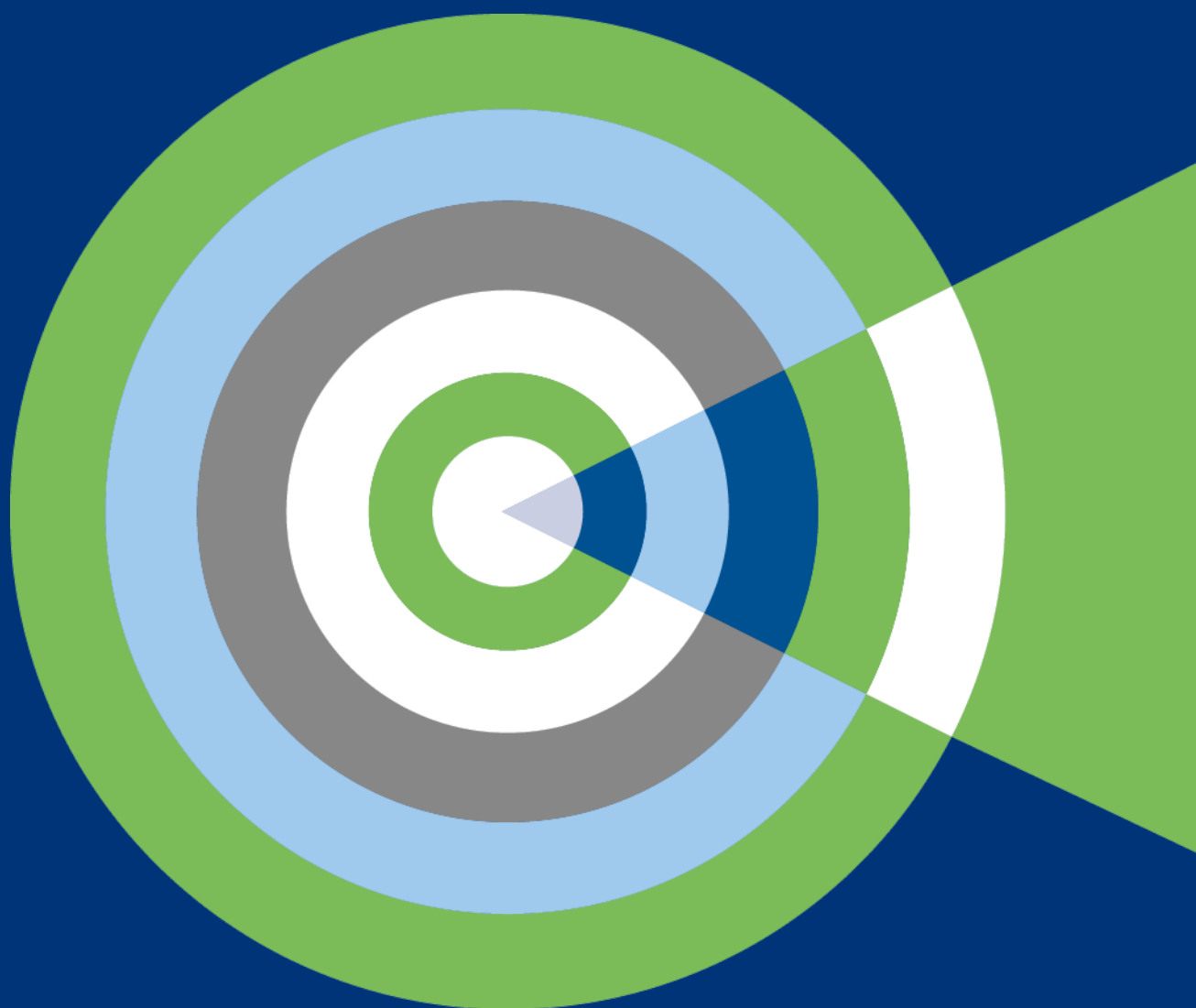


**DOING BUSINESS**  
IN BOLIVIA



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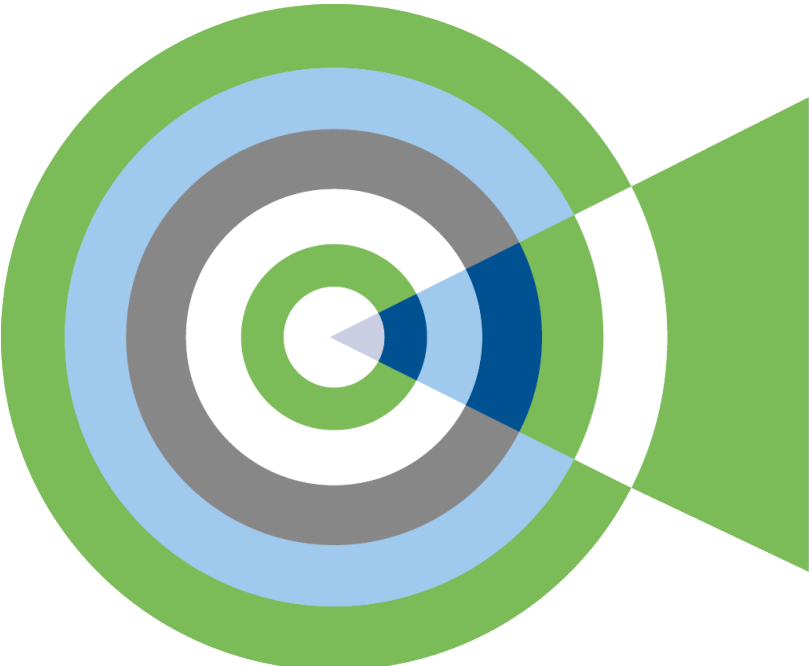
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# 1 – INTRODUCTION

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UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 100 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Bolivia has been provided by the office of UHY representatives:

## HBA S.R.L

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current as of May 2022.

We look forward to helping you do business in Bolivia.

## 2 – BUSINESS ENVIRONMENT

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### BACKGROUND

Located in western-central South America, the landlocked Plurinational State of Bolivia (Bolivia) is bordered to the north and east by Brazil, to the southeast by Paraguay, to the south by Argentina, to the southwest by Chile, and to the northwest by Peru which shares with the country control of *Lago Titicaca*, the world's highest navigable lake (elevation 3,805 m). The largest city and principal industrial centre is Santa Cruz de la Sierra, in the *Llanos Orientales* (tropical lowlands), a mostly flat region in the east of the country.

The Bolivian government has four components, known as “*organs*”: The executive component is headed by a president and vice president, and consists of a variable number (currently 20) of government ministries. The president is elected to a five-year term by popular vote and governs from the Presidential Palace in La Paz.

The *Asamblea Legislativa Plurinacional* (Plurinational Legislative Assembly or National Congress) has two chambers. The *Cámara de Diputados* (Chamber of Deputies) has 130 members elected to five-year terms, seventy from single-member districts (*circunscripciones*), sixty by proportional representation, and seven by the minority indigenous peoples of seven departments. The *Cámara de Senadores* (Chamber of Senators) has 36 members (four per department). Members of the Assembly are elected to five-year terms, and it is headquartered in La Paz.

The judiciary consists of the Supreme Court, the Constitutional Tribunal, the Judiciary Council, Agrarian and Environmental Tribunal, and District (*departmental*) and lower courts. In October 2011, Bolivia held its first judicial elections to choose members of the national courts by popular vote, a reform brought about by then President Evo Morales.

The Plurinational Electoral Organ is an independent component of government which replaced the National Electoral Court in 2010. The component consists of the Supreme Electoral Tribunal, the nine Departmental Electoral Tribunals, Electoral Judges, the selected Juries at Election Tables and Electoral Notaries.

### POPULATION, LANGUAGE AND RELIGION

As December 2021, the population of Bolivia was estimated at 11.6 million. Some 70% of Bolivians lived in urban areas, while the remaining 30% in rural areas. The largest proportion of the population (70%) was concentrated in the departments of Santa Cruz La Paz, El Alto, and Cochabamba. Bolivia's population growth rate was 1.7%. Major urban / metropolitan centres are: Santa Cruz - 3.8 million, La Paz 1.9. million, El Alto, 1 million; and Cochabamba – 1.3 million.

Bolivia has a young population. According to the 2011 census, 59% of the population is between 15 and 59 years old, 39% is less than 15 years old. Almost 60% of the population is younger than 25 years of age. According to 2018 estimations, life total expectancy was: 69.8 years; male 67 years and female 72.8 years. It is planned to carry out a population and housing census in 2022.

Of the total population, the ethnic *mestizo* (mixed white and Amerindian ancestry) represented in 2021 about 71%, indigenous 20%, white 5%, black 1%, other 3%; 44% of respondents indicated feeling part of some indigenous group, predominantly Quechua or Aymara.

Bolivia's 2009 constitution designates Spanish and all 36 indigenous languages as official. The main languages spoken in Bolivia are: Spanish 60.7%, Quechua 21.2%, Aymara 14.6%, foreign languages 2.4%, Guarani 0.6%, and other native languages 0.4%. English is widely used throughout the business community.

The predominant religion in the country is Roman Catholic (76.8%), Evangelical and Pentecostal (8.1%), Protestant (7.9%), other (1.7%) and, none (5.5%). Bolivia has a total surface area of 1,098,581 km<sup>2</sup>, divided into three main regions: The Andes Mountains and "Altiplano" (high plateau) to the West; the semi-tropical Yungas (jungles) and temperate valleys descending the eastern slopes of the Andes; and the tropical lowlands which cover the entire eastern half of the country.

## GEOGRAPHY

Bolivia has a total surface area of 1,098,581 km<sup>2</sup>, divided into three main regions: the Andean and "Altiplano" (high plateau) to the West; the Sub Andean / semi-tropical Yungas (jungles) and temperate valleys descending the eastern slopes of the Andes; and the tropical lowlands which cover the entire eastern half of the country, comprising over two-thirds of the national territory.

**Andean zone** (altitude range: 2500m-6500m): This geographical region includes the departments of La Paz, Oruro, and Potosí. It represents 28% of the national territory and comprises the mountainous regions of *Cordilleras Occidental, Real y Oriental* and the Andean plateau (altiplano: large and arid region 3500-4000m above sea level).

**Sub-Andean zone** (altitude range: 2000m-2500m): This region includes the departments of Cochabamba, Chuquisaca, and Tarija. It represents 13% of the national territory and consists of a succession of mountain ranges of medium altitude surrounding large valleys with temperate climate, like the Yungas near La Paz.

**Lowlands** (*Llanos Orientales* /altitude: less than 2000m): It includes the departments of Santa Cruz, Beni, and Pando. It represents 59% of the national territory. These are warm regions of the Amazonian plains and the dry region of Chaco.

## ECONOMY

In 2021, Bolivia's main economic sectors in terms of its participation in its Gross Domestic Product (GDP) included: services: 50%, manufacturing industry: 38% and agriculture 14%. In terms of employment, services generated 49% of the jobs of the economy, while agriculture and industry 30% and 22%, respectively.

Between 2010 and 2021, Bolivia was the fastest growing economy among 13 countries in South America and the second after the Dominican Republic among 19 countries in Latin America. In 2021 Bolivia's economic growth reached a peak of 7%; its average annual expansion rate during that period was 6.0%. At the end of 2021, Bolivia's nominal GDP reached USD 45 billion and in per capita terms USD 4.

However, the external shock Bolivia suffered in recent years and the government's expansionary policies have contributed to increasing current account (-5.3% of GDP) and fiscal deficits (-7.8% of GDP).

GDP growth has eased somewhat in recent years, falling in 2021 to 4.2%, its slowest rate since 2010, according to the Central Bank of Bolivia's (BCB) reports. The Bolivian economy is highly dependent on natural resource exports. Since the mid-1980s, natural gas has been its most relevant registered export, representing more than half of official total export revenue. Between 2003 and 2021, hydrocarbons accounted for 42.8% of total exports, followed by minerals exports, which represented 30.2%. However, in the last two years, the relevance of minerals has risen, leading them to 46.6% of export proceeds, as opposed to the 33.5% share of hydrocarbons. In terms of GDP, oil and gas account for 6.4% of total output while metallic and non-metallic minerals represent 5.5%.

Bolivia's reserves of natural gas are one the largest in South America. Most of these reserves are in the eastern region of the country. According to the Hydrocarbons and Energy Ministry (MHE), 88.1% of total gas reserves are in Tarija state, in the South-southeast of the country, 8.2% in Santa Cruz state (east), 2.5% in Cochabamba (central) and 1.3% in Chuquisaca (southeast). Tarija state is also the main gas producing region in the country.

During 2021, economic growth was mainly driven by agriculture, finance, and manufacturing, each of which respectively contributed 0.9%, 0.6%, and 0.5% to the country's 4.2% growth rate. Agriculture grew at a rapid 7.6% yearly, while some services such as transportation and trade also showed fast growth (5.2% and 5.1%, respectively). Oil and mining, in contrast, contracted by 0.6%, driven by a decline of 2.4% in crude petroleum and natural gas output. Weak external demand, in particular low demand for gas from Brazil as well as decreasing productivity of mineral deposits, were the key drivers of this decline.

Oil and gas activities are controlled by the state-owned company *Yacimientos Petrolíferos Fiscales Bolivianos* (YPFB). YPFB is the only company authorized to carry out all activities throughout the value chain. The Bolivian Constitution requires the state to have a majority share of joint ventures. However, YPFB is authorized to sign services contracts with national and foreign companies.

Joint ventures with private sector companies are typically formed for extraction services for a period of 40 years and with YPFB owning a 55% share. YPFB also manages a gas sales agreement with Brazil's state-owned oil company, Petrobras, and another agreement with Argentina.

Meanwhile, to reverse the downturn in hydrocarbon production due to insufficient private investment (especially in exploration) and a reduction in the levels of proven reserves, the government began issuing incentives and exemptions to encourage investment. The Bolivian Constitution also reserves the mining sector to the state, which grants rights of exploitation and development to state operators, private operators, and joint venture entities. Contracts in the sector must be signed between private companies and the state-owned mining company, COMIBOL. Contracts between cooperatives and private companies were forbidden, triggering conflicts among mining unions and the government.

Domestic demand will drive growth again in 2021, thanks to high public spending. Public investment should continue growing under the nation's broad investment plan, the *Plan Nacional de Desarrollo Económico y Social*.

The government deficit should continue to shrink gradually in 2021 on strong energy-related revenues, but it will remain substantial as the government pursues its expansionary fiscal policy under its five-year investment plan.

The current account deficit will remain substantial despite a slight improvement. The balance of goods and, above all, services is in deficit because of the intermediate goods needed for investment projects. However, strong exports – chiefly of gas, gold, and minerals such as zinc – should help to narrow the trade deficit, which will be partially offset by remittances from expatriate workers. Unless Foreign Direct Investment accelerates sharply, the government will finance the deficit by continuing to draw on foreign exchange reserves.

### Short-Term Outlook

Bolivia will continue growing in the near future as the government implements its expansionary policies. Economic sustainability concerns of these policies, while valid, are not likely to lead to any imminent stop in economic growth.

Growth expectations are in line with the view of multilateral organizations such as the World Bank and the IMF. The Bolivian government target is somewhat more optimistic, with GDP growing at 4.5%. However, a slowdown in gas demand from Argentina and Brazil could begin to restrain growth.

Public debt is still at moderate levels, which gives the authorities room to adjust policies more gradually to the continuing terms-of-trade shock. The government is aware of the prevailing risks of the current strategy, but it claims to expect that the large-scale investment projects will raise productivity and provide returns high enough to safeguard growth and fiscal sustainability over the long term.

However, in the absence of a material policy adjustment, fiscal and external deficits (the twin deficit scenario) will remain large in the medium term, as the government appears determined to maintain domestic demand, which will keep import demand high. Against this background, foreign currency reserves are likely to come under pressure and with a quasi-fixed exchange rate since 2011, macro imbalances are likely to lead to a steady decline in reserves.

### FOREIGN TRADE

As December 2021, Bolivia exported USD 9 billion, a net increase of USD 800 million (8.7%) compared to 2018; while imported USD 9 billion, higher in USD 690 million (8%) than the value observed in 2018. As a result, the balance of the trade balance was negative in USD 920 million, lower in USD 20 million (3%) than that observed in 2018 (USD 950 million).

## EXPORTS

Bolivia exported in 2021 a total USD 9 billion, representing 10.7% of its overall Gross Domestic Product (USD 84.1 billion valued in Purchasing Power Parity US dollars). That 10.7% for exports to overall GDP in PPP for 2021 compares to 13.5% for 2014, seeming to indicate a relatively decreasing reliance on products sold on international markets for Bolivia's total economic performance. And while this article focuses on exported goods, it is interesting to note that Bolivia also provided USD 1.5 billion worth of exports-related services to global customers for an additional 1.7% of GDP in PPP.

### Bolivia's Top 10 Exports

The following export product groups represent the highest dollar value in Bolivian global shipments during 2021 at the 2-digit Harmonized Tariff System (HTS) code level. Also shown is the percentage share each export category represents in terms of overall exports from Bolivia.

1. Mineral fuels including oil
2. Ores, slag, ash
3. Gems, precious metals
4. Food industry waste, animal fodder
5. Tin
6. Animal/vegetable fats, oils, waxes
7. Fruits, nuts
8. Cereals
9. Oil seeds
10. Fertilizers

Bolivia's top 10 exports accounted for 95% of the overall value of its global shipments. The food industry waste and animal fodder category posted the fastest gain in value, up 49% from 2018 to 2021.

In second place for improving export sales were animal or vegetable fats, oils and waxes which appreciated by 30%. Exported fruits and nuts rose 25% year over year. The sole decliner among Bolivia's top exported goods was tin, thanks to its -2% setback.

Drilling down to the more granular 4-digit HTS codes, Bolivia's most valuable export products are petroleum gases (35% of total) followed by zinc (13%), gold (13%), soya-bean oil cake plus other solid residues (5%), precious-metal ores and concentrates (also 6%), then unprocessed tin (4%).

## IMPORTS

### Bolivia's Top 10 Imports

Bolivia imported a total of USD 9 billion in 2021. The following product groups represent the highest dollar value in Bolivia's import purchases during 2021 at the 2-digit Harmonized Tariff System code level. Also shown is the percentage share each product category represents in terms of overall imports into Bolivia.

1. Machinery including computers
2. Mineral fuels including oil



3. Vehicles
4. Electrical machinery, equipment
5. Plastics, plastic articles
6. Iron, steel
7. Other chemical goods
8. Articles of iron or steel
9. Pharmaceuticals
10. Miscellaneous food preparations

Bolivia's top 10 imports accounted for almost three-quarters (73%) of the overall value of its product purchases from other countries.

Leading the increase in value from 2018 to 2021, the fastest-growing product category was mineral fuels including oil (up 40%) thanks mostly to Bolivia's accelerating purchases of refined petroleum oils. In second place was machinery including computers (up 18%) then miscellaneous food preparations (up 16%) and assembled vehicles and manufactured plastics, among others. The sole decliner was the vehicles-related category via a -12% reduction from 2018 to 2021.

#### **TRADING PARTNERS**

Almost half (48.6%) of Bolivian exports by value were delivered to Latin American countries excluding Mexico but including the Caribbean. Another 32.5% was sold to Asian importers, with 8.8% going to Asia and 8% to North America. At 2%, a smaller percentage went to Oceania led by Australia.

#### **EDUCATION**

Education is governed by the Ministry of Education and is provided through public and private schools. The primary language is Spanish, but there are various bilingual schools. Basic education requires thirteen years of studies, from kindergarten to twelfth grade.

Similar to other education systems, Bolivia's National Education System is composed of a formal and a non-formal sector. Formal education is organized in four cycles: initial or pre-primary, primary, secondary, and higher education. The initial cycle is divided in two sub-cycles: the first cycle refers to pre-school education up to children of 4 years of age, is non-formal and not mandatory. It refers to childcare institutions as crèches and communitarian care facilities. The second cycle is for children of 4 to 6 years of age and compulsory by law.

Primary education in Bolivia is compulsory and starts at the age of 6 and lasts eight years. It has two cycles: the basic vocational cycle lasting five years, and advanced vocational cycle lasting three years. Secondary education (seventh through twelfth grade) has the aim of preparing students for university studies or the workplace.

Secondary education is offered to students of 14 to 18 years of age. Divided in two sub-cycles, students can either follow the basic technical degree, preparing apprenticeship for technical work (Bachillerato de técnico básico); or the general education degree (Bachillerato en Humanidades), preparing students for the entrance to university.

There are three types of higher education in Bolivia: Higher technician (Técnico superior o avanzado), Undergraduate studies leading to a Bachelor's degree (Licenciatura), and Post-graduate studies (Maestría y Doctorado). Students having approved the Aptitude Entrance Exam (Prueba de Suficiencia Académica) to freely enrol at any of the eight state public universities and in any subject they wish.

## HEALTHCARE

There are three levels of health services: those supported by the state through the Ministry of Public Health and Social Security, those provided by the social security system for its affiliates, and private clinics. In general, medical services and hospitals are adequate in the cities but not in rural areas, where doctors and nurses are scarce.

Bolivia's health care system is in the midst of reform, funded in part by international organizations such as the World Bank. The number of physicians practicing in Bolivia has doubled in recent years, to about 130 per 100,000 citizens, a comparable ratio for the region. Current priorities include providing basic health care to more women and children, expanding immunization, and tackling the problems of diarrhoea and tuberculosis, which are leading causes of death among children.

## COMMUNICATIONS

Personal and commercial communications in Bolivia include a wide range of options, including landlines, cell phones, email, and other communications technologies.

The structure of Bolivia's fixed telecom market is different from most other countries. Local services are primarily provided by 15 telecom cooperatives. These are non-profit-making companies privately owned and controlled by their users. Since the market was liberalized the cooperatives have also provided long-distance telephony, while several also offer broadband and pay TV services. They have invested in network upgrades in a bid to improve services for customers, and to expand their footprints.

Bolivia has a multi-carrier system wherein consumers can choose a long-distance carrier for each call by dialling the carrier's prefix. Several operators have also adopted fixed-wireless technologies, and some rent fibre-optic capacity.

State-owned Empresa Nacional de Telecomunicaciones (Entel) is the country's incumbent long-distance operator, also offering local telephony, DSL and satellite pay TV services. Its subsidiary Entel Movil is Bolivia's largest mobile network provider.

Bolivia's fixed broadband services remain expensive, though the cost of bandwidth is only a fraction of what it was only a few years ago. Services are still unavailable in many rural and remote areas, and even in some of the major urban areas.

Being a landlocked country, Bolivia has no direct access to submarine cable networks and must therefore connect to the rest of the world either via satellite or through terrestrial links across neighbouring countries.

Fixed broadband services are fast migrating from DSL to fibre, while there are also cable broadband services available in some major cities.

Since it was renationalized in 2007 Entel has focused on providing telecom services in rural areas under a project known as ‘Territory with Total Coverage’. This project aims to increase telecom coverage through mobile rather than through fixed networks.

Bolivia has more than ten times as many mobile phones as fixed lines, and the trend towards fixed-mobile substitution continues. Besides Entel, another two companies offer mobile telephony: Tigo, wholly owned by Luxembourg-based Millicom International, and NuevaTel, trading as Viva and controlled by US firm Trilogy International.

All three mobile companies offer 3G services while LTE is available. Due to the poor quality, high cost, and poor reach of DSL, mobile networks have become the principal platform for voice services and data access. The take-up of services based on LTE has risen steadily as network builds have been increased. Tigo launched the first LTE services in mid-2014, followed by Viva in mid-2015 and by late 2018 both companies’ networks reached more than 90% of the population. About 92% of all internet accesses are via smartphones.

More and more people are using smartphones every day, and 82 out of every 100 people in Bolivia are connected to the Internet. The Internet is widely used throughout the country for educational purposes (40%), to obtain information (27%) and to communicate (22%). With regards to social networks, Bolivia has 10 million users on Facebook. Cable television is also widely available in the country.

#### **CAPITAL MARKETS AND PORTFOLIO INVESTMENT**

The government’s general attitude toward foreign portfolio investment is neutral. Established Bolivian firms may issue short or medium-term debt in local capital markets, which act primarily as secondary markets for fixed-return securities.

Bolivian capital markets have sought to expand their handling of local corporate bond issues and equity instruments. Over the last few years, several Bolivian companies and some foreign firms have been able to raise funds through local capital markets. However, the stock exchange is small and is highly concentrated in bonds and debt instruments (more than 95 % of transactions).

Since 2008, the financial markets have experienced high liquidity, which has led to historically low interest rates. However, liquidity has been returning to normal levels in recent years and there are some pressures to increase interest rates.

The Bolivian financial system is not well integrated with the international system and there is only one foreign bank among the top ten banks of Bolivia.

The government and central bank respect their obligations under IMF Article VIII, as the exchange system is free of restrictions on payments and transfers for international transactions.

Foreign investors legally established in Bolivia are able to get credits on the local market. However, due to the size of the market, large credits are rare and may require operations involving several banks. Credit access through other financial instruments is limited to bond issuances in the capital market. A recent financial services law directs credit towards the productive sectors and caps interest rates.

## **BANKING AND FINANCIAL SERVICES**

Bolivia's banking system is comprised of the Central Bank of Bolivia (BCB) and 51 privately-owned institutions, of which 13 are commercial banks, and the remaining are SME-focused, state-run, or controlled, mortgage-focused, savings and loan organizations, credit unions cooperatives, and development-focused lenders, and other financial institutions. The BCB oversees all financial institutions, provides liquidity when necessary, and acts as lender of last resort; it is the only monetary authority and oversees managing the payment system, international reserves, and the exchange rate. The Financial sector is regulated by the Supervising Authority of Financial Institutions (ASFI), a decentralized institution that is under the Ministry of Economy.

As of December 2021, deposits totalled USD 30 billion and the system's loan portfolio accounted for USD 26 billion.

In 2013, the government enacted the new Financial Services Law. The key objectives of this law include protecting and meeting the needs of financial consumers, promoting universal access to services, ensuring the stability and solvency of the financial system, protecting the savings of the people, and promoting greater transparency.

The law creates the Financial Stability Board consisting of the Ministry of Economy and Public Finance, the Ministry of Planning and Development, the Central Bank of Bolivia, the Supervisory Authority Financial System (ASFI), and the Supervision and Control Authority of Pension and Insurance. This new Financial Stability Board is responsible for issuing the decrees and resolutions to regulate the banking sector, leaving the prior regulator (Autoridad de Supervision del Sistema Financiero - ASFI) with the tasks of monitoring and supervising.

The Financial Services Law requires and encourages a high degree of state intervention in the management of financial institutions. The state is expected to be a regulatory authority, an active participant in financial intermediation (through Banco Union and Productive Development Bank), and state agents should attend banks' board meetings and shareholder meetings.

The Financial Services Law establishes a system wherein the state directs financial institutions in such a way as to encourage economic growth. The state can instruct financial institutions to offer credit to sectors as the state considers appropriate. In addition, the state fixes the maximum lending interest rates, determines loan repayment grace periods, and the type of collateral that can be used against a loan.

Government policy allows for unconventional loan guarantees such as: machinery, animals, stored production, etc.

The law allows the government to seek punitive punishment for financial institutions that do not fulfil its regulations. Punishment can be meted on specific individuals within an institution to include the personal assets of officers and executives.

Blockchain technologies in Bolivia are still in the early stages. Currently, the banking sector is analysing blockchain technologies and the sector intends to propose a regulatory framework in coordination with ASFI in the future.

## 3 – FOREIGN INVESTMENT

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In 2021, Foreign Direct Investment (FDI) in Bolivia amounted USD 400 million – 0.9% GDP; a 60% decrease compared to that of 2018 (USD 800 million).

The 2014 investment law guarantees equal treatment for national and foreign firms; however it also stipulates that public investment has priority over private investment (both national and foreign) and that the Bolivian Government will determine which sectors require private investment.

Pursuant to Article 320 of the 2009 Constitution, Bolivia no longer recognizes international arbitration forums for disputes involving the government. The parties also cannot settle the dispute in an international court. However, the implementation of this article is still uncertain.

Specifically, Article 320 of the Bolivian Constitution states:

1. Bolivian investment takes priority over foreign investment.
  2. Every foreign investment will be subject to Bolivian jurisdiction, laws, and authorities, and no one may invoke a situation for exception, nor appeal to diplomatic claims to obtain more favourable treatment.
- III. Economic relations with foreign states or enterprises shall be conducted under conditions of independence, mutual respect, and equity. More favourable conditions may not be granted to foreign states or enterprises than those established for Bolivians.
1. The state makes all decisions on internal economic policy independently and will not accept demands or conditions imposed on this policy by states, banks or Bolivian or foreign financial institutions, multilateral entities, or transnational enterprises.
  2. Public policies will promote internal consumption of products made in Bolivia.

Article 262 of the Constitution states:

“The fifty kilometres from the border constitute the zone of border security. No foreign person, individual, or company may acquire property in this space, directly or indirectly, nor possess any property right in the waters, soil, or subsoil, except in the case of state necessity declared by express law approved by two thirds of the Plurinational Legislative Assembly. The property or the possession affected in case of non-compliance with this prohibition will pass to the benefit of the state, without any indemnity.”

The judicial system faces a major backlog of cases, is short staffed, and lacks sufficient resources.

Article 129 of the Bolivian Arbitration Law No. 708, established that all controversies and disputes that arise regarding investment in Bolivia will have to be addressed inside Bolivia under Bolivian Laws. Consequently, international arbitration is not allowed for disputes involving the Bolivian Government or state-owned enterprises.

Bolivia does not currently have an investment promotion agency to facilitate foreign investment. However, the government has said that it is working to create an investment promotion agency to attract investment in the non-traditional and industrial sectors. The government has also recently launched an investment promotion website ([www.investbolivia.gob.bo](http://www.investbolivia.gob.bo)) to provide information about investment opportunities in Bolivia.

The government does maintain ongoing dialogue with the private sector through several working groups, one of which addresses the investment climate.

#### LIMITS ON FOREIGN CONTROL AND RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

The Constitution specifies that all hydrocarbon resources are the property of the Bolivian people and that the state will assume control over their exploration, exploitation, industrialization, transport, and marketing (Articles 348 and 351).

The state-owned and operated company, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) manages hydrocarbons transport and sales and is responsible for ensuring that the domestic market demand is attended at prices set by the hydrocarbons regulator before allowing any hydrocarbon exports. YPFB benefitted from government action in 2006 that required operators to turn over their production to YPFB and to sign new contracts that gave YPFB control over the distribution of gasoline, diesel, and liquid petroleum gas (LPG) to gas stations. The law allows YPFB to enter in joint venture contracts for limited periods with national or foreign individuals or companies wishing to exploit or trade hydrocarbons or their derivatives. For companies working in the industry, contracts are negotiated on a service contract basis and there are no restrictions on ownership percentages of the companies providing the services.

The Constitution (Article 366) specifies that every foreign enterprise that conducts activities in the hydrocarbons production chain will submit to the sovereignty of the state, and to the laws and authority of the state. According to the Constitution, no concessions or contracts may transfer the ownership of natural resources or other strategic industries to private interests. Instead, temporary authorizations to use these resources may be requested at the pertinent ministry (Mining, Water and Environment, Public Works, etc.). The Bolivian Government is still renegotiating commercial agreements related to forestry, mining, telecommunications, electricity, and water services, to comply with these regulations.

The Telecommunications, Technology and Communications General Law (Law 164, Article 28) stipulates that the licenses for radio broadcasts will not be given to foreign persons or entities.

Further, in the case of broadcasting associations, the share of foreign investors cannot exceed 25 % of the total investment, except in those cases approved by the state or by international treaties.

The Central Bank of Bolivia is responsible for registering all foreign investments. According to the 2014 investment law, any investment will be monitored by the ministry related to the particular sector. For example, the Mining Ministry oversees all public and private mining investments. Each Ministry assesses industry compliance with the incentive objectives. To date, only the Ministry of Hydrocarbons and Energy has enacted a Law (No 767) to incentivize the exploration and production of hydrocarbons.

#### BILATERAL INVESTMENT AGREEMENTS AND TAXATION TREATIES

Potential investors should note that Bolivia has abrogated the Bilateral Investment Treaties (BIT) it signed with 23 other countries. The Bolivian Government claimed the abrogation was necessary for Bolivia to comply with the 2009 Constitution. Companies that invested under the U.S. – Bolivia BIT will be covered until June 10, 2022, but investments made after June 10, 2012, are not covered. In addition, in October 2007, Bolivia became the first country to withdraw from the World Bank’s International Centre for Settlement of Investment Disputes (ICSID). Bolivia has had a signed BIT with Peru since 1993.

Bolivia has several agreements with other countries aimed at avoiding double taxation. Those countries include Argentina, France, Germany, Spain, Sweden, the United Kingdom, and Andean Community countries. The Bolivian Government is currently assessing the possibility of agreements with several additional countries.

#### LEGAL REGIME

Bolivia has no laws or policies that directly foster competition on a non-discriminatory basis. However, Article 66 of the Commercial Code (Law 14379, 1977) states that unfair competition, such as maintaining an import, production, or distribution monopoly, should be penalized according to criminal law. There are no formal regulatory processes managed by nongovernmental organizations or private sector associations.

The Commercial Code requires that all companies keep adequate accounting records and legal records for transparency. Most accounting regulations follow international principles, but the regulations do not always conform to international standards. Large private companies and some government institutions, such as the Central Bank and the Banking Supervision Authority (ASFI), have transparent and consistent accounting systems.

Online regulatory disclosures by the Bolivian Government can be found in the “Gaceta Judicial” at: <http://www.gacetaoficialdebolivia.gob.bo/>

Supreme Decree 71 in 2009 created a Business Auditing Authority (AEMP), which is tasked with regulating the business activities of public, private, mixed, or cooperative entities across all business sectors. AEMP’s decisions are legally reviewable through appeal. However, should an entity wish to file a second appeal, the ultimate decision-making responsibility rests with the Bolivian Government ministry with jurisdiction over the economic sector in question.

Environmental regulations can slow projects due to the constitutional requirement of “prior consultation” for any projects that could affect local and indigenous communities.

## INTERNATIONAL REGULATORY CONSIDERATIONS

Bolivia is a full member of the Andean Community of Nations (CAN), comprised of Bolivia, Colombia, Ecuador, and Peru. Bolivia is also in the process of joining the Southern Common Market (MERCOSUR) as a full member. The CAN's norms are considered supranational in character and have automatic application in the regional economic member countries.

## LEGAL SYSTEM AND JUDICIAL INDEPENDENCE

Property and contractual rights are enforced in Bolivian courts under a civil law system. Although many of its provisions have been modified and supplanted by more specific legislation, Bolivia's Commercial Code continues to provide general guidance for commercial activities.

## FOREIGN EXCHANGE

The Banking Law establishes regulations for foreign currency hedging and authorizes banks to maintain accounts in foreign currencies. A significant, but dropping, percentage of deposits are denominated in U.S. dollars (currently less than 20 % of total deposits). Bolivian law currently allows repatriation of profits, with a 13 % withholding tax. However, a provision of the 2009 Constitution (Article 351.2) requires reinvestment within Bolivia of private profits from natural resources. Until specific implementing legislation is passed, it is unclear how this provision will be applied. In addition, all bank transfers in U.S. dollars within the financial system and leaving the country must pay a Financial Transaction Tax (ITF) of .03 %. This tax applies to foreign transactions for U.S. dollars leaving Bolivia, not to money transferred internally.

Any banking transaction above USD 10,000 (in one operation or over three consecutive days) requires a form stating the source of funds. In addition, any hard currency cash transfer from or to Bolivia equal to or greater than USD 10,000 must be registered with the customs office.

Amounts between USD 50,000 and USD 500,000 require authorization by the Central Bank and quantities above USD 500,000 require authorization by the Ministry of the Economy and Public Finance.

The fine for underreporting any cash transaction is equal to 30 % of the difference between the declared amount and the quantity of money found. The reporting standard is international, but many private companies in Bolivia find the application cumbersome due to the government requirement for detailed transaction breakdowns rather than allowing for blanket transaction reporting.

Administrative Resolution 398/10 approved in June 2010 forces Bolivian banks to reduce their investments and/or assets outside the country to an amount that does not exceed 50 % of the value of their net equity.

The Central Bank charges a fee for different kinds of international transactions related to banking and trade. The current list of fees and the details can be found at:  
[https://www.bcb.gob.bo/webdocs/01\\_resoluciones/RD%20180 %202018.pdf](https://www.bcb.gob.bo/webdocs/01_resoluciones/RD%20180%202018.pdf)



Law 843 on tax reform directly affects the transfer of all money to foreign countries. All companies are charged 25 % tax, except for banks which can be charged 37.5 %, on profits under the Tax Reform Law, but when a company sends money abroad, the presumption of the Bolivian Tax Authority is that 50 % of all money transmitted is profit. Under this presumption, the 25 % tax is applied to half of all money transferred abroad, whether actual or only presumed profit. In practical terms, it means there is a payment of 12.5 % as a transfer tax. Currency is freely convertible at Bolivian banks and exchange houses. The Bolivian Government describes its official exchange system as an “incomplete crawling peg.” There is a spread of 10 basis points between the exchange rate for buying and selling U.S. dollars. The Peso Boliviano (Bs) has remained fixed at 6.96 Bs / USD 1 for selling and 6.86 Bs / USD 1 for buying since October 2011.

## 4 – SETTING UP A BUSINESS

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According to the World Bank's Doing Business 2021 rankings, Bolivia ranks 156 out of 190 countries on the ease of doing business, much lower than most countries in the region. Bolivia ranks 178 out of 190 on the ease of starting a business.

FUNDEMPRESA is a mixed public/private organization authorized by the central government to register and certify new businesses. Its website is [www.fundempresa.org.bo](http://www.fundempresa.org.bo) and the business registration process is laid out clearly within the tab labelled "processes, requirements and forms," however the registration cannot be completed entirely online.

A user can download the required forms from the site and can fill them out online, but then must mail the completed forms or deliver them to the relevant offices. A foreign applicant would be able to use the registration forms.

### TYPES OF COMPANIES

**Anonymous Company** (Sociedad Anonima - S.A.) - This is a company whose capital, divided into negotiable shares, consists of the contributions of the shareholders who are exclusively responsible for the proportional amount of their shares. It is managed by temporary presidents, who may or may not be shareholders. This company must be referred to as an anonymous company (S.A.) according to their acronyms in Spanish. Three or more people can form this type of company; there is no minimum or maximum required equity.

**Limited Liability Company** (Sociedad de Responsabilidad Limitada S.R.L.)- This is a company made up by three or more individuals, but less than 25 - who only respond to company liability up to the proportional amount of their individual contributions and who do business under the name of a non-descript company. The capital of the company consists of the contributions of the shareholders and there is no minimum or maximum required equity.

**Joint Venture** (public / private - Sociedad Accidental). - The State, municipalities, provincial governments and institutions and organizations of the public sector can participate in this type of company, jointly with capital of the private sector and the corporate management of the company. These companies can participate, for example, in the development of agricultural and industrial matters deemed a priority for the national economy and to meet the collective needs or to provide new services of the public sector or to improve current services.

## 5 – LABOUR

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Approximately two-thirds of Bolivia's population is considered "economically active." Between 70 and 80 % of workers participate in the informal economy, where no contractual employer-employee relationship exists. Relatively low education and literacy levels limit labour productivity, a fact reflected in wage rates. Unskilled labour is readily available, but skilled workers are often harder to find.

Article 3 of the Labour Code limits to 15 % the number of foreign nationals that can be employed by any business.

The 2009 Constitution specifies that unjustified firing from jobs is forbidden and that the state will resolve conflicts between employers and employees (Articles 49.3 and 50). Bolivian labour law guarantees workers the right of association and the right to organize and bargain collectively. Most companies are unionized, and nearly all unions belong to the Confederation of Bolivian Workers (COB). Labour laws prohibit antiunion discrimination and require reinstatement of workers fired for union activity.

Workers may form a union in any private company of 20 or more employees, but the law requires that at least 50 % of the workforce be in favour of forming a union. The law requires prior government authorization to establish a union and confirm its elected leadership, permits only one union per enterprise, and allows the government to dissolve unions by administrative fiat.

Bolivia has no unemployment insurance or employment-related social safety net programs. However, if an employee is laid off due to economic or technical reasons, employers are required to pay three months of salary as compensation. If fired due to misconduct, the three-month compensation is not applicable.

## 6 – TAXATION

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### CORPORATE TAXATION

**Residence** – Bolivia does not have a definition of residence.

**Basis** – Bolivia operates a territorial system. All legal entities in Bolivia, whether domestic or foreign, are subject to tax on Bolivian-source income.

**Taxable income** – Businesses are subject to corporate income tax on income derived from business activities carried out in Bolivia. Taxable income comprises gross business income less deductible expenses (i.e. expenses that are necessary for the carrying on of the business). Certain income, such as foreign-source income and dividends, is exempt.

**Taxation of dividends** – Dividends distributed between domestic companies are not subject to income tax at the level of the recipient, nor are they subject to withholding tax. Since Bolivia operates a territorial system, dividends received from a foreign corporation are not subject to tax.

**Capital gains** – Certain capital gains, such as gains derived from the sale of fixed assets, immovable property and securities, are included in gross income and subject to the normal corporate income tax rate. Gains derived from the sale of securities listed on a recognized stock exchange are exempt.

**Losses** – Losses may be carried forward for three years. The carry back of losses is not permitted.

**Rate** – 25%

**Additional aliquot** – A 12.5% additional is applied to mining companies and a 25% is applied to financial entities.

**Alternative minimum tax** – No

**Foreign tax credit** – No

**Participation exemption** – No.

**Holding company regime** – No

**Incentives** – Certain regions (Oruro, Potosi, El Alto and Cobija) grant special incentives for new industries.

### WITHHOLDING TAX

(Agreements to Avoid Double Taxation should be considered if they exist)

**Dividends** – Dividends paid to a non-resident are subject to a 25% withholding tax levied on 50% of the gross dividend, resulting in an effective rate of 12.5%.

**Interest** – Interest paid to a non-resident is subject to a 25% withholding tax levied on 50% of the gross amount, resulting in an effective rate of 12.5%.

**Royalties** – Royalties paid to a non-resident are subject to a 25% withholding tax levied on 50% of the gross amount, resulting in an effective rate of 12.5%.

**Technical service fees** – Technical service fees paid to a non-resident are subject to a 25% withholding tax levied on 50% of the gross amount, resulting in an effective rate of 12.5%.

**Branch remittance tax** – Bolivia levies a withholding tax of 25% on 50% of the Bolivian-source profits of a Bolivian branch upon a distribution to the foreign head office, resulting in an effective tax rate of 12.5%. The tax may be deferred if the branch reinvests the profits.

### OTHER TAXES ON CORPORATIONS

**Capital duty** – No

**Payroll tax** – No

**Real property tax** – A municipal tax is levied annually on the cadastral value of real property. The rates, which are progressive, are set by the local government.

**Social security** – Both the employer and the employee are required to contribute to the social security system. Contributions are calculated using the employee's income as a basis. The employer must contribute 14.71% (16.71% for mining companies) and the employee contribution ranges between 12.71% and 28.71%. The employer also must contribute 2% to the National Housing Fund.

**Stamp duty** – No

**Transfer tax** – The owner of immovable property is required to pay a transfer tax at a rate of 3% of the higher of the consideration paid for the property sold or the officially appraised value.

**Other** – Companies engaging in mining activities are subject to a maximum mining royalty of 7%. The rate is variable and depends on the type of mineral. Companies engaged in the exploitation of hydrocarbons are subject to a combined 18% royalty and 32% tax.

#### ANTI-AVOIDANCE RULES

**Transfer pricing** – Bolivia has transfer pricing rules. Taxpayers are required to submit a transfer pricing study to the Bolivian tax authorities with respect to transactions with related parties.

**Capitalization** – Although Bolivia does not have specific capitalization rules, interest paid to members or shareholders must not exceed LIBOR plus 3% for loans granted abroad, or the domestic banking lending rate for domestic loans. In both cases, interest exceeding 30% of the interest that would be paid to a third party is non-deductible for income tax purposes.

**Controlled foreign companies** – No

**Disclosure requirements** – No

#### COMPLIANCE FOR CORPORATIONS

**Tax year** – The tax year usually is the calendar year (January 1 to December 31), although mining companies operate from October 1 to September 30, manufacturing, and oil companies from April 1 to March 31 and agricultural companies from July 1 to June 30.

**Consolidated returns** – The filing of a consolidated return is not permitted; each company in a group is taxed separately.

**Filing requirements** – The annual tax return must be filed within 120 calendar days following the end of the tax year, and any tax liability must be paid at that time.

**Penalties** – Interest is levied for late payment of tax, calculated daily basis (compound interest), and a fine of up to 100% of the omitted tax can be imposed.

**Rulings** – No

#### PERSONAL TAXATION

**Basis** – Individuals are subject to tax on Bolivia-source income unless the income is specifically exempt. Individuals operating a business or exercising a profession are subject to the corporate income tax rules.

**Residence** – Bolivia does not define the concept of residence.

**Filing status** – Joint returns are not permitted; spouses are taxed separately.

**Taxable income** – Taxable income comprises employment income, business income and investment income.

**Capital gains** – Capital gains are subject to the corporate income tax for individuals exercising a profession or business, or the individual income tax for other individuals.

**Deductions and allowances** – Up to 50% of tax due may be deducted, with a credit for the 13% VAT included in invoices issued to the taxpayer for purchases of goods and services.

**Rates** – The rate is 12.5% for individuals exercising a profession or engaged in business activities, and 13% for all other taxpayers.

#### OTHER TAXES ON INDIVIDUALS

**Capital duty** – No

**Stamp duty** – No

**Capital acquisitions tax** – No

**Real property tax** – A municipal tax is levied annually on the cadastral value of real property. The rates, which are progressive, are set by the local government. The owner of immovable property also is required to pay transfer tax at a rate of 3% of the higher of the consideration paid for the property sold or the officially appraised value.

**Inheritance/estate tax** – Tax is levied on transfers of real assets, shares and recordable rights. The rate is variable (1% to 20%) and is based on the lineage.

**Net wealth/net worth tax** – No

**Social security** – The employee contributes between 12.71% of total income of each month, and the employer contributes 16.71% of total payroll of each month.

#### COMPLIANCE FOR INDIVIDUALS

**Tax year** – Calendar year

**Filing and payment** – Employment income is taxed by withholding. Individuals with other sources of income must file a tax return by 30 April following the end of the tax year.

**Penalties** – Interest is levied for late payment of tax, calculated daily basis (compound interest), and a fine of up to 100% of the omitted tax can be imposed.

#### VALUE ADDED TAX

**Taxable transactions** – VAT is imposed on the supply of goods and services and on imports.

**Rates** – The standard rate is 13%. Exports are not taxed.

**Registration** – Registration with the National Taxes Service is required.

**Filing and payment** – The tax form, which is prepared monthly, must be submitted and VAT paid in the month following that in which the tax was determined. The last digit of the tax identification number determines the due date.

#### TRANSACTION TAX

**Taxable transactions** – Transaction tax is imposed on the supply of goods and services.

**Rates** – The standard rate is 3%. Exports are not taxed.

**Registration** – Registration with the National Taxes Service is required.

**Filing and payment** – The tax form, which is prepared monthly, must be submitted and Transaction Tax paid in the month following that in which the tax was determined. The last digit of the tax identification number determines the due date.

#### OTHER ASPECTS

**Source of tax law:** Law 843 and complementary regulations

**Tax treaties:** Bolivia has concluded nine tax treaties.

**Tax authority:** National Tax Service (Servicio de Impuestos Nacionales)

## 7 – ACCOUNTING & REPORTING

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### ACCOUNTING STANDARDS

Accounting principles/financial statements – Bolivian GAAP, mandatory since 1967. Also, in case that the local regulations do not include certain aspects, it is allowed to apply IFRS.

The IFRS have been issued by the International Accounting Standards Board (IASB) in Spanish, and those in effect as of the end of each fiscal year must be used.

It is worth noting that financial institutions are monitored and controlled by the ASFI (Authority of Financial Entities). These entities have special rules issued by their control bodies: however, they share a set of principles established in the IFRS.

### CURRENCY

The figures included in the financial statements, as well as in the accompanying notes, use the official currency of the Republic of Bolivia, which is the “boliviano” – BOB.

### FINANCIAL STATEMENTS

Annual financial statements must include:

- Statement of financial position (Balance sheet)
- Profit and loss statement
- Changes in equity statement
- Cash flow statement
- Explanatory notes to the financial statements

Additionally, if applicable, the opinion of the independent auditors on the reasonableness of the figures and disclosures made in the financial statements should be included if the total income is approximately One hundred seventy-two thousand dollars or more.

## 8 – UHY REPRESENTATION IN BOLIVIA

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# HBA S.R.L. BOLIVIA



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Year established: 1972  
Number of partners: 3  
Total staff: 57

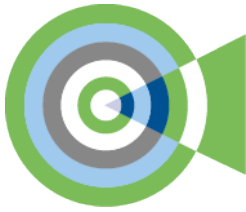
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