of steps from commerce.
The second layer, the Micro companies, constituted by the enterprise units that depend on between two and five workers. To this layer 49,718 companies, the 32.3% of the total correspond. The total of the unipersonal companies and micro companies is 96.3% of the enterprise universe, a total of 148,081 companies.

The small and medium companies have a significantly smaller weight in the sector of the national entrepreneurial. The small companies, with between 6 and 20 workers are a total of 4,526, the 2.9% of the total of the universe. An accumulative of the unipersonal companies, micro companies and small companies gives as a result 99.2% of the total of the universe of companies with a total of 15 2,607 enterprise units. The medium companies are 712 units, a 0.5% of the total. Adding this accumulative layer to the previous one, it is that the sum of the unipersonal companies, small and medium micro companies and totalizes the 99.7% of the total of the companies with a total amount of 153,319. The large companies, of more than 100 workers are a 0.3% of the total, resulting in an amount of 393 enterprise units.

The data on the chart "Classification of the Companies. Generated number and Employment" correspond to 1998, year in which the total PEA was of 1,661,300 and Occupied PEA 1,441,800. Considering that the data corresponds to the urban sector, we reduced of the occupied PEA 610 thousands of workers of the identified rural PEA in the PEA of the Sector Primary and dedicated to the farming activities, forestry and fishing. The resulting urban PEA is of 831,800. The total enterprise sector unipersonal, micro, small, medium and large generate employment for an approximate 41% of the total of the Urban PEA. The rest of the PEA is located in the state, electricity and water sector and others like the identified one like Social, Communitarian and Personal Services.

From the total of the employment generated by the enterprise sector, the most important and with great weight turns out to be the sector of the micro companies of between two and five workers, with a total of 168,640 generated jobs equivalent to almost 50% of the total of the employment generated by the enterprise sector. This % is generated by the 32.3% of the companies, this reflects their dynamism and importance with an average of almost 3.4 workers by company.

It follows in importance the unipersonal companies sector with a total of 98,363 jobs equivalent to the 29.1% of the total of the employment generated by the enterprise sector, constituting this layer, 64.0% of the total of the companies. The large companies are only 0.3% of the total of the sector, 393 companies altogether with an amount superior to the 101 workers and generate jobs for 44,691 workers, the 13.2% of the total of positions generated by the sector. The average of the amount of workers of this sector of companies are of 113.

The 2.9% of the sector, the 4,526 small companies of between six and twenty workers, generate 16,976 the 5.0% jobs corresponding to the total of jobs generated by the enterprise sector as a whole. On the other hand, the 0.5% of the sector, the 712 medium companies of between 21 and 100 workers generate 9,568 jobs corresponding to the 2.8% of the total of the work generated by the sector.
The Micro, Small and Medium Companies

The sum of micro, small and medium companies total the amount of 54,956 companies, 35.8% of the total of the enterprise sector and generate 195,184 jobs equivalent to the 57.7% of the total of the sector. The layer of greater weight is the one of the micro companies of between 2 and 5 workers, 49,718 companies that in this new universe mean a little more than 90% of the sector and which generate jobs for 168,640 people, the 86.4% of the total of jobs generated by the MIPYMÉs. On the other hand, the sector of the small and medium companies total 5,238 enterprise units, 9.5% of the total of the MIPYMÉs that generate work for 26,544, 13.6% of the jobs generated by the MIPYMÉs.

The of micro and small companies sector is generally the most taken care of by the Financial Intermediaries sector which works in the country.

Characteristics of the Companies

Most of these companies, specially the Micro companies and the Small Companies, are located within the informal sector of our economy, in reason, as much of the amount of workers whom they have, like by the fact that they do not fulfill the requirements established for the formal sector.

These companies of the informal sector are characterized by:

1. - They are not organized in societies,
2. - They have a small number of workers
3. - They are bound to the home more than to the society.
4. - The activities to which they are dedicated are frequently of low dowry of capital and therefore reduced to capital relation/work,
5. - They operate with reduced or almost null barriers of entrance in qualification terms, skill, capital and organization,
6. - They are generally, productive units of familiar type with direct participation from the proprietor,
7. - The scale of its production is small, as much as in volume of sales, like in number of workers,
8. - Ample presence of unipersonal activities;
9. - Intensive processes in manual labor with use of obsolete or simple capital and with a weak technical division of the process;
10. - They operate in competitive or not regulated markets with precarious access to the

<table>
<thead>
<tr>
<th>Strata</th>
<th>Type of Company</th>
<th>Amount</th>
<th>%</th>
<th>jobs</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>De 2 a 5</td>
<td>Micro company</td>
<td>49,718</td>
<td>90.5%</td>
<td>168,640</td>
<td>86.4%</td>
</tr>
<tr>
<td>De 6 a 20</td>
<td>Small</td>
<td>4,526</td>
<td>8.2%</td>
<td>16,976</td>
<td>8.7%</td>
</tr>
<tr>
<td>De 21 a 100</td>
<td>Medium</td>
<td>712</td>
<td>1.3%</td>
<td>9,568</td>
<td>4.9%</td>
</tr>
<tr>
<td>Sub-Total</td>
<td></td>
<td>54,956</td>
<td>100.0%</td>
<td>195,184</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Fuente: Política de Fomento a las PYMEs. MIFIC 2001
mechanisms of support from the state;

11. - The productivity is low and the capacity of accumulation is much reduced.

Among the activities to which micro and small companies generally are dedicated, there is manifold and varied, but generally, these activities are framed within the following characteristics:

A. - Unemployed activities of subsistence that agglutinate to the traditional activities of this type fed by the new poor and that arises from the reduction process of state employment and the traditional formal sector affected by the commercial opening.

B. - Activities related to the compromiseable sector or commercializable goods, being that for the provision of supplies or the sub hiring with reduced possibilities of accumulation by the type of dominant subordination.

C. –Informal activities that make up part of the dynamic sector and with possibilities of accumulation.

<table>
<thead>
<tr>
<th>Chart 21. Establishments and jobs by Economic Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic sector</td>
</tr>
<tr>
<td>Service</td>
</tr>
<tr>
<td>Industry</td>
</tr>
<tr>
<td>Construction</td>
</tr>
</tbody>
</table>

Occupation by Sector.

In agreement with the carried out Urban Economic Census by the Central Bank of Nicaragua in year 2000, the sector of the commerce and services has a weight of 78.6% in the informal sector of the Micro, Small and Medium Urban Companies. The sector of the industry follows in importance with 19.5% and the sector of the construction occupies the third place with 2.7% of the total of the establishments of the sector. The amount of generated jobs corresponds enough with the structure as far as the amount of establishments and also as the services sector generates the 65.6% of the total of the jobs generated by the sector, the industry generates 31.6% and 2.7% correspond to the sector of the construction.

The Farming Companies (ÉÁs)

In the rural sector are 199,549 Farming Companies that are reflected in the Farming National Census by INEC in 2001, which includes an area of 8.9 million blocks in existing property in the country.

A stratification on the basis of the area of these companies indicates that 65,978 of these companies have an area of up to 5 blocks which mean 33% of the total of the companies, including solely the 1.76% of the total of the land in property of the country.

The layer of property of between 5 and 20 blocks includes a total area of 654,310 blocks and corresponds to 55,598 producers or companies: that is, this amount of companies that are the 27.8% of the total has 7.3% of the total of the land in property.
The 60,464 EÁs of between 20 and 100 blocks that have 3,0 million blocks, with a much more favorable relation for this sector that, representing 30% of the productive units, has 34% of the total of the land in property. The layer of 143 companies of more than 100 blocks, represents the 8.7% of the farming companies and concentrates under its property the 56.4% of the total of the land in property.

An accumulation of layers 1 and 2 with property of up to 20 blocks would result that this sector of 121,576 units, representing 61% of the total of the land in farms of the country, have total area of 811,851 blocks equivalent to 9% of the total of the land in farms of the country.

**Family Work**

The farming productive units are characterized to rely on with a greater capacity to offer possibilities sources for jobs, firstly to the members of the family and, in case of requiring it, to workers hired outside of contracts, or as permanent personnel or in a temporary character depending on which the productive activity indicates.

The information contained in chart 22, "Members of the Home that Work in the Company", indicates in addition that the EÁs units gave use to a total of 196,909 members of produtor’s home, including a the same head of the family.

The EÁs of up to five blocks absorbs 33% of the farming manual labor. The companies of five to twenty blocks absorb 28%, those of 20 to 100 blocks absorb 30.3% and the great farming companies of more than 100 blocks absorb solely the 8.4% of the family manual labor that collaborates in the workings of the field with the head of the family.

**Contracted Workers.**

As far as the hiring of workers from outside the family, the EÁs of up to 5 blocks absorb to 12.6% of the contracted hand of farming, the companies of 5 to 20 blocks absorb 20.3%, those of 20 to 100 blocks absorb 32.6% and the great farming companies of more than 100 blocks absorb the 34.4% of the total of the 678,161 workers, between permanent and temporary who are hired by the Farming Companies at national level.
Total Agricultural Labor Force

In agreement with the previous information, there are a total of 875 thousand workers, including the proprietors, who make workings in the 199,549 EÁs farming. Of the total of workers, 22.5% are such proprietors or heads of the family and the members of their families and the 77.5% are contracted workers, 18.5% of them as permanent workers and remaining 81.5% as temporary workers dedicated mainly to harvesting.

The absorption of this manual labor, family or non-family, corresponds mainly to the 60,464 EÁs of between 20 and 100 blocks that absorb 280,854 workers, equivalent to the 32.1% of the total. There follows the 17,509 companies of more than 100 blocks that absorb the 28.6%. The EÁs of 5 to 20 blocks and those of up to 5 blocks, absorb the 22.1 and the 17.3% of the total of the familiar and nonfamiliar manual labor that toils in the total of the farming companies.

<table>
<thead>
<tr>
<th>Size of the company</th>
<th>Surface in blocks</th>
<th>Total Producers</th>
<th>Exploitation No. Of workers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td>Up to 5 blocks</td>
<td>157,541</td>
<td>65,978</td>
<td>24,030</td>
</tr>
<tr>
<td>From 5 to 20 blocks</td>
<td>654,310</td>
<td>55,598</td>
<td>25,737</td>
</tr>
<tr>
<td>From 20 to 100 blocks</td>
<td>3,078,187</td>
<td>60,464</td>
<td>31,712</td>
</tr>
<tr>
<td>More than 100 blocks</td>
<td>5,044,983</td>
<td>17,509</td>
<td>13,196</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8,935,020</td>
<td>199,549</td>
<td>94,675</td>
</tr>
</tbody>
</table>

Source: Own Elaboration with CENAGRO. INEC data. 2001
For the classification of the farming companies in layers that include some degree of definition of their size as company is required to consider a much greater amount of variables beyond the value of the assets or the amount of its annual sales. In the case of the farming sector it would be necessary to consider elements such as the location of the farming property, its productive vocation, the availability of irrigation, the access to financing and other criteria.

Nevertheless, in very general way we can affirm that a property of more than 100 blocks exceeds the range of what can be considered a small company. Excluding the level of the companies of 100 blocks, our new universe is of 182,040 EA’s, three million eight hundred thousand blocks in farming areas and 625,056 workers part of the familiar manual labor or workers from outside the home who are contracted in temporary or permanent form by these companies.

This way, the companies of up to five blocks are 33,1% of the total number of EA’s. They have access to the 1,8% of the total of the land in farms and generate employment for 17,3% of the population that works in the farming sector.

The layer farms between 5 and 20 blocks represents 27,9% of the total of the EA’s They possess 7,3% of the land in farms and generates employment for 22,1% of the workers of the county.

On the other hand, the Farming Companies of 20 to 100 blocks constitute the 30,3% of the total of the sector. They have the 34,5% of the total of the land in farms and general the jobs that occupy the 32,1% of the workers of the farming sector.

<table>
<thead>
<tr>
<th>Chart 25. Strata and Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
</tr>
<tr>
<td>From 5 blocks</td>
</tr>
<tr>
<td>5 to 20 blocks</td>
</tr>
<tr>
<td>20 to 100 blocks</td>
</tr>
</tbody>
</table>
4. The Development of The Micro company

On the basis of the study and analysis done by INEC, Mecovi, in August of last year, 2003, with data from the National survey of Homes on Measurement of the Standard of life, we have established some numbers that will allow reviewing the situation related to the development of the micro company in the last years.

In the attached chart, "Businesses. By Degree of Poverty. By Economic Activity" we can see how unemployment is reduced in a little more the 10,0% from 1993 to the 2001, going from 21,9 to 11,3 in that period. As it were already appraised in the data and previous numbers, a good part of the PEA is located in activities described like "Informal Sector", which in 2001 reaches a percentage of 66,8% of the total PEA.

The same source indicates that, product of the difficult economic situation and the deficit of employment in the formal sector, the percentage of homes with businesses increased in 9,3%, going from 32,2% in 1993, to 36,1 in 1998 and 41,5% in the 2001.

The adverse economic situation in the Nicaraguan productive sector has forced the poorest sectors, which cannot find a solution to his problem of unemployment in the formal sector, to look for solutions before the necessities that the crisis raises. The growth of the micro and the small company in Nicaragua, experienced in the last years, fundamentally explains by the high rate of unemployment and low income, that force a significant proportion of the population to generate subsistence income in the informal sector of the economy; the proliferation of new organizations of micro and small industrialists, that takes place specially during the last decade, responds to this set of initiatives of the Nicaraguan society to a great extent.

The 11,7% of the population in extreme poverty in 1993 had some type of business. Five years later in 1998, this number rises to 17,4% of the population in extreme poverty, reaching 21,7% in 2001, with a growth of 10% in the period.

As far as the sectors of the economic activity in which becomes jumbled most of the poor population looking for a solution to the problem of unemployment, is the sector of Commerce, with 52,6% of businesses of this type.
The manufacturing industry follows in second place with 16.3%. Nevertheless, these two branches or activities, in spite of being those of greater weight among the small informal businesses, were reduced, to -1.6 and -4.5. The sectors that had a real increase as far as their participation in the period, were the Communal Services and the construction that grew respectively in 4.7 and 3.0%.

For the analysis of the development and the situation of the sector of the small and micro company in Nicaragua in this period, it is specially important the analysis of the environment in which these companies and their organizations are born and are developed, in their majority, relatively recent experiences and with serious problems to subsist, to be developed and to reach their consolidation.

A study titled "Diagnostico de las Organizaciones de la Micro y Pequeña Empresa in Nicaragua", made by PROMICRO in 1998, on the basis of a 34 analysis of micro, small and medium companies, nine of second degree and 25 of base, reveals mainly the following:

1. - The enterprise organizations are facing the challenge to consolidate their presence and to improve the quality of the services offered to their members.

2. - Practically the total of the studied cases, the main problem that they face is the one of financing, being this credit for its associate or to cover the expenses of operation.

3. - An important organizational weave at level of these organizations exists, that must be taken advantage of to the maximum in the conduction of policies oriented to the sector; most of the organizations of second degree, specially those of larger size, have been able to extend their operational range to other geographic regions.

4. - A relative development in the plane of the legal formalization exists; practically the total of the studied organizations have incorporation papers, statutes and legal function and legal entity I.D.

5. - Most of the organizations are responding to the objectives for which they were created, but there are cases in which the operations of the organization practically are stopped by lack of financial resources and capacity of management.

6. - In most of the base organizations a problem of lack of vision appears, that foments a very intuitive conduction style. Some of the organizations that indicated to have work plans indicate that great part of the time, even in the assemblies and meetings of directive advice, is dedicated to solve the problems day to day, related to the normal operations.

7. - The necessity to establish strategic alliances is vital for the organizations of micro and small industrialists, because it would contribute to the objective to increase its actual roll before their affiliated and the public opinion.

8. - A problem of little involvement on the part of the members of the organizations appears, specially in those of base; as it were indicated, problems related to little attendance to the assemblies appear.

9. - The participation according to gender in the decision-making organs of the organizations, allows to conclude that the woman has managed to occupy an important place in the conduction and leadership of most of the organizations, of base and integration.

The main weaknesses the organizations of small and micro industrialists show could be grouped in four categories:
a) Lack of Resources: financiers, materials, humans and for the institutional fortification; elevated costs of services.

b) Internal Management: operation, lack of discussion, lack of enterprise criteria.

c) Participation: of women (insufficient) and of associated of base.

d) Communication: means of interchange, before the government and agencies, relations between the same organizations.

The study indicates, in addition, the main strong points of these organizations referring to the aspects of motivational nature: desires to solve problems, opening to learn, self-esteem, enthusiasm, optimism, etc. Other strong points have to do with the opening and will of dialogue between members of the organizations.

5. The Micro company As An Answer to The Crisis and Poverty

Numerous experiences are known of countries in which the PYMES have contributed gradually to the development and the overcoming of the settlers. In Europe, the case of Italy in which a sector of small companies has been developed that, applying the innovation, developed important enterprise networks, and, rescuing the artisan technology and the modern one it was introduced with very good results in the markets.

Japan has gone through a stage of great growth for the small company impelled by the great companies to guarantee the existence of a network of suppliers to which the great companies attend financially and technically.

In all the studied positive experiences about the development of the small and medium and their contribution to the overcoming of the problems of the economies of their countries, the success is in its group and the ability to face the changes of collective way.

Some, though each time less, consider the PYMES as a transitory sector that will go gradually disappearing and yielding its space to the concentration of great capitals for the profit of the scale economies. In reality it has been verified that the PYMES have arisen and they have been constituted in small independent industrialists operating with much creativity in activities in which the scale economies are not so important.

It is necessary to indicate; nevertheless, that the relation between unemployment and PYME is not total nor excluding and the decision to become small industrialist, regardless how informal it may be, it does not come solely from the lack of access to the employment sources but that it has to do in addition with the satisfaction to be proprietor of an own company, regardless how small it is.

From here the theory that the unipersonal company, it is a transitorial phenomenon subject and dependent of the economic cycle and that constitutes a mechanism for the creation of its own job by means of the formation of a unipersonal company which ends up constituting itself in a refuge of the unemployed one as an option to the possibility as opposed to obtaining a job in the formal sector.
In the decade of the 90’s it has been observed in several countries of Latin America, a growth of the GIP and the GIP per capita, unlike the decade of the 80’s in which the behavior of the GIP was very different, reason why it is possible to deduce that in some of the Latin American economies, the PYMES have passed to be the economic activity in which the unemployed have found a refuge, to become an alternative of real development.

According to data of the Banco Internamericano de Desarrollo (BID), (Inter-American Bank of Development (I.A.D.B.)), the average of Latin America reflects an increase from the 68 to 70% of growth in the participation of the PYMES in the employment of the different countries. Bolivia, Chile, Colombia and Brazil surpass this average. In Latin America, in general, more than 95% of the companies are PYMES and they generate the employment for more than 120 million people.

The most relevant characteristic of the PYMES is that they contribute to the overcoming of the crises of the economies such as ours and those they contribute to the overcoming of the poverty levels, which are the following:

**Net Currency Saving.**

In order to reduce the enormous problem of the significant indebtedness that faces our economy it is necessary to promote the development of the productive sectors that generate net currency saving, that is to say, that they have a smaller dependency of supplies from the outside and a high exporting potential. Most of the branches of the PYMES fulfill the two characteristics, on one hand they make intensive use of national raw material as well as an efficient use of the resources in relation to the great companies. On the other hand PYMES have an exporting potential that has been corroborated in other countries and that are necessary to develop in Nicaragua.

**Diversification of the Exports**

Nicaragua needs a strategy diversification of its exports in goods that are less vulnerable to the changes in the international prices. In this sense, the PYMES represent an alternative and an interesting potential due to the increasing preference in many countries, specially European, for products manufactured with certain artisan characteristics. These goods have an additional advantage: they present fewer oscillations of prices because they are more flexible to be adapted quickly to the demands of the market without radical changes in the productive infrastructure nor in the composition of the capital.

**Sectorial Joint**

The PYMES have the capacity to generate sectorial joint. The vertical joint is generated backwards, by the demand of supplies of the primary sector for the later processing mainly in the industry of wood-furniture, leather-footwear, cigars and textile. To increase this demand would have a positive multiplying effect on the land. Forward, also a supply of goods for differentiated markets, from popular consumer goods to export products.

The horizontal joint that occurs to the interior of the companies of the sector and the branch of production, is one of the own characteristics of the PYMES that allows them to survive through time and to be successful. The groups of agglomerate sectorial companies and geographically allow to take advantage of the externalities that are generated and makes possible to make joint operations with third parties.
Generation of Employment

Employment generation is an area where the state needs to affect in a more significant way in order to surpass poverty and to do deal with external and internal migration. In the measurement in which they privilege the use of workforce on the capital, the PYMES are a promising sector within the framework of a policy of employment generation. At present, they generate 87% of the urban jobs of the industrial sector. Since their costs of qualification of the manual labor are relatively low, the PYMES make possible a greater absorption of the non-qualified labor force, which is very difficult to occur in another type of industry that requires more time and investment to train their employees.

Generally, the population that migrates is the one that has greater desires of overcoming and more initiative. With a suitable policy of promotion from the PYMES, these capacities can be taken advantage of better in absorbing this population productively.

Creation of Markets

The markets are created because of the convergence of supply and demand. The PYMES can contribute through the two routes. On one side of the supply they do it with the production of goods for the national consumption, especially in the branch of processing of food, clothes, footwear and furniture, satisfying the necessities of lower income sectors. But, on the side of the demand the market creation is associated to two aspects that we have already mentioned: first, the vertical and horizontal joint with other companies, and second, the creation of employment that makes possible the generation of an internal demand.

The sectorial joint of horizontal form generates one synergy that takes to the productive innovation of the companies, which allows the demand of new products in the measure in which the productive process is having a greater complexity. In this manner, new markets for new products arise.

Flexibility

Capacity to orient themselves and to give an answer to the changing necessities of the consumers who very hardly could be taken care of by companies that produce on great scale

Although at this moment the internal market is not very attractive for the development of the PYMES, in the long term the same employees of the PYMES will conform a demand of goods and services that will be necessary to fulfill. In this sense, the development of the PYMES can play an important redistributive role of the income.

In the process of market creation it is necessary to create niches of market in the exterior. This strategy becomes fundamental as much for the development of the PYMES in the short-medium term as for the country’s own development.

Nicaragua is in an indebtedness process that has been alleviated with the implementation of initiative HIPIC, but it will not be solved, because the country has shown a tendency to increase the external deficit during the last years. The existing imbalance between imports and exports is the result of structural limitations that generate a constant indebtedness and return nonviable to the country.
The efforts made by the government for the overcoming of the problems of the economy, have been successful in making sustainable the level of public deficit, but they have failed in the control of the external imbalance. It is required the implementation of measures that attack directly the structural problems of the country, promoting specific productive sectors, but without leaving them exposed to the free nonexistent will of markets.

The PYMES are one of the productive sectors with more potential because their characteristics allow them to surpass the limitations of the adverse environment and can, in addition, to contribute to the overcoming of those same limitations. The net currency saving, the diversification of exports and the sectorial joint contribute to surpass the limitations of shortage of internal saving and dependency of the exterior. The creation of employment and markets through them, helps to solve the poverty limitations poverty and lack of institucionality.

Nevertheless, the PYMES have been a sector of lacking support. They do not depend on fiscal incentives or subsidies, they receive little services of credit and training, and face a dispersed internal market and little spending power. In spite of everything, the PYMES survive thanks to the strategy that they adopt: talent and versatility to respond to the demand, better advantage of the resources and capacity to generate joints to inter enterprise. To decide on a policy of promotion of the PYMES does not only mean the search for the development of a productive sector, but also for the country as a whole. Next to other initiatives, the impulse of the PYMES can contribute to reach a true adjustment of the economy that will make the country viable.
6. GLOBALIZATION AND MICROFINANCE

Study by Marcelo Mayorga for INAFI

1. The Disappearance of the Nationalized Banking and Development of the Private Bank
The measures of liberalization of the financial activity gave their fruits with a fast growth of the private banking sector in the country from beginnings of the decade of nineties, while the participation of the state bank was gradually being reduced which characterized the institutional banking plan in the eighties.

With an annual growth average of the assets of 27% throughout the decade and an annual growth of 30% deposits, the banking sector has represented one of the most dynamic economic activities of the economy. The incorporation of new private banks took place in accelerated form; but, already at the end of the same decade it had gone through a process of liquidation and privatization of the state bank and of purification of the private banking system by means of the bankruptcy of three private banks and the unavoidable closing of two others due to serious anomalies in their operations.

From a total of fifteen banks that operated in the country in that decade, only six remain operating at the present time. Three state banks and six private banks have stopped operating in different forms, by liquidation, by bankruptcy, privatization and expiration of the license to operate on the part of the Supervision of Banks.

The State Bank of Nicaragua represented mainly by the Banco Nacional de Nicaragua (later Banco Nacional de Desarrollo or ANADES) founded in 1912, which got to concentrate the weight of the financial activity until the first half of the twentieth century when strong financial, well-known blocks arose like the groups BANIC and BANAMERICA, as well as the strongest group formed by the increasing capital of the Somoza family. In the decade of eighties, with the process of political-institutional transformation the banking activity was nationalized. With this decision a strong state banking system was created, conformed by the Banco Nacional de Desarrollo, the Banco Nicaragüense de Industria y Fomento (BANIC), the Banco de Crédito Popular and the Fondo Nicaragüense de Inversiones (FNI) as second rate entity, which continues operating at the present with the name of Financiera Nicaragüense de Inversiones (Nicaraguan Financier of Investments).

As part of the process of liberalization of the banking activity the bases for the reorganization of the public finances of the country were established, within which the subsidies granted to the state banks would be regulated with funds from the public sector. The financial problems of the state banks, mainly the Banco Nacional de Desarrollo (National Bank of Development), bad administration of the portfolio, high administrative expenses and insolvency, caused a first step that was the redimensioning of the mentioned bank; nevertheless, the deepening of the problems of recovery of the portfolio, the lack of liquidity and the pressure from the international organisms for the definitive closing caused the definitive liquidation of the bank.

On the other hand, and by similar causes, the privatization of the BANIC, the Financiera Nicaragüense de Inversiones (Nicaraguan Investment Financier, FNI), and of the Banco de Crédito Popular is decided simultaneously.

The Financiera Nicaragüense de Inversiones is the only financial second rate organization of the country and has represented the only option for the intermediary financiers to obtain investment resource in the long term. Its privatization has begun with the sale of a series of emitted actions; nevertheless, given its institutional profile of a development and investments bank, there has been intentions to focus the participation of new partners to international similar financial organizations or organism with the same intentions, but, after having concluded the legal process of reform to their statutes, and after having carried out the valuation and emission of actions, no investors have been found with interest in this society. One of the main reasons to conclude this process is that according
to the constituent agreement of the new society, the state reserves 51% of the actions and some prerogatives in the management and administration of the FNI.

El Banco de Crédito Popular (The Bank for Popular Credit), on the other hand, was intervene by the Superintendencia de Bancos (Supervision of Banks) and its liquidation was decided after a deep financial crisis. The serious financial deterioration of the BCP, with a noticeable reduction of its portfolio since the end of 1997, increases of default, real loss of the patrimony and, in summary, a technical bankruptcy of the institution, has created and, simultaneously, was the cause from the same problem, a lack of operational capacity.

During the same period, the private bank, the financial sector and the whole country were shaken by the bankruptcies and suspension of authorizations of the banks BECA (Scholarship) and BANCOSUR first, and later BANCO MERCANTIL (Mercantile Bank), PRIBANCO, INTERBANK and BANCO DEL CAFÉ (Bank of the Coffee). To the December 31st, 1996, the portfolio of the National Bank of Development ascended to equivalent in córdobas of US$88.5 million. The bank shut operations in 1988. On the other hand, the Banco Nicaraguense de Industria y Comercio (Nicaraguan Bank of Industry and Commerce) reflected in its Financial Statements of April 2000, a balance of portfolio equivalent to US$114.4 million. By following year, 2001, the bank had closed operations and entered liquidation process. The Banco de Crédito Popular had a US$14.5 portfolio million in June of 1999 and also had to close in 2000.

Altogether, the three banks got to handle portfolios that altogether surpassed the US$220.0 million of which a considerable proportion was oriented to the credit attention of small and medium urban and rural companies. El Banco del Café and Interbank, by their own initiative, had begun on their way to the financing of the small and medium company, mainly urban, as it will be illustrated ahead in point 3.2 of this same chapter.

On the other hand, the disappearance of the state bank opened the doors for an increasing market of the new banks. From a participation of 5.9% in the total assets in 1991 the private banks increased their participation up to 24.6% in the following year until surpassing the state bank in 1995 with 51.9%, and obtaining the 100% of the assets in 2000 after the disappearance of the Banco de Crédito Popular. Regarding the portfolio of credits, the private banks initiated their active operations concentrating themselves in the segments of consumption market, personal loans and of commerce, with high interest rates for credit. For 1992 the portfolio of the private banks represented 18.2% of the total of credits of the banking system, reaching in 1995 51% of the total, rapidly increasing their participation in the successive years with the disappearance of the state bank.

Concerning deposits, the participation of the private banks was of greater acceleration due to the rising confidence of the public in the reestablishment of the banking services of traditional financial groups of the country. Thus begins the year 1991, with the gain of 11% of the deposits of the public and in 1993 most of these deposits are achieved with 50.7%, two years before the assets and the portfolio surpassed the ones from the state banks.

Nevertheless, as it is indicated in this same chapter, this growth has not corresponded with an attention to the companies from the small and medium sectors, which have practically been left unattended and alone in regard to credit attention, due to the concentration of the formal banks to the thickness of portfolio in the attention to the sector of the great companies.
In the supervised banking sector, attendance to the small and medium company has been carried out by financiers PROCREDIT and Findesa, in regard to which there is a brief characterization in point 3.2. in this same chapter.

2. The Development of The Micro finances in Nicaragua

In spite of its importance in the economy and of its capacity to generate and to absorb employment, the development of the micro companies has been affected by many structural problems. One of them has been the noticeable restriction of the credit caused by the public policies prioritized to obtain the economic stability that implied the beginning of measures that in addition caused the liberalization of the financial markets and the elimination of state subsidies, policies that favored to these sectors. The lack of access to stable credit, opportune and of low cost has been catalogued as one of the most important obstacles for the development of the micro company. The opportunity and the good credit services occupy the first place of the factors over the level of the interest rates.

But, in opposition to the necessities of the sector, the institutional capacity and of the market on the side of the supply in order to take care of it suffered, during the first years of the decade of the nineties the consequences of the structural changes in the economy and the society. Among the main factors that affected the supply of credit available for the sector of micro finances, we found:

- The state disappearance of policies and mechanisms of subsidies to the populations of small rural and urban industrialists,
- The bankruptcy and soon after the liquidation of three state banks with important portfolios oriented to the small and medium company,
- The incipient formation of the private bank, with its portfolios and projects focused towards the sector of the great companies.
- The still weak development of a sector of institutions without profit aims, most of them of recent sprouting, interested in the attendance to the sector, but structured with a multiwelfare profile.

The situation was then of an increasing demand of credit on the one hand, while on the other, a reduced capacity to respond to that demand, as a much as by part of the formal bank as from the NGO’s and Cooperatives of Credit.

The development and the liberation of the financial system implied a fast growth of the banking services, (30% of annual growth of the deposits in the decade of 90's) that covered all the sectors of the population, but not the credit that remained during several years, in a portfolio concentrated in medium and great enterprise units, having recently extended itself to consumption and personal activities (credit cards).

At the end of the decade, an increase in the participation of the commercial banks in the activities of financing occurred to the sector of the micro company, having entered the competition some banks
that at the end closed their operations as product of the financial crisis and closing of banking institutions that occurred in the country in that period.

Between the main expressions of attention of credit to the sector of the micro company the following ones can be emphasized:

**The Intermediary Companies of Credit.**

They are operations characterized by been closely bound to a bank and to operate with their resources but separating the unit of risk from the credit operation. The intermediary company is the one that is constituted in indebted of the bank, it makes promotion jobs, identification, selection and analysis of the borrowers, the administration and recovery of loans, dividing the credit and the risk in thousands of users.

This modality of financial intermediation was developed in companies bound to the Banco del Café and in smaller proportion to Interbank, with an elevated growth of its portfolios, the development of technology of micro credit, particularly of the information systems and the high yield on the capital in its first years of operation. The operation and the expansion of the operations of these companies were affected by: (i) the shock of interests between the proprietary partners of the bank of those companies and the partners of the bank who did not participate in them, (ii) the interest to extend its operations at the cost of the seize of segment of market of high risk, (iii) the modality of incentives at the beginning of its operations based on volume of credit and not its recovery, in spite of having been corrected it left a ballast of portfolio in default, (iv) the constant threats and strict monitoring from the Superintendencia de Bancos (Supervision of Banks) due to the perception of this mechanism.

In the year 2000 Interbank y THE Banco del Café were affected by a series of irregular operations, some of internal character and others that affected the national banking system. These two banks, that had impelled with greater force these types of operations, were seriously affected by some of these operations and eventually their licenses of operation were cancelled.

The Micro Global Program of The BID. It is a global financing program for the sector of the micro, small and medium company approved by the BID, for an amount of US$20.0 million and has been working since 1993. Most of the financings granted by the commercial bank to the sector have been cast financed through this program of the BID. The government of this program is to stimulate and to fortify the credit to the small and micro company, through institutions regulated by the Superintendencia de Bancos and under these administration of second rate on the part of the Financiera Nicaraguense De Inversiones.

Although an excellent level of reimburse and use of the program was observed and, some problems have appeared in the execution of this program. Among the principle ones, are the following: (i) the concentration of a majority of the loans are in superior rank of US$15.000 corresponding to medium companies and disregarding the benefits of the program for the great majority of small companies, (ii) the absence of plan of intermediation between the banks and financial non regulated organizations, which was considered and (iii) the lack of integral attention to the goal groups established.

**The Regulated Bank for the Micro company.** With different origins and working as supervised financiers there are two entities that at present are financing the sector of the small company: Financiera PROCREDIT S.A. and Financiera Nicaraguense de Desarrollo.
Financiera PROCREDIT. It was founded in August, 1995 and at the present it counts with assets of US$44.2 million and a patrimony of US$6.4 million, 17 offices and 270 employees. After having functioned during several years as a financier oriented towards the global market, mainly to the one of the great companies, product of several fusions with ties with national and foreign capital to the financing of the small company, it is financing a portfolio of 520.0 million of córdobas at present equivalent to US$32.5 million. The total of the clients is 37,000 for a credit average of 14.000 equivalents to approximately US$850.0.

Financiera Nicaragüense de Desarrollo S.A. It is working under the supervision of the Superintendencia de Bancos since April 1st, 2002 and it counts on assets of US$36.7 million and a patrimony of US$4.8 million, 14 branches in all the country and 133 employees. Its origin is nonregulated micro finances and as product of its development it obtained the corresponding authorization to operate within the formal market under the supervision of the SIB. At present it is financing a portfolio of 408 million of córdobas (US$25.4 million) to a total of 19,200 clients for an average loan of US$1,320.00.

The total portfolio of these two supervised institutions is of US$58.0 million for taking care of 56,000 clients by means of 31 offices located in different points of the country with a total of 403 employees.

The policies of the commercial bank. Recently, and as a result of an expansion in the volume of the deposits attacked by the national bank, the commercial bank has been pressured to get involve with more amplitude in new sectors like the hypothecating credit of consumption by means of credit cards and credits for the construction and purchase of houses. In many of these cases the clients benefited with these credits are buying smaller and smaller houses or consumers of smaller income so that the extension of the portfolios and the incursion of the banks in these sectors, somehow produce some lightening to the sector related to micro and small company, but the necessities of credit for the sector are still far from being satisfied. The general tendency of the private banks is mainly to continue its processes of growth through the financing to the growth of the sectors of traditional clients and taking advantage of the spaces of market generated by the technological banking innovation in the information system, automatic tellers, communication system, credit cards and debit and other services of high yield.

At the same time, new dispositions within the regulatory framework of the banking sector of Nicaragua, increase of the capital adjustment in 10% of the risk assets, percentage increase of the portfolio provisions, modifications in the legal embroder, etc., have exerted a greater pressure towards the efficiency exigencies and yield of the banks, having limited the possibilities of some interest of entering with greater depth in the sector of the microindustrialists, given the perception of the inherent risk in these operations.

With the exception of the two institutions of formal micro finances indicated above, the sector is dominated by a big group of NGO’s organizations and cooperatives, that not been regulated, work in little competitive environment and they are little efficient. An important objective to be established is the development and integration of the sector of the MFI’s in competitive environments, in order to increase the efficiency and to reduce the losses with the possibilities of less expensive resources for the beneficiaries.

In their study, “The Maturity of the Micro finances in Nicaragua: Opportunities and Challenges “, 2002, Nusselder and Sanders present as the three most important problems for the development of micro finances, the following ones:
− The existing inefficiency of the institutions that are reflected in the breach between the present profits and the potential supply of the MFI's and the financial services available, resources and the well-known technologies not yet have been taken advantage of by the institutions. It is required to introduce changes of policy and incentives that allow to improve the efficiency.

− The insufficiency in different aspects related to, the information that is imperfect and asymmetric, the inadequate incentives, the absence of mechanisms to make contracts valid.

− The lack of feasibility when not distinguishing between the possible and the impossible, falling in the danger of limiting the development of the sector when establishing inadequate policies and put unattainable goals.

Also, regarding the possibilities of development of the micro finances institutions, the legal and structural problems continue restraining the potential of banking services of that sector:

− There is need of a regulatory frame and prudencials norms to the sector that allows at least one classification of the credit portfolio. Adequate legislation adapted on the guarantees is needed.

− Persistent problems of insecurity over land possession, that involves thousands of micro rural industrialists.

− High costs of transaction of the credit services derived from, largely, the limited and inefficient infrastructure of civil and mercantile registries.

3. The Expansion of Micro finances

In their study "The Maturity of the Micro finances" by Nusselder and Sanders, (March, 2002), being based on CGAP data (Consultive Group to Assist the Poor), the portfolio of the total of the MFI's is estimated in US$120.0 million distributed in a total of 85,000 beneficiaries. PROMIFÍN-COSUDE requested NITLAPÁN in 2002, the elaboration of a "Inventory of Organizations Offering Services to Micro finances", that identified 254 organisms of financing intermediation to micro and small companies, detached in 168 cooperatives, 80 NGO's (35 specialized and 45 multiwelfare ones), 2 financier, 3 joint-stock companies and an government organ. This study considers in US$112.9 million the total of the micro financier portfolio to the closing of year 2002.

There is little information to encompass the sector, but it has information on a sector of institutions agglutinated in ASOMIF (Asociacion Nicaraguense de Instituciones de Microfinanzas) (Nicaragu
Association of Microfinance Institutions), that counts on twenty-three MFI’s affiliated, an important proportion of the portfolio of the sector of the nonregulated micro finances. From these twenty-three institutions, we selected sixteen of which complete historical information is available that allows us to make an analysis of parameters to establish the degree of expansion and development that the sector has had during the last years.

The behavior of the portfolio of these sixteen institutions indicates a growth of 3.8 times; from US$16.0 million dollars in 1997, to 60.8 million in 2003 and 1.65 times with respect to 1999. This almost implies an average annual growth of 63% over the base of 1997 and an average 25% of every year taken over the base of the previous year. The previous data reflected a clear evidence of the existence of this complementary financial sector in the supply of credits of the commercial banks.

The global average growth of 3,8 times is reflected differently in each one. Some like Fundación José Nieborowsky (FJN), the Foundation 4i 2000, the Fondo de Desarrollo Local (FDL), ACODEP, and the Foundation Leon 2000, observed extraordinary growth from eight to five times in their portfolios, while other portfolios grew twice as much. This fast expansion of the services is explained by the direction of an important flow of financial resources of the international cooperation, the opening of new sources of financing under the modality of lines of credit and the reorientation towards the financial specialization of several NGO’s previously of multiservices.

This accelerated growth has been based on the opening of an important number of new offices, that among them sixteen institutions affiliated with ASOMIF and reflected in the previous table, have grown by 33% in the years from 2001 to 2003. The global growth in number of offices has been, of 115 in 2001, up to 153 in 2003.

These sixteen institutions have opened fifteen new offices in the region of the Pacific for a growth of 21.4%, seventeen offices in the interior for a growth of 42.5%, and six new offices in the region of the Atlantic, for a growth of 120% in number of offices in that region. This growth in the number of offices has been the support of the growth of the portfolio, which has had to be accompanied of the hiring and training of personnel, mainly of promoters or credit officials and accountants, the development of managing information systems, administrative systems of portfolios, countable catalogue adjustment and creation of new centers of responsibility and investment for the organizations in specialization process.
In correspondence with the increase of the portfolio, the number of benefited clients has been multiplied by 1.68 from 1999 to 2003 with a growth of 40% every year taking as its base year 1999 and 14% of increase annual average taking every year as its base, the previous year.

Those that stand out with a greater amount clients attended are FINCA, FDL and FAMA, with between 20,0 and 30,0 ASSI clients each one, ACODEP with 18,1 thousand of clients attended and FJN with 9,6 thousands of clients, all which are over 8.8 thousands of clients which is the average of the sixteen institutions.

The global average growth is expressed of different way in each from the 16 MFI’s and that is how the FJN grew four times in the number of clients assist in 2003 with respect to 1999. Others like FDL, FUNDENUSE, the Foundation 4i 2000 and FINCA, grew up 3,6, 3,1, 2,8 and 2,1 times respectively.

The amount of the loan average had very small variations in the period from 1999 to 2003. After being reduced in less of 5% from the 99 to 2000 it is experienced a slight growth from 2000 to 2003 raising the amount of the same one on US$420 to US$428.9 for a growth hardly superior to 2% in all the period from 1999 to 2003.

At the internal of the 16 MFI’s group it shows noticeable differences in this heading with institutions as FINCA with US$ 90.7 of amount average loan to cases like the one of PRESTANIC that presents/displays an amount average loan of US$1.611.0. Among those elevated amounts in addition to PRESTANIC are FIDESA with US$1.220.4, FUDESI with US$998.8 and CEPRODEL with US$888.6. In addition to FINCA, among those of lower amount in their loan average are, the Foundation 4i 2000 with US$237.5, and ACODEP, FAMA, CESADE and FONDEFER with between US$200.0 and US$300.0.

In General, all the institutions maintained a similar average loan level from 1999 to 2000. The cases in which greater variations occurred were: FDL which reduced 40%, CARUNA increased it by more than 30%, PRESTANIC increased it more than 3 times, the Fund 4i 2000 reduced it in more 30% and Fondefer increased it multiplying it by more than 2 times.

163

<table>
<thead>
<tr>
<th>No. de Offices</th>
<th>2001</th>
<th>2003</th>
</tr>
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<tbody>
<tr>
<td>Pacific</td>
<td>70</td>
<td>85</td>
</tr>
<tr>
<td>Interior</td>
<td>40</td>
<td>57</td>
</tr>
<tr>
<td>Atlantic</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>TOTAL</td>
<td>115</td>
<td>153</td>
</tr>
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</table>

Source: "Micro finance". ASOMIF
In 2003 the credit for commerce and housing were respectively increased in 3 and 4% each one, having registered reductions in the farming portfolios (-2%), services (-2%), consumption (-1%), small industry (-1%) and others (-1%). The farming and commerce sectors concentrate 71% of the portfolio to almost equal parts with a 36% for the commerce and a 35% of the farming one. The remaining 29% is share by other five areas in the following order: services 8%, consumption and housing 7% each one, small industry 4% and other sectors or activities with 3%.

As far as the composition of the portfolio by term, one slight tendency is observed and that is the increase of the terms of the loans, which could be very positive if this is the product of the financing for the acquisition of assets in contrast of financing for work capital. The loans of inferior terms for up to six months lowered from the 23 to 17%. Those from 7 to 12 months and 13 to 18 months stayed and the loans of terms of more than 19 months, including those of more than 24 months ascended respectively from 10 to 14% and from 16 to 17%.

The rank of predominant term is the one of 7 to 12 months with a 35% of the portfolio placed on that term. They follow in importance the ranks terms of up to six months, 13 to 18 months and more than 24 months, the three with percentage of 17% each one. The rank of least frequent term in the portfolio of the 16 MFI’s affiliated with the 19 ASOMIF is the one that goes up to 24 months. Only 14% of the portfolio is placed on that term.
Taking MFI’s as a base for the year 1999 to calculate the annual average growth of the portfolio of these sixteen and using this growth to project the total portfolio of micro finances, according to the estimations done by Nusselder and Sanders, as well as the inventory done by Nitlapán, is that at the end of present year, 2004, the total portfolio of micro finances will be of approximately US$158.0 million.

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
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<td>Up to 6 months</td>
<td>23</td>
<td>17</td>
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<td>7 to 12</td>
<td>34</td>
<td>35</td>
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<td>13 to 18</td>
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<td>17</td>
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<tr>
<td>19 to 24</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td>More than 24</td>
<td>16</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: Own elaboration with ASOMIF data

### Efficiency Indicators

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Account in risk</td>
<td>6.6%</td>
<td>9.3%</td>
<td>8.1%</td>
</tr>
<tr>
<td>2 Doubtful Portfolio</td>
<td>3.9%</td>
<td>4.5%</td>
<td>3.3%</td>
</tr>
<tr>
<td>3 Self-sufficient</td>
<td>138.4%</td>
<td>117.8%</td>
<td>125.1%</td>
</tr>
<tr>
<td>4 Account yield</td>
<td>23.8%</td>
<td>13.7%</td>
<td>12.9%</td>
</tr>
<tr>
<td>5 Patrimony / Assets</td>
<td>38.2%</td>
<td>43.1%</td>
<td></td>
</tr>
<tr>
<td>6 Account yield</td>
<td>36.0%</td>
<td>32.3%</td>
<td>28.0%</td>
</tr>
<tr>
<td>7 Operative Efficiency</td>
<td>21.0%</td>
<td>24.9%</td>
<td>19.8%</td>
</tr>
<tr>
<td>8 Clients/Credit Officer</td>
<td>253</td>
<td>322</td>
<td>331</td>
</tr>
<tr>
<td>9 Productivity/Oficial (Miles)</td>
<td>US$193</td>
<td>US$171</td>
<td>US$164</td>
</tr>
<tr>
<td>10 Assets</td>
<td>72.2%</td>
<td>76.7%</td>
<td>77.7%</td>
</tr>
<tr>
<td>11 Women Portfolio/ Total</td>
<td>51.5%</td>
<td>51.0%</td>
<td>55.3%</td>
</tr>
</tbody>
</table>

Source: Own elaboration with ASOMIF data
An analysis of some of the most important indicators of the financial and operative performance of the MFI’s affiliated with ASOMIF reveals the present situation and the evolution of the sector in the period 2001-2003. It is possible to detect from the information the performance of the institutions in that period as well as the corresponding explanation on the form to calculate and what each one of the indicators reflects.

**Performance Indicators. How they are calculated and what they represent.**

- **Portfolio in Risk.** It is calculated by dividing the main amount with over due quotas of 30 or more days, by the portfolio. It indicates the level of contamination of the portfolio.

- **Portfolio in Default.** It is calculated dividing the balances with 30 or more days over due by the total active portfolio. It express % of expiration of the portfolio on the total portfolio.

- **Self-sufficiency Operative.** It is the product of the division of the operational income by the operational expenses. It indicates the capacity to us to generate income to cover the cost of operation of the organization.

- **Yield of the Patrimony.** Product of the net utility by the net patrimony. It indicates the yield of the patrimony.

- **Debt to Patrimony.** It is the product of the division of the liabilities by the patrimony. It indicates the proportion of the patrimony affected by the liabilities.

- **Yield of the Portfolio.** Income (interests, commissions and maintenance of the value) by the portfolio monthly average. It represents the annual yield that the organization obtains as product of the investment in the portfolio.

- **Operative Efficiency.** The total of the operational expenses except the financial costs and the provisions divided by the gross portfolio monthly average.

- **Number of Clients by Credit Oficial.** It indicates the efficiency in the handling of the portfolio.

- **Average Portfolio by Credit Oficial.** It also indicates the efficiency in the handling of the portfolio. To a higher indicator, greater productivity of the organization.

- **Productive Assets On Total Assets.** It is the result of the division of the investments plus the portfolio by the total of the assets. An inferior relation to 90% indicates an excess of unproductive assets that limit the obtaining of the income.

The Following indicators observed a negative conduct in the Nicaraguan MFI's:

- The consolidated portfolio of the total of the MFI’s affiliated with ASOMIF showed an increase of 22% in the total of the principle of the portfolio with balances or fees with more than thirty days over due. The portfolio in risk occurred from 6,6 to 8,1% in the period from 2000 to the 2002.

- The operative self-sufficiency was reduced by 13.3 points indicating a smaller proportion of the income in relation to the expenses of the sector of the institutions of micro finances.

- The yield of the patrimony dropped drastically by10,9%, which indicates a lower yield than of capital.

- The yield of the portfolio decreased by 8%, from 36 to 28%, indicating this that the utilities from the operations of the organization have been reduced and the relation to the amount of the portfolio, in most of the cases, the only one of the assets generating income.

- The productivity by official dropped from US$193 to US$164, a total of US$29, equivalent to a 15%.

On the other hand, they improved the following indicators:

- The portfolio in default dropped from 3,9 to 3,3%, a 0,6% equivalent to 15.4%. This is a behavior that indicates a very positive situation if this tendency remains stable and different from the behavior observed by the same indicator in 2002, year in which it experienced an increase with respect to 2001. In addition, it is necessary to make notice that this indicator is closely bound to the Risk Account which observed a rather very negative behavior in the same period and it will be necessary to avoid that the portfolio in risk becomes default portfolio.

- The percentage of the patrimony on the assets increased 4,9% reflecting a greater financial strength of the sector with a volume each time greater of their assets constituted and patrimony of the organization.

- The operative efficiency was surpassed when lowering in 1.2% the proportion of the expenses on the total amount of the portfolio.

- The number of clients taken care of* by a credit official in 2003 is of 331 while in 2001 each official took care of an average of 253 clients, being increased by 78 more this indicates a 30% of overcoming in this indicator of productivity.

- The proportion of the productive assets on the total assets improved by 5,5% when going from 72,2% to 77,7%, 7,6% of overcoming or that it indicates that now a greater proportion of the assets generates income, consolidating the financial position of the sector.

- The portfolio women on the total portfolio has exceeded firmly the barrier of 50% constituting 55,3% of the total of the portfolio.
It is possible to indicate that the micro finances sector has been seen recently affected by some elements that have affected most of the financial indicators. The affectations to the indicators of yields, as much as on the patrimony as on the portfolio have been produced by two types of pressure: on one side by a recent legislative disposition that controls the interest rates to be receive by the MFI's; and on the other hand, a situation which increases every time of greater competitiveness by the best sectors of the market, with the sprouting of new organizations of micro credit and more resources available, that it expresses itself in a portfolio that multiplied almost four times in six years.

For this last reason an affectation to the situation is appraised in addition to the portfolio in risk when a growth takes place that forces to advance granting credit to each time less and less select sectors of market.

In its Web page, Micro Rate publishes the statistics of an important group of productivity indicators and financiers who are the product of the medium one of the indicators of thirty-one micro finances institutions from different countries of Latin America.

For information reasons and the way information is processed and presented, we have managed to make a comparison between six of these indicators with the same indicators for the total of the twenty micro finances institutions grouped in ASOMIF for the second semester of 2003.

<table>
<thead>
<tr>
<th>Indicators of efficiency</th>
<th>MFI's 2003</th>
<th>Micro Rate</th>
<th>Banking Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Account in risk</td>
<td>8.1%</td>
<td>4.8%</td>
<td>2.6%</td>
</tr>
<tr>
<td>2 Past due account</td>
<td>3.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Self-sufficient Operative</td>
<td>125.1%</td>
<td></td>
<td>250.0%</td>
</tr>
<tr>
<td>2 Equito yield</td>
<td>12.9%</td>
<td>18.1%</td>
<td>30.3%</td>
</tr>
<tr>
<td>3 Capital / Assets</td>
<td>43.1%</td>
<td>19.3%</td>
<td>7.6%</td>
</tr>
<tr>
<td>4 Account yield</td>
<td>28.0%</td>
<td>39.9%</td>
<td>17.3%</td>
</tr>
<tr>
<td>5 Operative Efficient</td>
<td>19.8%</td>
<td>19.0%</td>
<td></td>
</tr>
<tr>
<td>6 Clients by officials of credit</td>
<td>331</td>
<td>287</td>
<td></td>
</tr>
</tbody>
</table>

Fuente: Own elaboration with data from ASOMIF, Micro Rate y SIBOIF.

Also, with the information published by the Superintendencia de Bancos y Otras Instituciones Financieras de Nicaragua and with the processing of some of those data we have managed to obtain in ways possible to compare with those of ASOMIF, some of the indicators of the total of the nine institutions, banks and financiers who conform the national Financial system of Nicaragua.

Account in Risk.. While the Nicaraguan MFI’s has a portfolio in risk of 8.1%, the reference represented in this case by thirty-one MFI's of the study by Micro Rate, has a portfolio in risk of 4.8%, 3.3% less of risk. In this case, the risk of the institutions of the reference is equivalent to a 60% of the risk of the

Nicaraguan MFI's. The Nicaraguan MFI's has in addition an account in risk of 3.3%. We do not have data of past due accounts for the institutions of the reference by Micro Rate; nevertheless, the national banking system reflects a percentage of past due accounts on total portfolio of 2.6%. In the case of the Nicaraguan banking system, the data of past due accounts includes the total of the overcome portfolio and the loans affected by over due quotas that are considered "contaminate" the total of the loan.

Self-sufficiency Operative. The self-sufficiency operative of the Nicaraguan MFI’s is 125% against a 100% superior one that expresses the data of the supervision for the self-sufficiently operative of the banking system.
Account Yield.. The national bank obtains utilities equivalent to 30% of the patrimony of the banks and financiers. The data of yield on the patrimony of the institutions in reference by Micro Rate is of 18.1%, almost a 50% superior to those of the national MFI’s represented in this case by the 20 institutions affiliated to ASOMIF.

Patrimony/Assets. While the patrimony of the national MFI’s is the 43.1% of the total of the assets of the sector, the Latin American MFI’s analyzed by Micro Rate has a patrimony equivalent to the 19.3% of the assets and the Nicaraguan bank has a patrimony equivalent to the 7.6% of the assets. This small proportion of the patrimony of the national bank is so because they work mainly with the deposits of the public.

Account Yield.. The portfolio of the commercial bank has a yield of 17.3%. The Latin American sample of Micro Rate has a portfolio with yield of 39.9% while the yield of the national portfolios of the MFI’s is of 38%.

Efficiency operative(operational expenses except the financial costs between the gross portfolio averages). The operative efficiency is very similar to the sample of Micro Rate with the national MFI’s. Both are of near 19%.

Clients by Credit Officer. The national MFI’s has a productivity of credit by official of 331 taken care of clients, superior by forty-four clients by official to the sample meridian of Micro Rate.

5. Possible Impacts of the FTA in the PYMES and Micro finances

At the end of 2002, the countries of Central America, accepted to enter a process of negotiation of a "Free Trade Agreement". For the government of Nicaragua, the signing of this treaty responds to four strategic targets:

i. To stimulate the expansion and diversification of commerce of goods and services;
ii. To promote greater flows of direct investment and transference of technology;
iii. To reduce unemployment;
iv. To improve the standard of living of the population.

The specific objectives consist of:

i. To improve the present conditions of access and reasonable terms of protection for the considered national production as sensible;
ii. To eliminate the non tariff obstacles applied to national agricultural products for exportation;
iii. To secure agile customs procedures, and adapted rules of origin to the national production;
iv. To facilitate the circulation of services, or to abolish the discrimination among suppliers;
v. To offer clear and permanent rules;
vi. Access to public hirings;
vii. Elimination of the use of subsidies and internal aids or to receive compensation;
viii. Disposition to agile, simple and effective mechanisms, to solution of controversies;
ix. And a cooperation program for the promotion of competitiveness of the production and national exports.

The Free Trade Agreement, according to the more generalized opinion, responds to geopolitical interests and of hemispheric security, more than to economic interests and of integration. One of the generalized conceptions more within the framework locates the sprouting of the Free Trade Agreement of the globalization in a recognition on the part of the United States, of which, when concluding the cold war and the collapsing the socialist world, with the advance of the Asian and European groups as far as competition, technology and competitiveness, the conquest from their part for new markets; the world-wide situation changes of plane and it is transferred to the plane of the competition and the competitiveness. Although the United States maintains their hegemony in the military area, every day they lose hegemony in the field of the technological advance.

The Latin American market, traditional market of the United States has been each time more and more penetrated Asians and the Europeans, reason why it decides to do an abrupt turn in its commercial foreign policy looking for the average ones to summon to the countries of its "back patio" in the confrontation of the problem associating themselves with the United States.

The first step is the conformation of a great Zone of Free Commerce with Canada in which finally it includes also Mexico concluding in what at the end was the Free Trade Agreement of North America (NAFTA) signed in 1994.

Next, begins a process of impulse of treaties signed with different countries and groups of countries with a unique objective, which is the one to conform a single and great continental market. At the end of this process a great continental market conformed by almost the 800 million inhabitants of the thirty-four countries of the American continent will have been constituted. In order to obtain the indicated objectives, the work was mainly focused on:

− Reduction of tariff and no tariff obstacles.

  Fortification of agriculture by means of commerce less dependent of subsidies.

− Stimuli to the national and foreign investment.
− Protection of the rights of intellectual property.
− Adjustments in the cases of fulfillment impossibilities.

The acceptance of the CAFTA on the part of the Central American countries, took shape in the middle of 2004.

Among the main aspects, weaknesses and difficulties for the implementation of the Free Trade Agreement, we found:

1. The fact accepting as a based a supposed reciprocity when enormous differences between the participants occur.

2. The weight that the United States as a country of destiny of the exports of each one of the countries is noticeably different and thus, while in some countries, the United States means
40% as in the case of Chile, in others, as the case of Mexico, the United States has a weight of 80%. On the other hand, Latin America and the Caribbean represent less than 20% of the exports of the United States.

3. Latin America in its totality, by the route of different treaties and agreements, enjoys with its products, of a preferred access to the market of the United States; nevertheless, the products that find greater barriers are indeed such products to which preferential treatment of treaties refuses them within the framework. In addition a series of no tariff barriers of types exists that, sometimes, are more restrictive.

The advantages that the official sectors that impel these treaties hope derive from the CAFTA. They are the competitive advantages that in environmental matter our countries have, mainly in relation to farming products. In agricultural terms, the main benefits that are expected are the increase of the exports, increase of investment flows made to the Central American countries and positioning of exporting companies.

In terms of the effect of treaties in the PYMES and the micro finances, it is hoped that the TLC will offer to the small industrialists the opportunity to access to an ample international market, this constitutes without a doubt a great advantage; the feasibility of a product no longer will be determined by the tariff level of protection that it has, now it will depend on the capacity of the industrialists to innovate and the capacity of its industry to produce and to compete in the international markets.

With the access to an ampler market a great opportunity of greater specialization exists. In the past, the PYMES were among a small market, very few clients whom we had to look for to sell the largest possible amount of products to maintain our company afloat. Now, they will have many clients, which will force them to specialize in a specific product, trying to be best and the most competitive ones in that product and to sell it to it to the largest possible amount of clients.

This specialization will take them to the conformation of groups, conglomerates or "clusters" in which an end item is the result of the collaboration of several groups of companies that specialize in the manufacture of a specific part of the product. This forces the industrialists of a conglomerate to contribute reciprocally for the profit of a final item of the best possible quality.

The aspect of the elimination of tariff barriers mentioned above, brings as corollary the same situation for the industrialists of the other countries which comprised as part of the system, whose products will not have tariff barriers in our country either and our small industrialists will have to compete with them, in the international market and in our own market, on the basis of those parameters of innovation and competitiveness.

Other aspects in which negative effects are expected on the part of the Free Trade Agreement are the following:

The United States, besides producing with great efficiency and productivity, has in use tariffs, subsidies up to 20% and aids of other types for the producers of that country that allows them to sell at lower prices, affecting the international prices of some products up to more than 10%. This situation affects very important areas for the small Nicaraguan agricultural industrialists, like the corn and the sorghum, in which the United States is the greater producer of the world, and beans, areas in which occupies an important place.

The United States seeds an area of corn of 108 times greater than Nicaragua and the volume of its production is 757 times greater. Its yield by seeded hectare is 6,8 times greater than the one of our
small agricultural industrialists. In the case of the sorghum, the American production is equivalent to 112 times ours and its yield by hectare is almost 2.5 times the one of our small industrialists.

Before a panorama like the one described, considering in addition the differentiated situation from the conditions in which the producers of a country and the other produce, it is very difficult the possibility that the production of the small Nicaraguan producers can compete and penetrate the United States markets and rather, it would be necessary to think of the serious risk that is running of which the national market can be invaded with American products produced in the described conditions placing in serious risk on our producers.

Thirty-five percent of the portfolio of the micro finances is farming, another 35% is oriented to commercialization activities, to a large extent of the agricultural production, and a 8% to services that in an important proportion have to do with the farming production; reason why it is easy to anticipate the difficult situation of the portfolio of micro finances in the measurement in which the sector is affected by the treaty. But, the situation described and analyzed for the agricultural sector of the grain production is equally valid for other sectors of the economy and of sector of micro, small and medium company.


Like a product of a synthesis of different documents and publications of organizations and networks of micro finances, as well as interviews made to persons from those organizations and networks, we have summarized what in an ample frame of action, constitute the great challenges of the sector of the micro finances:

1. To Promote Employment. To contribute with persistence and resources of the sector of the micro finances to the reactivation of the economy, and the implementation of the oriented public policies to the promotion of employment that allow to fight poverty by means of the increase of the work markets.

2. The Fight Against Poverty and the Exclusion. To contribute with the micro financing, a tool of support to improve the quality of life of those less favored of the urban and rural area, considering the high weight of poverty, mainly in the rural sector, where two of every three inhabitants are poor.

3. Rural Finances. To introduce itself with greater depth and sustainability in the rural financial markets with ample programs that allows the development and diffusion of new credit technologies.

4. Entailment with the Processes of Integration. To help with the processes of integration through the entailment with the different organizations created within system from regional integration.

5. The Financial Development of Markets and Products. The financial market evolves and the clients are each time more demanding and little by little a greater competition is developing to obtain the fidelity of the best clients. The service to the client with the supply of new services begins to understand the necessities of the clients.
6. Transparency. This it is an urgent objective to obtain. Independently of the regulation plan that at the end is applied to the sector, the transparency in all the scopes of action and in the results of the operations are an action of the first order of importance. For this, it is necessary to present in a clearly manner the organizational and financial situation of the sector, publishing their financial statements, standardizing the countable systems and of internal control, defining and divulging the indicators of performance, spreading of interest rates, etc.

7. Technology and Efficiency. The quality of the portfolio, the operational efficiency and the self-sufficiency and financial operative and are the clearest indicators of performance of the micro credit. So that the analysis is complete, it must be done in an evolutionary form and relating it to the international standards.

8. Regulatory Frame. The consolidation of the Institutions of micro finances as an industrial sector of weight in the Nicaraguan economy is needing a regulatory frame appropriate to its reality.

The micro financiers institutions are already a very effective means to gradually obtain advances in the fight for the reduction of poverty in Nicaragua. Still, a challenge remains to transform itself into institutions that foment and promote the sustainable and integral development of the local communities.

For this it is necessary to look for an adequate combination among financial sustainability of the institutions, a positive impact in the life of the clients and the creation of local and national institutions that assure the permanence in the time of achievements in all the levels.
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