



▶ Impacts of the COVID-19 pandemic in the Andean grains sector of La Paz between 2020 and 2021

The Bolivian National Institute of Statistics (INE, 2020) reports that in 2020 the economically active population (EAP) consisted of around four million people, of whom 80 per cent were engaged in non-formal economic activities. The INE further states that the impact of the COVID-19 crisis raised the national unemployment rate to 8.4 per cent as of August 2020 but that the figure had fallen to 5.2 per cent by late 2021 (INE, 2021).

The pandemic caused a national health emergency, while social-distancing and quarantine measures led to a slowdown in economic activity. According to data presented by the Government in July 2021 (INE, 2021), there was a fall in growth of 12.3 per cent in the year to August 2020, followed by average growth of 9.21 per cent in the year to August 2021 as the economy rebounded.

Although the country's economic outlook appeared to be bleak after the first wave of COVID-19, some industries have managed to weather the crisis. In particular, organic quinoa production has demonstrated its resilience among Andean grains. Before the pandemic, this sector had already been selected for an intervention to incentivize the formalization of MSMEs and promote their market access within the framework of the Bolivia Digna y Productiva (BDyP) project.

Given the sector's response during the initial stage of the pandemic, which was characterized by rising exports of Andean grains, the ILO decided to carry out

a study entitled **"Impacts of the COVID-19 pandemic in the Andean grains sector of the Department of La Paz between 2020 and 2021"** between November 2020 and mid-2021. The study delves into the impacts of COVID-19 on employment and on formal and informal economic units operating in the Andean grain sector in the Department of La Paz, as well as aiming to identify the main barriers to the formalization of MSMEs.

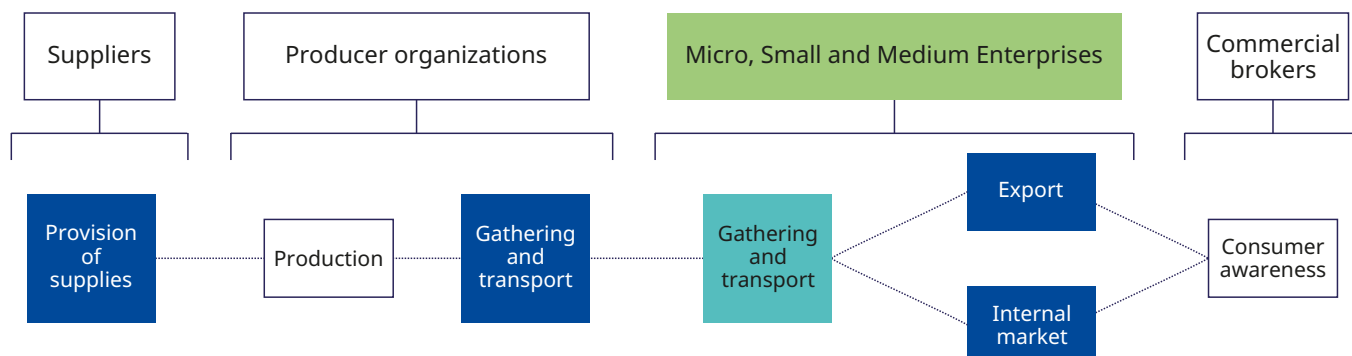
The quinoa production chain in Bolivia

Due to its great adaptability and resilience, quinoa is currently cultivated in more than 100 countries. The different varieties are highland quinoa (sweet), salt-flat quinoa (bitter), valley quinoa, tropical quinoa and coastal quinoa.

Bolivia grows all these kinds of quinoa, except for the coastal variety. However, quinoa from the highlands/altiplano (sweet) and the salt flats (bitter) are the most highly valued and are consumed worldwide. The quinoa produced in the **Department of La Paz is of the altiplano sweet variety** (CIQ, 2021).

The quinoa value chain in the Department of La Paz, like the national chain, consists of six principal links, but with certain peculiarities that depend on environmental conditions, accessibility to markets and the technologies used at different stages, as shown in Graph N° 1.

Graph N° 1. The quinoa value chain in the Department of La Paz



The links in the quinoa value chain are the focus of this study, in particular the processing stage and the exporting MSMEs involved in it. It is worth noting that the Department of La Paz has the largest number of MSMEs that process quinoa and other Andean grains nationwide, and the greatest capacity in Bolivia.

According to the Fundempresa database, 405 economic units are involved in processing and marketing quinoa and other Andean grains in Bolivia, of which 140 (34%) are located in the Department of La Paz. Additionally, the Department of La Paz produces 8,890.85 tonnes (12%) of the 70,170 tonnes of quinoa that are produced nationally.

How MSMEs in the quinoa sector coped with COVID-19

The MSMEs in the Department of La Paz play a very important coordinating role in the quinoa chain by preparing and forwarding the grain to export markets, particularly since quinoa produced elsewhere in the country is processed in this Department. The processing link in the Department of La Paz plays a pivotal role due to its size and greater flexibility in adopting new technologies and roles, with enterprises performing these functions or passing them on to larger-scale production facilities.

The installed quinoa-processing capacity of MSMEs in La Paz in the 2019-2020 period was nominally 66,609 MT/year. However, the net processed volume during that

period was 40,747 MT. In other words, the economic units operated at only 61 per cent capacity, mainly due to a lack of quality raw materials, and reductions in personnel and working hours.

In the period between the first and second waves of the COVID-19 pandemic¹ (MSyD, 2020), there was a negative trend in the formalization of MSMEs in the quinoa sector (ILO, 2020 a). According to enterprises interviewed in the first stage,² several of them halted (partially or completely) their activities. In many cases, they converted into sole proprietorships or became informal, to the extent that they were unable to update their records or pay taxes. In some cases, they ceased paying taxes at national level, expecting to be able to resume payments when conditions improved.

Moreover, the micro-enterprises interviewed during the second stage of this study's development did not see the need to formalize, remaining registered only with unions and/or municipal authorities. A further factor was that, during the period of the pandemic, the national and subnational public authorities eased controls and cut back on formalization campaigns.

¹ According to official data from the Ministry of Health, the first cases of COVID-19 were confirmed on 10 March 2020, and the first wave lasted from that month until the end of November 2020. The second wave started almost immediately, in January 2021.

² Interviews conducted in large and medium-sized companies (2020).

A look into the Andean grains sector of La Paz

Quinoa has enormous potential because of its nutritional qualities, particularly after being processed. For this reason, it is necessary to differentiate clearly between primary transformation and further stages of processing to make consumer products.

In **primary transformation** to produce refined quinoa grain, it is first washed to remove saponins and make it ready for consumption. Intermediate products are also obtained at this stage: selected or pearl grains, flour, flakes, pipocas and extrudates, each as the result of a particular transformation process. The remainder of the final consumer products are made from one or more of these intermediate products. It should be noted that 44 per cent of the MSMEs involved are engaged in this sort of activity, producing primarily for the domestic market.

A range of **finished products** are based on one or more of the intermediate products previously mentioned: cereals, snacks, soups, meals with pre-cooked grains, noodles, pasta, soft drinks, milk, hamburgers, mueslis, granola and energy bars, among others. Fourteen per cent of existing MSMEs are engaged in this activity and their products are sold both on the domestic market, either in supermarkets, for school breakfasts or for other subsidized purposes, and abroad. Exports to foreign markets in the form of finished products include energy bars, quick soups, cookies and other goods with added value. The main destination countries are Brazil, Peru, Colombia and, to a lesser extent, Costa Rica.

Analysis of the data collected from secondary sources shows the existence of 74 processing plants performing at different levels: 40 per cent are primary processors, 51 per cent semi-industrial and 9 per cent industrial. Of all these processing units, 37 per cent are involved in exporting.

Prior to marketing, most conventional sweet quinoa is processed in an artisanal way on premises belonging to the wholesalers. In contrast, all the organic Quinoa Real (Royal quinoa, the top-quality variety) marketed for export goes through industrial processing plants. Between 20 and 30 per cent of the quinoa processed is destined for the domestic market and the remainder is sold on the organic export market.

Effects of COVID-19 on employment, survival and growth of MSMEs in the Andean grains sector of La Paz

The Autonomous Departmental Government of La Paz (GAMLP, 2021) reported the following percentages of paralysis of its installed capacity as a result of the COVID-19 pandemic: nearly 60 per cent of surveyed enterprises stated that their production had been completely halted, while the remainder reported reduced production capacity over the period concerned. It is to be expected that nine out of ten enterprises will suffer decreased sales in 2022 due to the impact of COVID-19 (CNI, 2020).

The interviews carried out for the current assessment have shown that, due to the COVID-19 pandemic, 30 per cent of Andean grains companies reduced their working hours; 27 per cent reduced their staffing levels; 18 per cent reduced the variety of their products; and 21 per cent made no changes.

Despite attempts to mitigate the impact of the pandemic, the measures adopted, such as the application of biosafety protocols for working in processing plants and offices and reductions in working hours, could not prevent MSMEs from losing a share of their incomes.

Among the different types of MSMEs, the most seriously affected were micro-enterprises (40%), as reported during the interviews. According to 60 per cent of the managers of MSMEs, demand fell in the first half of 2020, but towards the end of the second quarter of 2021 it was normalized and began growing again, mainly to supply the domestic market.

Fifteen per cent of the companies consulted, most of which were micro-enterprises, reported having stopped production since conditions were not conducive to business continuity. Another 30 per cent reported that demand was maintained (15%) or grew (15%), due to ongoing contracts with established businesses (stores, supermarkets and restaurants). Finally, the remaining 55 per cent continued manufacturing by-products for retail sales, such as flours, flakes and cookies, although consumption of pearl quinoa fell.

Challenges in the medium term

Among the MSMEs in the Andean grains sector, many interviewed entrepreneurs stated that “doing business in Bolivia is challenging”, for the following main reasons:

- Institutional bureaucracy: to start up a formal company in Bolivia takes 50 days (WB, 2020) from when paperwork begins until the economic unit can function legally.
- Lack of positive incentives: there are few incentives for the creation of new businesses, which makes entrepreneurship more challenging.
- Fiscal burden: The biggest problem that Bolivian entrepreneurs face is taxation. The administrative burden that paying taxes represents for a Bolivian company is alarming when quantified: on average a Bolivian company makes 42 tax payments a year and spends 1,025 hours (more than 40 per cent of total working time) filing, preparing and paying taxes. In total, taxation amounts to 83 per cent of income (if VAT, IT, IUE, property taxes, transfer taxes, contributions to health funds and AFPs, municipal licenses and other charges are taken into account).
- Smuggling of processed quinoa products from countries such as Peru: this generates unfair competition in sales prices, diminishing the ability of Bolivian companies in the Andean grains sector to compete.

Measures implemented to mitigate the impact of COVID-19 in the Andean grains sector

A series of policies have been issued to support the agri-food sector, in the form of bonds, credits for the sector, tax payment facilities, and the deferral of productive credits, among others.

The Ministry of Rural Development and Lands, approved the National Support Programme for the Production and Marketing of Andean Grains, which “has the strategic objective of strengthening the production of Quinoa, Cañahua, Amaranth and Tarwi. This programme is linked to the national and export markets to consolidate the production chain and improve the income of producers of these grains” (MDRyT, 2021), with a budget of more

than 229 million Bolivianos, which will be allocated to 10,316 farming families in 50 selected municipalities. The programme is made up of three components: Research (INIAF), Plant Health (SENASAG), Strengthening (PARI) and Promotion and commercialisation of Andean grains (IPDSA).

The “Royal Quinoa” differentiation strategy offers new and more promising opportunities for MSMEs

Efforts made to differentiate organic “Royal Quinoa” from the altiplano of Southern Bolivia have resulted in official recognition by the Regulatory Council (CRDOQRAS). However, the process has been hindered by governance problems within the Council. Differences between producers, processors and marketers as to the area of origin, scarcity of resources to finance the Council and a lack of technical studies to support this differentiation and its recognition in European and Asian markets have led to setbacks. Notwithstanding, in order to overcome structural challenges, enterprises at sectoral level have found a short-term solution in the form of a Collective Brand, which addresses the territory-of-origin issue and facilitates the work of promoting the qualities of Royal Quinoa at an international level.

Organic production of Andean grains and fair trade in Bolivia

Quinoa production through organic and fair trade systems is a good example of how to move towards a more sustainable production, that respects the environment while providing social guarantees and income for workers in the sector.

Data from the Association of Bolivian Organic Products (AOPEB) shows that there are more than 70,000 organic producers in 8 of the country’s departments and 77 municipalities, that produce more than 250 organic products, among which quinoa stands out.

A fair trade paradigm is also in harmony with the commercial relations that producers have in the Andean world. In addition, organic producers develop environmentally-friendly agriculture practices that are rooted in ancestral knowledge and wisdom preserved by Andean-Amazonian cultures.

▶ Conclusions

This study is based on a document review, as well as on direct consultation with MSMEs and interviews with key actors in the quinoa value chain. It has led to the following conclusions:

- ▶ MSMEs in the Andean grains sector make a significant socioeconomic contribution, mostly at national level.
- ▶ The quinoa value chain, especially where organic quinoa is concerned, operates in a mature and growing market with consolidated export channels and a business history of more than 40 years.
- ▶ There are promising opportunities for expanding the export market, growing MSMEs and generating further employment in the sector.
- ▶ Despite difficulties and shortcomings at the beginning of the COVID-19 crisis, the quinoa value chain has continued to be operational throughout the pandemic. In 2020, according to the INE, approximately 35,000 tonnes of grain were exported, worth US\$90 million.
- ▶ The pandemic increased the costs of inputs, materials and transport, and reduced domestic consumption. MSMEs compensated for these problems by cutting their production costs. However, this has had a downside in terms of job losses.
- ▶ Within this framework, MSMEs involved in the transformation of quinoa had to reduce their productive capacity by 15 per cent (on average between 2018 and 2020), due to shrinking of the school breakfast market (Desayunos Escolares programme), withdrawal of subsidies and the general drop in consumption.
- ▶ MSMEs involved in exports were able to maintain their marketing channels to the United States, the European

Union and certain Asian markets, thanks to the demand for healthy and nutritious products (“super foods”). At the same time, new markets began to emerge in China, Mexico and Brazil.

- ▶ Actors in the chain agree with the efforts to differentiate Bolivian quinoa on the basis of quality. It is therefore important to consolidate the Denomination of Origin principle and Quinoa Real as a collective brand.
- ▶ The production of organic and fair-trade quinoa is a good example of how quinoa production can be directed in the post-COVID-19 phases towards a more harmonious relationship with nature and better conditions for workers throughout the production system. This could be achieved by further strengthening green quinoa production and including incentives for green certification schemes.

Establishing good governance of the quinoa production chain is a starting point for addressing the issues mentioned above. To maintain the competitiveness of the Andean grain ecosystem in Bolivia, it may be important to learn from the experience of neighbouring countries, adapting good practices developed to the Bolivian context.

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