Democratic decentralization and poverty reduction
The Bolivian case

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Introduction

The political and administrative decentralization process that has taken place in Bolivia since 1994, with its emphasis on popular participation at the municipal level, has been praised at the international level as an example of democratization and of a more equitable and efficient way of allocating public resources (UNDP, 2003, 2002; World Bank, 1997).

In continuity with this process, the National Dialogue against Poverty launched by the Bolivian government in 2000 started with consultations with representatives of municipal governments and local comités de vigilancia. Through a bottom-up consultation process that preceded the formulation of the Bolivian Poverty Reduction Strategy (PRS), the National Dialogue finally agreed that the greater part (85%) of the funds liberated by the debt alleviation (around USD 110 million annually) should be shared out between the municipalities according to their level of poverty.

The municipalities are allowed to use these resources to finance or co-finance projects and activities according to locally established priorities, mainly social and productive infrastructure, insofar as these projects fall under the PRS main areas of intervention. The municipalities can also access additional resources from the Fondo Social y Productivo (FPS), a national fund supported by international donors that co-finances projects submitted by the municipalities. In practice many municipalities have tended to use their share of the «HIPC fund» to co-finance projects submitted to the FPS.

It is worth recalling that the PRS document approved in 2001 is organized around four broadly defined components: opportunity (employment and income); capacity (health and education); security and protection; and participation. These objectives are translated into five impact indicators and several results indicators that do not refer explicitly to the Millennium Development Goals (MDGs). A major criticism of this PRS is its lack of priorities. It includes a long list of actions that cover almost all governmental interventions, and the relationships between these actions and the projected results and impacts over the next 15 years are anything but evident (ISS, 2003).

The implementation of the new financial transfer arrangements agreed in the National Dialogue 2000 has faced several problems. In 2002, the municipalities only executed 52 percent of their debt alleviation resources, and many municipalities have had difficulties in elaborating projects that meet the FPS technical requirements (ISS, 2003). At the same time, the national government was facing a growing fiscal deficit as a result of a prolonged economic slowdown (1999-2003) coupled with ever-increasing public expenditure to...
cover rises in public sector wages\(^1\) and in retirement pension benefits.

In February 2003, a government attempt to raise income tax was met by a rebellion by the police force and a popular upheaval in the capital city. This was only a prelude to the events of October 2003, when widespread protests against a natural gas export scheme, deemed to be contrary to the country’s interests, would finally oblige President Sánchez de Lozada (who had been elected in 2002) to resign and leave the country.

In such a context it is no surprise that the Ministry of Finance in 2002 and 2003 attempted to use the apparent ineffectiveness of municipalities in implementing the PRSP to justify the central government regaining direct control over the use of the HIPC funds. These attempts were unsuccessful, thanks to the opposition of the municipalities and pressure from international donors who insisted on the government respecting the National Dialogue agreements. Nevertheless, there has been a tendency from central authorities to exert a tighter control over local spending through increasing the proportion of earmarked municipal expenditures to co-finance national programmes such as, for example, a new health insurance scheme that is being administered by the municipalities.

There is also a considerable tendency among NGOs, trade unions and indigenous peasant organizations to criticize municipalities for being weakly connected to the people, particularly to indigenous people who constitute the majority in the country. A good example of this tendency is a report on participation in the PRS process produced at the request of the international NGO Christian Aid, in collaboration with several Bolivian NGOs. This report concludes that “…the PRS process in Bolivia rested on a flawed assumption about the depth of local democracy in existing institutions.” (Christian Aid, 2002, p.7).

Be that as it may, the government of President Carlos Mesa, the former Vice President who replaced Sanchez de Lozada in October 2003, has committed itself to reinforce the decentralization process. It has also launched a new National Dialogue against poverty that has been branded *Diálogo Nacional Productivo*. As its title indicates, this dialogue process emphasizes economic development issues and has offered a large space for the participation at the local level of indigenous organizations and independent workers’ associations (peasants, craftsmen, petty traders, miners, etc.). This National Dialogue should conclude by the end of 2004 and will provide important inputs for the formulation of a new poverty reduction strategy.

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\(^1\) The National Treasury pays the salaries of civil servants of all central and departmental administrations, workers of the public health and education sectors, and members of police and army forces.
There is no doubt that during the last decade the country has achieved significant progress in reducing illiteracy and increasing access to basic services, as a result of sustained public investment in education and social infrastructure (UNDP Bolivia, 2002). Nevertheless, the political and social crisis that the country went through in 2003 has made manifest that structural adjustment and institutional reforms in Bolivia have so far had limited impact on long-standing problems of poverty and social exclusion.

Although Bolivia is among the countries of Latin America exhibiting the highest index of structural economic reforms (UNDP, 2004, A. Statistical Compendium, p. 143), economic growth since the 1980s has not contributed to any significant reduction in income poverty. Actually, the incidence of poverty increased between 1999 and 2001, and income distribution inequalities have broadened (INE/UN/UDAPE, 2003; UNDP Bolivia, 2002). In 1999, Bolivia’s income inequality coefficient was the second highest, after Brazil, in the most unequal continent of the planet (UNDP, 2004a, p. 135).

This paper aims to examine the extent to which democratic decentralization contributes to poverty reduction, and the conditions that are required to make such a contribution more effective. To achieve this, we will look at the Bolivian case in the light of international experience and contemporary academic debates.

It has been stressed that decentralization is a rather broad and ambiguous term that can take different forms and mean different things to different people (Bardhan, 2002). In this paper we will focus mainly on an integrated kind of decentralization represented by the devolution of political decision-making power to locally elected «multi-purpose» institutions with a territorially restricted mandate (OECD, 2004, p. 16). The «local» level here is understood mainly as that corresponding to municipalities, cities, towns or wards, which is different from the community level, at a lower rung of the scale, and from the «intermediate» level, corresponding to such entities as states, departments or provinces.

In the first section of this document we will thus review contemporary international debates about the relationships between decentralization, participation and poverty reduction, in order to identify some of the critical factors that affect the extent to which decentralization can contribute to poverty reduction. In the second section we will look at human development and poverty in Bolivia, in both their economic and social dimensions. In the third section we will provide a summarized description of the country’s framework for decentralization and then we will discuss how the
critical factors identified in the first part come into play in the Bolivian context. The paper closes with a brief synthesis of our main conclusions and recommendations.

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Many thanks also to Melinka Ocampo, assistant to the Bolivia Human Development Report Team, for her generous help in processing data and elaborating figures.

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1. International debates about the relationships between democratic decentralization, participation and poverty

Decentralization has been at the centre stage of institutional reforms in a large number of developing countries during the last two decades. As Bardhan (2002) emphasizes, its potential benefits have attracted a very diverse range of supporters, from free-market economists at one extreme edge of the ideological spectrum, who stress the benefits of reducing the power of the overextended state, to «anarcho-communitarians» on the other, who are both anti-market and anti-centralized state and strongly support assignment of control to local self-governing communities.

Decentralization reform processes have also been enthusiastically accompanied (and in some cases driven) by increased support from multilateral and bilateral donor agencies throughout the world (Work, 2002). The World Bank, various United Nations Agencies, USAID and several other bilateral donors have embraced decentralization as one of the major governance reforms on their agenda, and invested significant resources towards decentralization programmes. For example, UNDP financial allocations to decentralization have increased six-fold over the past decade (Work, 2002a).

Thus, as a recent publication by UNCDF points out, democratic decentralization or local governance is increasingly being seen as a condition or prerequisite for poverty reduction strategies. «….a government that is more knowledgeable about and hence more responsive to the needs of the people is expected to lead to pro-poor policies and outcome.» (UNCDF, 2003, p. 42)

The Human Development Report (HDR) 2003 explores the structural constraints that impede economic growth and human development, and proposes a policy approach to achieving the Millennium Development Goals that starts by addressing these constraints. In its chapter seven, this report synthesises what are considered to be the main benefits of democratic decentralization from a development perspective (UNDP, 2003):

√ Improved responses to local needs: local authorities tend to act more in line with local preferences and conditions.
√ Better information flows, more accountability and transparency, and less corruption.
√ More sustainable projects, because local people are more likely to be involved in their design, execution and monitoring.
√ Increased energy and motivation among local stakeholders.
√ Expanded opportunities for political representation.
√ Stronger means for resolving conflicts.
It is important to stress that these are potential benefits. The same UNCDF publication quoted above indicates that the links between democratic decentralization and poverty reduction are not always explicit and that empirical evidence of the comparative advantages of decentralized governance in poverty reduction is mixed or incomplete (UNCDF, 2003, p. 44).

Bardhan (2002) also points to the difficulty of drawing conclusive lessons about the positive effects of decentralization on the basis of the existing studies. The majority of these are not based on household data surveys, making the comparative impact of centralized versus decentralized programmes on different socio-economic groups of households difficult to assess. Many studies would be largely descriptive, not analytical, and often suggest correlations rather than causal processes. He also warns against the temptation of claiming that decentralization brought about certain outcomes without «…considering that decentralization may have resulted from on-going political and economic changes that also affected these same outcomes. Separating decentralization from its political and economic causes, so that decentralization is not just a proxy for an ill-defined broad package of social and economic reforms, is a delicate problem» (Bardhan, 2002, p.31).

In this way, several comparative studies conducted in recent years from an academic perspective have come to question the intrinsic or generic value of decentralization with regard to poverty reduction. Vedeld (2003) for example, based on a review of recent literature across developing countries, has found that overall little direct connection has been observed between decentralization and poverty reduction.

Crook and Sverrisson (2003), in their analysis of decentralization and poverty alleviation in developing countries, confront the notion that «bringing government closer to the people» will necessarily make it more responsive and hence more likely to develop policies and outputs which meet the needs of ordinary citizens –the majority of whom are poor. Based on the information collected in twelve countries from Asia, Africa and Latin America that have gone through important decentralization processes –and for which there was sufficient evidence to make a comparison between their responsiveness, and social and economic outcomes performance–they conclude that responsiveness to the poor has actually been a rare outcome². Accountability and responsiveness to the poor are most likely to emerge locally where representation of their interests can be supported externally by a committed government and/or

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² A synthesis of the conclusions for each case included in the study is also presented in the Human Development Report 2003 (p.141, Box 7.4.)
party, such as in the well known cases of Porto Alegre and West Bengal.

Manor has also devoted considerable attention to the revision of the available evidence about the trends and impacts of decentralization processes in less developed countries. According to Manor, empirical evidence from more than 60 cases indicates that while decentralization at the local level - when it works well - has many virtues, it is no panacea. It also has limitations, not least as a force for reducing poverty, regarding which its record is mixed. It sometimes helps, but usually has a neutral impact or «less often than it was first believed» makes things worse (Manor, 2000; 2003).

If we address poverty reduction in terms of achieving the Millennium Development Goals (MDGs), it is important to distinguish the potential benefits of decentralization on the reduction of income poverty, the primary target of the MDGs, from its impact on other dimensions of human poverty, such as malnutrition, child mortality, maternal health or school enrolment. According to the Human Development Report 2003, democratic decentralization could make a particular difference in the provision of social services to the poor, and hence contribute significantly to the achievement of the goals related with these dimensions of human poverty. In contrast, decentralization is less likely to be effective in exerting political pressure for public policies that contribute to growth and that raise the incomes of poor households, such as tax reform, asset redistribution and promotion of investments in employment-generating industries.

Manor (2000) also concludes that empirical evidence strongly suggests that the impact of decentralization on economic growth is largely neutral –except in certain large conurbations where for example the development of industrial infrastructure may help. Regarding the reduction of inequalities, Manor (2003) stresses that democratic decentralization usually helps to reduce poverty that arises from inequalities between regions or localities. This is so because it tends to provide remote regions that have suffered from under-representation with more voice and resources, more so if the system includes equalization mechanisms which redistribute resources from prosperous to deprived areas.

However, decentralization often does less to reduce poverty that arises from inequalities within regions or localities, because local elites may capture most of the power and spoils that decentralization provides. Prejudices against the poor, excluded groups may be stronger at the local level than at higher ones (Manor, 2003). Richard
Bird, a specialist in intergovernmental fiscal relationships, also points out the fact that territorially based transfers and interregional redistribution are inherently inefficient in reaching the many poor families that live in the relatively richest regions, for example metropolitan areas. As a result Bird concludes that decentralization may have many virtues, «but doing exactly what the central government wants in terms of income redistribution is not likely to be one of them» (Bird, 2001).

Following this approach, research from the Institute of Development Studies (IDS) suggests that the greatest degree of progressive public action is associated with centralized politics and decentralized administration (Schneider, 2003). It is important to clarify that administrative decentralization here is defined as the degree of administrative autonomy. The categories classically used in the theory of decentralization to differentiate types of decentralization – deconcentration, delegation and devolution3- are treated as break-points along a continuum of administrative autonomy. Devolution involves the most amount of autonomy, and deconcentration the least.

Politics, on the other hand, refers to the way interests in society are mobilized, organized and articulated through institutions that carry those interests to the state. Under politically decentralized systems, citizens define interests and form identities on the basis of local concerns, and organizations such as parties and social movements operate locally and compete over local issues.

Standardizing for the effects of other factors (demography, national income per capita etc.), the IDS researchers applied factor analysis to decentralization data collected from 108 countries in 1996 to analyse the relationships between each measure of decentralization and the extent of public spending on social sectors. Regression models were used to show that: (i) administrative decentralization (or administrative autonomy) generally appears to be positively associated with pro-poor public spending; (ii) political decentralization tends to have an erosive effect on the political capacity of the poor to assert their interests in relation to the rich; (iii) decentralization heightens a «race to the bottom» competition for investment and forces local governments to pursue policies that favour the rich who are unlikely to invest in jurisdictions that threaten to introduce pro-poor policies.

Nevertheless, the case for decentralization may be reinforced if we look at other fundamental dimensions of development and democracy such as participation and deliberation. On this subject,
Evans (2002) brings us back to Amartya Sen’s fundamental proposal that social choice is at the heart of what development is about. «There is thus a strong methodological case for emphasizing the need to assign explicitly evaluative weights to different components of quality of life (or of well being) and then to place the chosen weights for open public discussion and critical scrutiny… A proper understanding of what economic needs are –their content and their force- requires discussion and exchange. …Processes of participation have to be understood as constitutive parts of the ends of development in themselves.» (original citations from Sen, Development as Freedom (1999), quoted by Evans [2002]).

Evans, however, observes that Sen does not analyse how developmentally effective «public discussion and exchange» might be instantiated in robust institutions. The concept of «deliberative democracy» would be the best way to give account of the efforts to build public discussion and exchange directly into processes of governance. Evans underlines that deliberative democracy envisions a process of joint planning, problem-solving and strategizing involving ordinary citizens, in which strategies and solutions are articulated and forged through deliberation and planning with other participants, in such a way that participants will often form or transform their preferences in the light of that undertaking.

Evans concludes that «...if it were possible to implant this sort of deliberative process in political units large enough to have an impact on developmental trajectories –say the provincial or municipal level- we would have something that could be called deliberative development». The scope of the unit refers to the fact that participation at the level of project or community -although useful and necessary- involves limited possibilities for the exercise of choice. Thus there would be a close link between decentralization, democratic deliberation and this normative ideal of «deliberative development».

Calderón and Szmukler (2004) also argue strongly in favour of democratic deliberation as a possible option available to face the crisis of all-out market policies that affect politics and democracy in Latin America. In societies with deep socioeconomic and cultural heterogeneities, as is the case to a large extent in Latin America, «the options for fertile connections between democracy and development seem to come from deliberative practices that create options, consensus, agreements and results for the sake of a better society». The examples they use to support their thesis are the Porto Alegre Participatory Budget and the Popular Participation process in
Bolivia, both examples of deliberative democracy at the municipal level.

Calderón and Szmukler (2004) at the same time point out the risks that deliberative political culture may carry. They recall that according to critics, deliberative democracy can be a space for ideological manipulation, inducing preferences and beliefs motivated by particularistic interests that give bias to public information. Fung and Wright (2003) recognize this risk and discuss at length the social advantages and the weaknesses of deliberative democracy and participation at the local level. They argue that the chance that institutions designed to establish deliberative democracy will actually have their desired effects «depends significantly upon the balances of power between actors…When individuals cannot dominate others to secure their first best preferences, they are often more willing to deliberate» (Fung and Wright, 2003, p. 23).

The process of institutionalizing deliberative processes would thus be closely linked to the dynamics of collective actors. As several authors have emphasized, the most well known international examples of democratic decentralization that work for the poor would probably not have taken hold without the impetus of ideologically committed reformist parties that opted for peaceful mobilizing strategies and alliances with grass roots organizations (Harris, 2003; Houtzager, 2003; Crook and Sverrisson, 2003; Heller, 2001).

An alternative view is that participation will only work in a few exceptional cases and that, more often than not, the poor are not in a condition to build coalitions strong enough to prevent embedded elites from capturing resources at local levels. In those situations, approaches from above that are rules and rights-based may be more effective (Rao and Walton, 2004). Along the same lines, Moore (2003) emphasizes the possibility for decision makers and development practitioners to support the creation of enabling political and institutional environments as indirect strategies that encourage poor people to develop political capabilities.4

The extent to which the increased participation promised by democratic decentralization actually leads to more responsive outcomes in favour of the poor thus will be determined by a combination of political factors and the effectiveness of institutional and public accountability mechanisms.
At the political level, the extent of capture of local governments by local elites will depend on levels of social and economic inequality within communities, prevailing political culture, and political capabilities of the poor. This last notion refers to those organizational and institutional resources as well as collective ideas available to the poor to influence policy-making processes. Following Whitehead and Gray-Molina (2003), the development of political capabilities can be initiated in any of three ways (or a combination of the three): by the state, when policy-makers and politicians engage directly with organizations of the poor; by organizations of the poor, lobbying, negotiating or exerting pressure on the state for pro-poor policy outcomes; and by third party alliances with organizations of the non-poor (churches, NGOs, and other broad-based associations).

At the institutional level, the main critical factors that emerge from the comparative studies referred to above are the following:

- Decentralization is multidimensional and should be approached pragmatically, according to national and local contexts. Decentralization along one dimension can be combined with centralization along another. Decentralization must also recognize the diversity and heterogeneity of local governments and allow for an equally diverse set of responses to particular local problems and to particular decentralization initiatives.

- Devolution of adequate powers for the design and execution of the tasks that fall within the responsibility of local governments. Local levels should have enough autonomy and sufficient discretion to make decisions about policy packages, priorities, modalities of implementation and resource distribution.

- The system of allocating resources, which is not only a question of adequacy of funding. As important are likely to be the stability and security of funding from whatever source, and appropriate degree of targeting. Intergovernmental fiscal relations should be as simple, transparent and predictable as possible. General transfer programmes should take into account both the needs of local government and their capacity to raise resources.

- Reliable public accountability mechanisms, to ensure both the accountability of elected representatives to citizens, and the accountability of bureaucrats to elected representatives. Local governments should also be accountable to central level for the funds they receive through transfer programmes. Fair elections, transparency, and relevant and credible information are the keys to accountability.
Local capacities to carry out expanded responsibilities. Institutionalized and regulated bureaucracies, however small they may be, are critical to ensure the capacity necessary both to provide informational inputs and implement the decisions that result from the processes of public deliberation and participation.

Improved national and/or regional capacities of supervision, evaluation and coordination. Autonomy should not be the equivalent of atomization. Central bodies contribute decisively to the reinforcement of decentralization and local democratic deliberation by coordinating actions and resources, solving problems that local units cannot address by themselves, rectifying illegal or incompetent decision making, evaluating and diffusing innovations and lessons learned across boundaries.

Finally, it should be recalled that decentralization, like all major institutional changes, is a complex and lengthy process. It may take at least ten to fifteen years, in a context of financial and political stability, for a system to show any results which can be fairly judged. This may seem obvious, but a real understanding of this reality would imply important modifications to the strategy of donors who support decentralization programmes (or any other major institutional reform). As we all know, these programmes are usually designed, at best, based on a five year horizon, at the end of which significant results are already expected. A fuller appreciation of the lengthy process of institutional reforms would require longer term planning and crafting more flexible mechanisms of cooperation to fit with processes that, for their important political and institutional implications, will likely have more than one setback.
According to the 2001 Population Census, Bolivia has a population of 8.3 million, 62 percent of which live in urban centres. With an area of 1.1 million square kilometres, the country is geographically divided between the Andean highlands and valleys, on the one side, and the Amazonian lowlands, on the other.

The highlands and valleys cover 41 percent of the total area but still contain close to 70 percent of the population, although strong migration movements towards the lowlands have taken place during the past few decades. More than 60 percent of the population claims indigenous heritage, in particular the Quechua and Aymara speaking peoples of the Andes. The country is politically divided between 9 departments (see map below) and 327 municipalities.

2.1. Human development indexes at the national and municipal levels

As we have already stated in the introduction, Bolivia is a country that has fared relatively better in the social dimensions of development than in the economic one. This is reflected by its Human Development Index (HDI) composition throughout the years. Both at the national and departmental levels, HDI components consistently disaggregate according to the following classification (UNDP, 2004b):
The main obstacles to the calculation of the HDI at municipal level were the lack of data and the absence of an appropriate methodology to estimate GDP per capita at the municipal level. In 2003, the governmental Social and Economic Policy Analysis Unit (UDAPE) and the Statistics National Institute (INE), with the support of the World Bank, applied a new methodology to estimate indirectly per capita consumption at local level, using data provided by the Population Census 2001 and household surveys carried out between 1999 and 2001 (UDAPE and INE, 2003).

The publication of the Bolivia Human Development Report 2004 was accompanied by the publication of a special study on human development indexes in the municipalities of the country (UNDP, 2004b). This study, the first of its kind in the country, allows us to rank the municipalities according to their HDI in 2001. The tendencies referred to above regarding the classification of the different components of the HDI are also generally true at the municipal level. Education outcomes indicators are usually relatively better than health indicators, and substantially higher than economic ones.

Results also show great disparities between municipalities, from 0.311 at the lower scale to 0.741 at the higher one. Higher HDI is positively associated with degree of urbanization, proximity to main roads, non-indigenous population, and low altitude. This last factor would be linked to the fact that soils in the lowlands are more fertile and population density is smaller. The study thus distinguishes at least six levels of human development among the municipalities of the country (UNDP, 2004b, p. 28):

- The capital cities of the nine departments (average HDI: 0.700)
- Urban municipalities articulated to main national economic activities (0.653)
- The rest of urban municipalities (0.609)
- Rural municipalities in the lowlands (0.568)
- Rural municipalities in the highlands (Altiplano) (0.516)
- Rural municipalities in the central valleys (0.495)

### 2.2. Poverty reduction trends

Despite its progress over the past decades in important aspects of human development, Bolivia remains a paradigmatic case in Latin America of a country that combines an elevated incidence of poverty with deep social and economic inequalities. At least six people out of ten have incomes below the poverty line, and the average income of the 10 percent richest people is 15 times the average income of the 10 percent poorest. At the local level, income inequalities are the most acute in municipalities that are at the top and the bottom of the human development index scale, namely in the departmental capital cities and in the rural municipalities of the central valleys (UNDP, 2004b).
employees) are responsible for 65% of the GNP, but employ only 9% of the workforce; meanwhile the «micro-enterprises» (1-9 employees) absorb 83% of the workforce but contribute scarcely 25% of the GNP.

Another type of poverty measure widely used in Bolivia is the Unsatisfied Basic Needs method (UBN). UBN is a composite index that weights equally four measures of need: (i) housing quality; (ii) access to water and sanitation; (iii) educational achievement and attendance; (iv) health services attendance. UBN makes use of national census data produced in 1992 and 2001, which allows comparison before and after the initiation of the decentralization process. The UBN index is highly correlated with the social components (life expectancy and education) of the human development index.

Poverty, as measured by the UBN index, decreased overall from 71 percent in 1992 to 59 percent in 2001. As we have already pointed out, the most important achievements have taken place in primary education. Illiteracy has been reduced to 15 percent in 2001, and net coverage in primary education reached 97%. The Education Reform Programme, which was put in place in 1995, has given priority to increasing access to primary education and transforming its content. It has also introduced bilingual (Spanish – native languages) education in rural areas, promoting an inter-cultural approach. Spending on education (not including universities) increased from 6.9% in 1990 to 14.7% of total public spending in 2002 (Ministerio de Educación, 2004).

In the health sector, coverage of priority maternal and child interventions increased substantially, thanks particularly to the introduction of a public health insurance programme. Coverage of skilled birth attendance more than doubled from 25 percent in 1994 to 54 percent in 2002, and preliminary data suggest that this increase in coverage has translated into a drop in infant and maternal mortality. However, according to a recent study by the World Bank (2004), the rate of coverage in recent years has been tapering off, and the equity gaps remain: in 2001, the coverage of skilled birth attendance was 89 percent for the richest fifth of the population, while it reached only 25 percent for the poorest.

To close this section, it is worth summarizing the conclusions of the Bolivia 2002 Progress Report on the Millennium Development Goals. This Report’s main statement is that «...there are only slight
The following table and graphs also show that poverty reduction, as measured by the UBN index, varies between departments. Improvements have been most evident in Santa Cruz (lowlands) and Tarija (south valleys – lowlands), the two relatively most prosperous departments in the country. On the other hand, poverty reduction has been much more limited in the Highlands (La Paz and Oruro) and traditionally poor departments such as Beni (lowlands) and Potosí (highlands and central valleys). As a result, interregional gaps have increased considerably.

**Poverty reduction at the departmental level according to UBN Index**

<table>
<thead>
<tr>
<th>Department</th>
<th>1992</th>
<th>2001</th>
<th>Average annual variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santa Cruz</td>
<td>60.5</td>
<td>38.0</td>
<td>2.43</td>
</tr>
<tr>
<td>Tarija</td>
<td>69.2</td>
<td>50.8</td>
<td>1.99</td>
</tr>
<tr>
<td>Cochabamba</td>
<td>71.1</td>
<td>55.0</td>
<td>1.74</td>
</tr>
<tr>
<td>Bolivia</td>
<td>70.9</td>
<td>58.6</td>
<td>1.33</td>
</tr>
<tr>
<td>Pando</td>
<td>83.8</td>
<td>72.4</td>
<td>1.23</td>
</tr>
<tr>
<td>Chuquisaca</td>
<td>79.8</td>
<td>70.1</td>
<td>1.05</td>
</tr>
<tr>
<td>Beni</td>
<td>81.0</td>
<td>76.0</td>
<td>0.54</td>
</tr>
<tr>
<td>La Paz</td>
<td>71.1</td>
<td>66.2</td>
<td>0.53</td>
</tr>
<tr>
<td>Oruro</td>
<td>70.2</td>
<td>67.8</td>
<td>0.26</td>
</tr>
<tr>
<td>Potosí</td>
<td>80.5</td>
<td>79.7</td>
<td>0.09</td>
</tr>
</tbody>
</table>

*Source: Instituto Nacional de Estadísticas (INE)*

[All the figures presented in this section are based on data produced by INE](#).
If we look at basic needs satisfaction according to its different components, we can again see that major progress in insufficiency reduction has been achieved in education (~17 percent) and water and sanitation (~18 percent). In both cases, progress is relatively well distributed throughout the large majority of regions.

(8) Of these two elements, access to water has increased much more substantially than access to sanitation.
These contrasting results may be partially explained by the fact that specific questions on health services attendance were not the same in the 1992 and 2001 censuses. In 1992, people were asked if they attend formal health establishments; in 2001 the question was more specifically related to what type of birth attendance they have access to. In any case 2001 results show striking disparities between regions regarding the percentage of births being attended by doctors or professional nurses. It may be also that birth attendance by skilled persons was overestimated in the 2001 Census; specific surveys on health and demography conducted afterwards show a lower degree of coverage at the national level.

Significant progress is also registered in the health sector; however this is very unequally distributed. Whereas insufficiency in attendance to health services has been reduced by more than 25 percent in four departments (mainly in the lowlands and south valleys), in the three highlands departments no progress at all is recorded.

Access to energy services is the component where overall less progress has been registered, with a reduction of 8 percent in insufficiency. At the same time, it should be noted that the level of insufficiency in this sector is generally lower than the others that make up the UBN index.
Finally, looking briefly at disaggregated data at the municipal level, the general trends noted above could be corroborated. The municipalities that already had a lower UBN incidence in 1992 are those that have achieved greater advances in poverty reduction between 1992 and 2001. While there are a number of poor municipalities - with a UBN index greater than 80 percent in 1992 - that have achieved a significant reduction in UBN during this period, there are also many where diminution has been slight. In addition, some municipalities have experienced setbacks and in 2001 show a UBN index higher than in 1992.

The next figure illustrates the divergent tendencies among municipalities during the last decade regarding progress in basic needs satisfaction.
To close this section, it is worth summarizing the conclusions of the *Bolivia 2002 Progress Report on the Millennium Development Goals*. This Report’s main statement is that «...there are only slight probabilities of Bolivia being able to achieve poverty objectives, especially if the present pattern of growth is taken into account.» (INE/UN/UDAPE: 2003, p. 10).

In contrast, the same Report considers it highly probable that Bolivia will achieve universal primary education and eliminate gender disparity in education. The Report also regards as probable the achievement of the goals related to the reduction of child and maternal mortality. In this area, however, conclusions may need to be reassessed in the light of new data showing that the pace of advances in recent years has been slowing (World Bank, 2004).

Regarding the fight against HIV/AIDS, malaria and other endemic diseases, the Report considers achievement of the goals only slightly probable, in view of financial restrictions, the focusing of actions on other areas (maternal and child health) as well as the lack of an efficient HIV/AIDS information system.

Finally, in the area of environment and sustainable development, and in spite of significant advances in terms of policy formulation as well as important progress in the supply of potable water, the Report considers achievement of the goals also only slightly probable because of the lack of norms and regulations as well as institutional weaknesses that hinder policy implementation.

### Bolivia’s progress toward Millennium goals summary

<table>
<thead>
<tr>
<th>Goals</th>
<th>Met by 2015?</th>
<th>State of support conditions for achievements of the goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eradicate extreme poverty and hunger</td>
<td>Slightly probable</td>
<td>Improving, but more support is needed</td>
</tr>
<tr>
<td>Achieve universal primary education</td>
<td>Probable</td>
<td>Good, but more support is needed</td>
</tr>
<tr>
<td>Promote gender equity and autonomy for women</td>
<td>Probable</td>
<td>Good</td>
</tr>
<tr>
<td>Reduce infant mortality</td>
<td>Probable</td>
<td>Improving, but more support is needed</td>
</tr>
<tr>
<td>Improve maternal health</td>
<td>Probable</td>
<td>Improving, but more support is needed</td>
</tr>
<tr>
<td>Fight against HIV/AIDS, malaria and other diseases</td>
<td>Slightly probable</td>
<td>Improving, but more support is needed</td>
</tr>
<tr>
<td>Guarantee sustainability of environment</td>
<td>Slightly probable</td>
<td>Weak, but improving</td>
</tr>
</tbody>
</table>
3. Decentralization and poverty reduction in Bolivia

In this section, we will first provide a summary of the country’s framework for decentralization, followed by an analysis of how some of the critical factors identified in the first part come into play in the Bolivian context.

3.1. A description of the general framework for decentralization

The decentralized reform process in Bolivia took a new course with the adoption in 1994 of the Law of Popular Participation (LPP), a piece of legislation that encompasses a comprehensive set of territorial, political, administrative and fiscal aspects. In summary, this law has brought about two critical transformations:

1. The full transfer to municipal authorities of significant responsibilities and sources of revenue, together with the creation of a large number of new municipalities spanning urban/rural areas throughout the country.

2. The legal recognition of rural and urban grassroots territorial organizations (organizaciones territoriales de base) and the creation in each municipality of a Vigilance Committee (Comité de Vigilancia) whose members are elected by these organizations and which hold the right to participate in planning processes and to audit municipal budgets.

Until 1994, municipal governments formally existed only in urban centres of more than 2000 inhabitants. In reality, the nine departmental capital cities accounted for more than 90 percent of national transfers discreetly assigned to municipalities. The Law of Popular Participation (LPP) subdivided the whole Bolivian territory into 314 municipalities (now 327), on the basis of an old administrative territorial division called «provincial section».

At the same time each municipality has been entitled to receive automatically a share of national resources (Molina, 2003). Known as the principle of co-participation (coparticipación), 20 percent of all national state revenues are now distributed among local governments according to their population, on a per capita basis. These transfers complement municipalities’ own sources of revenue which stem mainly from property and vehicle taxes.

Municipalities own the local infrastructure in education, health, irrigation, roads, sports and culture, and they hold the concomitant responsibility for maintaining these facilities, and investing in new ones. The provision of social services as such has not been...
decentralized to the municipal level, but municipalities have the ability to request health and education local authorities for a ratification or change. Public utilities (water, electricity and telecommunications) are supplied by private providers, users’ cooperatives or municipal enterprises, with a strong push from national authorities towards privatization, especially in large cities.

The first municipal elections under LPP were held in 1996. Each municipality is run by a government composed of the municipal council and a mayor. Municipal councils include from five to eleven members according to the population of the municipality. According to the State’s Constitution, municipal elections are held every five years. Candidates for mayor and councillor posts must run under the umbrella of a political party list or, thanks to a constitutional amendment approved in 2004 by the Congress, a citizens’ association list. At least thirty percent of the list’s candidates must be women. Candidates for mayor are the first on their respective lists. Although citizens formally vote for a list, in actual practice electoral campaigning focuses on the first candidate in person and/or their political affiliation.

Electoral results are processed according to proportional representation. For a candidate to be elected mayor directly through general elections, it is necessary for his/her list to win more than 50 percent of the votes. Otherwise the municipal council elects the mayor, choosing between the two candidates with the highest shares of the vote. The Constitution allows for a «constructive censure vote»: if a mayor has not been directly elected by more than 50 percent of the voters, s/he can be revoked by three-fifths of the municipal council members. In replacement, any councillor can then be elected by the other members.

According to the law, grassroots territorial organizations -peasant communities and indigenous organizations in the rural areas, neighbourhood associations (juntas vecinales) in the urban centres—hold the right to propose, request, control and supervise the provision of public works and public services at the local level. On the other hand, they have an obligation to participate and cooperate in the implementation and administration of these projects and services.

The Vigilance Committee (VC) acts as a liaison between grassroots organizations and the municipal government in the exercise of their rights and duties. The VC oversees the equitable allocation of municipal resources between urban and rural communities in the municipality, and it must issue a public statement about annual
municipal budgets. The VC has the authority to denounce the misuse of municipal resources, in which case the central government is obliged to conduct an evaluation. If the situation is not corrected, the central government, according to the State’s Constitution, transmits the denunciation to the Senate, and if the Senate admits the denunciation, national transfers to the local government concerned are suspended until the situation is resolved definitively.

The decentralization legislative framework was complemented in 1995 by the Law of Administrative Decentralization (LDA) which regulates the functioning of the nine departmental Prefectures (Prefecturas), an intermediate level of administration between central government and municipalities. The Prefectures are in charge of formulating departmental development plans and executing public investment in the areas of roads construction, rural electrification, irrigation, research and extension, environment, tourism, and others concurrently with municipalities. The Prefectures, by delegation from central government, are also responsible for supervising and administering human resources and budget line items assigned to personal services in the areas of education, health, and social assistance.

The main sources of Prefectures’ revenue are, on the one hand, departmental royalties established by law from natural resources exploitation (hydrocarbons, mining and forests), and a 25 percent share of a special national tax on hydrocarbons and their derivatives. On the other hand, Prefectures benefit from “extraordinary” (read discretionary) transfers from national treasury. They finally administer allocations as annually established in the national budget for expenses incurred in health, education and social assistance personal services.

According to the State Constitution, the Prefect is designated by the President of the Republic. The LDA complements the power structure with the creation of Departmental Councils composed of citizens elected by municipal councillors. These Department Councils are fundamentally a consultative body with some audit powers. The Councils may request the removal of Prefects but the President is not compelled to accept this request.

To end this description, it is important to recall that decentralization in Bolivia has taken place in the context of other key reforms that were basically oriented towards drastically reducing public sector direct participation in industry and in the provision of public utilities, while increasing public investment in social sectors and infrastructure (mainly roads). This way, public enterprises in the

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(12) This share is distributed among the nine prefectures according to the following formula: 50 percent as a function of the population of each department, and 50% in equal shares for the nine departments. The Prefectures that collect an amount for royalties less than the national average for departmental royalties per inhabitant are also entitled to an annual budgetary compensation from the National Treasury.
sectors of hydrocarbons, mining, transport, telecommunications and electricity were privatized under an innovative model known as «capitalization»\(^\text{(13)}\). At the same time, as already explained in section 2.2, primary education and basic health agenda. As a result of all these transformations, the share of social investments as a proportion of total public investments increased from 18 percent in 1990 to more than 40 percent between 1998 and 2002 (VIPFE, 2004).


Political decentralization at the municipal level in Bolivia has satisfied the most important conditions required for such a process to be meaningful. Municipal bodies have been granted important decision-making powers, together with stable sources of financial resources. Moreover, national legislation has been rapidly implemented throughout the country. In 1995 each municipality received its share of national transfers (co-participation) and the first municipal elections under LPP were held in 1996.

Co-participation has drastically increased the income of local governments while at the same time it has considerably improved horizontal fiscal equity. Transfers rose from 52 million dollars in 1993 to 204 million in 1998, and the share of capital cities dropped from 92 percent to 40 percent (Altman and Lalander, 2003). During the same period, the share of total public investment executed at the local level increased four-fold. In 2000, municipal governments accounted for the execution of approximately 24 percent of total public investment and 35 percent of total social investment (Ministerio de Desarrollo Sostenible y Planificación, 2002).

At the same time, thousand of grassroots territorial organizations were given legal recognition and Vigilance Committees have been put in place in all but a very small number of municipalities. Hundreds of citizens from rural areas and of indigenous origin have been initiated into local politics and municipal governments’ administration. A major progressive institutional transformation has thus taken place in the country in a short period of time. Municipal governments and popular participation at the local level are now irreversible facts of life in Bolivia, and public opinion polls reveal that local governments generally benefit from higher levels of support than other levels of government (Centelles and Navarro, 2004).

Some scholars and decentralization specialists have also argued that Popular Participation has played a major role in the struggle against poverty in the country. Cavero (2004) and Ardaya (2003), for example, state that municipal governments are responsible for the main

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\(^{\text{(13)}}\) Fifty percent of state enterprises were sold to private bidders who paid the company rather than the government and now control their management. The other fifty percent has been deposited in a special account administered by a private pension fund in charge of distributing an annual dividend bonus to all Bolivian citizens over 64 years old.
factors that have contributed to poverty reduction during the last decade. Faguet (2003) also credits the shift towards social investment after 1994 to decentralization. With data covering the period 1987-1996, he developed econometric models of public investment showing that, after 1994, investment in education, water, sanitation and agriculture not only increased throughout Bolivia but also that the increases were disproportionately high in those municipalities where the objective need for such services was greatest.

Regarding this line of argumentation, it is worthwhile to recall here the caveats formulated by Bardhan (2002), which we have summarized in the first chapter (p.5). As we have already indicated, the shift towards social sectors in public spending has not only been the result of decentralization. In fact it has been part of a wider process of economic and institutional reforms that affected central government patterns of spending as well. On the other hand, many of the alleged impacts of decentralization on poverty reduction in Bolivia are based on inferences from the allocation of public investment at the local level, and not on an evaluation of how these inputs have effectively contributed to poverty reduction outcomes.

There are few studies that have looked specifically at the relationships between decentralization and poverty reduction. Gray Molina (2002) intended to estimate determinants of poverty reduction across municipalities, using four groups of variables: (i) demographic changes; (ii) municipal social investments; (iii) municipal political variables (number of grassroots organizations involved in participatory planning and number of mayors between 1994 and 2000); (iv) sector-specific national policies in education and health.

His main conclusions are firstly that urbanization has been a key factor influencing the significant decrease in the Unsatisfied Basic Need (UBN) index between 1992 and 2001. Secondly municipal social investments are significantly related to social service infrastructure availability but not so much to specific educational and health outcomes. These outcomes are more significantly related to the implementation of national sector-specific policies.

Among the political variables the high degree of political instability (high turnover of mayors) is negatively correlated with poverty reduction. Number of grass-roots organizations participating in planning showed no significance, although it is doubtful that this specific variable really captures the dimension of participation.
Pinc (2004) also addresses the question of the extent to which participation at the local level contributed to poverty reduction measured through the UBN index. Based on quantitative and qualitative analysis, his principal findings also show that poverty tended to be reduced first in municipalities that enjoy historically stronger relationships with central government, are more urbanized, and are located at lower altitudes and in warmer climates. An institutional factor positively correlated with poverty reduction is the amount of resources spent per poor person, a factor that is closely linked to the ability of municipal governments to raise their own resources (and then again, as we will see below, with urbanization and per capita levels of income).

In this context, citizen participation would have played a limited role and only under certain circumstances. Municipalities with the best outcomes in poverty reduction did register an above average percentage of grass-roots organizations participating in municipal planning meetings. At the same time, many other municipalities with high rates of participation revealed weak performance in poverty reduction.

In the rest of this section we will thus examine some of the institutional and political factors that may have impinged on the limited contribution of many municipalities to the reduction of poverty and socio-economic inequalities. We will first look at municipal spending patterns and financing sources, and then discuss the political context and the roles played by other levels of government in the process.

The next two figures illustrate the evolution of public investment realized by municipal governments from 1994 to 2000 as well as its relative distribution among sectors. First it is interesting to note how sensitive municipal investments are to the electoral calendar. Municipal investments reached a peak in 1996 and 1999, years at the end of which municipal elections were held. A second obvious observation is that «urbanism and housing» is the main field of municipal investment. Its relative importance has diminished over time, but it still represented 40 percent of total municipal investment in 2000. For the most part investments under this heading refer to the paving of streets and sidewalks, construction or restoration of stairways, central squares, parks and sports grounds, and in some cases installation of drainage systems.

These public works are one of the main functions of municipal governments, and there is no doubt that they have contributed to improve some aspects of the quality of life and the self-esteem of...
many citizens in a number of cities and small towns. They also contribute to the creation of temporary jobs at minimum wages that benefit unskilled workers, many of them women. Still their impact on poverty reduction has been limited. Many have also pointed out that, in municipalities with a large rural population, the predominance of «urbanism» in public investment reflects the preferences of local town elites (Ayo, 2003).

The three other sectors that retained a significant percentage of municipal investments are education, water and sanitation, and transport. Together they also amounted to more than 40 percent of total municipal investment in 1999 and 2000. It is through these investments that municipalities have probably contributed most significantly to poverty reduction in the country. As we have already shown in the section about poverty reduction in Bolivia, most significant progress has been registered in education achievements and water access. The greater emphasis on transport in recent years may also indicate that municipalities are progressively giving more importance to the needs of rural communities through the building and maintenance of local roads and small bridges.

In contrast we can observe that the health sector barely received five percent of municipal investments. In the same way, four sectors that are more closely related the development of economic infrastructure – irrigation, energy, communications and «support to production» jointly accounted for less than nine percent of municipal investments throughout the period (and only 4.5 percent in year 2000).
### Municipal Sectoral Investment 1994-2000

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<tbody>
<tr>
<td>Urbanism and housing</td>
<td>56.4</td>
<td>53.1</td>
<td>45.8</td>
<td>47.7</td>
<td>32.0</td>
<td>35.5</td>
<td>40.0</td>
</tr>
<tr>
<td>Transport</td>
<td>3.6</td>
<td>4.3</td>
<td>4.5</td>
<td>4.5</td>
<td>9.2</td>
<td>16.5</td>
<td>14.0</td>
</tr>
<tr>
<td>Education</td>
<td>9.3</td>
<td>16.6</td>
<td>21.6</td>
<td>22.1</td>
<td>20.8</td>
<td>16.3</td>
<td>13.5</td>
</tr>
<tr>
<td>Water and sanitation</td>
<td>16.0</td>
<td>13.0</td>
<td>9.5</td>
<td>8.2</td>
<td>16.6</td>
<td>12.0</td>
<td>13.4</td>
</tr>
<tr>
<td>Multisectorial</td>
<td>5.3</td>
<td>3.3</td>
<td>4.4</td>
<td>4.7</td>
<td>8.9</td>
<td>5.8</td>
<td>9.7</td>
</tr>
<tr>
<td>Health</td>
<td>1.4</td>
<td>3.0</td>
<td>7.1</td>
<td>4.2</td>
<td>4.2</td>
<td>5.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Irrigation</td>
<td>1.0</td>
<td>1.8</td>
<td>1.2</td>
<td>3.9</td>
<td>2.3</td>
<td>2.9</td>
<td>1.7</td>
</tr>
<tr>
<td>Energy</td>
<td>5.1</td>
<td>3.3</td>
<td>3.9</td>
<td>3.3</td>
<td>3.4</td>
<td>3.4</td>
<td>1.8</td>
</tr>
<tr>
<td>Support to production</td>
<td>1.6</td>
<td>1.3</td>
<td>1.7</td>
<td>1.4</td>
<td>2.3</td>
<td>3.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Communications</td>
<td>0.2</td>
<td>0.4</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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In order to go further in appraising the role of local governments, we will now compare the distribution of public investment between different levels of government and attempt to specify the extent to which municipal spending is conditioned by national policies and rules. The next two figures illustrate the distribution of public investment between national, regional and municipal levels according to two types of definition: by level of administration and by execution entity.

The first definition refers to the level or entity in charge of the financing. According to this definition, municipal governments and regional administration each account for around 21 percent of total public investment, whereas national government represents 41 percent. Social funds\(^{16}\) are responsible for the rest, close to 18 percent.

The second definition refers to the entity responsible for the execution of public investment. In that case municipalities nearly double their share to 35 percent of total public investment executed in the country. This is because social funds mostly finance projects executed by local governments. At the national level, we can appreciate the important part of public investment executed by autonomous public institutions included under the title of «delegate administration»\(^{17}\).

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\(^{16}\) The two more important Funds are the Fondo Productivo y Social (FPS) and the Fondo Nacional de Desarrollo Regional (FNDR).

\(^{17}\) By far the most important of these institutions is the National Roads Service (Servicio Nacional de Caminos) which is responsible for the construction and maintenance of the main roads’ network.
According to this last definition, municipal governments would be accountable for 35 percent of total public investment, and departmental administration for more than 20 percent. Together these two sub national levels would thus account for almost 60 percent of total public investment. However, as Ebel and Yilmaz (2002) have argued, the percentage of sub national expenditure (in our case, of public investment) may in reality overestimate the real degree of fiscal decentralization and of local expenditure autonomy, given that this figure habitually includes expenditures that are in fact mandated by central government.

Using Ebel and Yilmaz’s classification, in the next figure we have divided the four main sources of municipal revenues into two broad categories:
own-revenues and conditional transfers. Own-revenues include municipal taxes (property and vehicles) and co-participation transfers, which we have labelled here «unconditional block transfers»18. Conditional transfers include the share of HIPC debt alleviation resources that each municipality has been allocated, and grants allocated by social funds on the basis of project proposals presented by municipalities.

Formally, the distribution of HIPC resources could also be considered as «unconditional block» transfers, given that each municipality is automatically allocated a share of these resources on the basis of an objective formula that combines population with level of poverty measured by UBN. In reality, municipalities mostly use HIPC resources to match social funds grants, and they are thus closely tied to these conditional transfers.

The figure illustrates the percentage distribution of municipal sources of income on the basis of the information available in 200 municipalities. We can observe first that total transfers (unconditional + conditional) represent from 89 to 95 percent of municipal incomes in the large majority of municipalities. Municipal tax revenue represents a significant part of municipal incomes only in the limited number (19) of municipalities that have more than 50,000 inhabitants.

A second observation is that conditional transfers would represent from 50 to 65 percent of municipal incomes in all but the 19 larger municipalities. This means that social funds’ norms and rules critically influence local governments’ use of resources, especially those with a majority rural population. As we have already indicated in the introduction of this paper, a number of municipalities have actually faced difficulties in formulating and implementing projects according to social funds’ requirements and, in 2002, almost 50 percent of these HIPC resources remained unused. Therefore the potential benefits derived from national transfers directed at poverty reduction have been notably restricted.

* This figure represents the planned execution according to social funds. As already explained, municipal governments have to present specific projects in order for this planning to be effective.


Municipal Governments’ Sources of Income Percentage Distribution

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<tbody>
<tr>
<td></td>
<td>Nr. of municipalities with information</td>
<td>Municipal taxes revenue</td>
<td>HIPC account</td>
</tr>
<tr>
<td>&lt; 5,000</td>
<td>46 out of 83</td>
<td>5</td>
<td>23</td>
</tr>
<tr>
<td>5,000 – 15,000</td>
<td>80 out of 125</td>
<td>5</td>
<td>39</td>
</tr>
<tr>
<td>15,000 – 50,000</td>
<td>55 out of 87</td>
<td>11</td>
<td>39</td>
</tr>
<tr>
<td>&gt; 50,000</td>
<td>19 out of 19</td>
<td>45</td>
<td>37</td>
</tr>
<tr>
<td>TOTAL</td>
<td>200 out of 314</td>
<td>33</td>
<td>37</td>
</tr>
</tbody>
</table>

* This figure represents the planned execution according to social funds. As already explained, municipal governments have to present specific projects in order for this planning to be effective.

The «unconditional» character of co-participation transfers also deserves some qualifications. Concerns about the weak commitment of local governments towards the health sector, for example, led national authorities in 2002 to adopt legislation requiring municipalities to earmark 10 percent of resources obtained through co-participation transfers to co-finance a newly created universal health insurance programme for children under five and pregnant women. A similar regulation was already approved in 1998 regarding the financing of a health programme that benefits people of 60 years and over.

Municipal governments generally perceive this type of ruling as a constriction of their autonomy. Something of the sort could also be said of the law stipulating that municipal governments cannot allow more than 25 percent of their income to cover operational spending, as opposed to investment spending. The rationale of this measure is of course to avoid inflated local bureaucracies and unnecessary purchase of supplies and equipment. Still, this general rule does not take into account different local needs and capacities.

These regulations reflect a general propensity of national authorities to set the decentralization process within the framework of a large number of detailed rules and procedures applicable to all local governments. A rather paradoxical aspect of popular participation, these procedures together shape in detail participatory planning methodologies and civil society organizations’ forms of involvement. As a result, the prevailing uniformity of regulatory and institutional frameworks has constrained municipal governments’ and regional decentralized administrations’ capacity to adapt to very heterogenous geographic, economic, social and cultural realities. Several analysts have emphasized that this inclination towards uniformity reflects a deep-rooted centralist and vertical culture among political and bureaucratic elites (Laserna, 2003; Blanes, 2003; McNeish, 2004).

Another factor that could have been at play is the political context in which the decentralization process was first implemented. The truth of the matter is that decentralization through municipalization and popular participation were not at first sponsored by any major political party or traditional civil society actors, such as trade unions, indigenous organizations or the so-called departmental civic committees. The process was launched thanks to the commitment of a small group of independent reformers who were called in by the President of the Republic and enjoyed his full support between 1993 and 1997. These reformers likely managed to incorporate in national
legislation as much detail as was considered necessary to ensure the sustainability of the process.

Be that as it may, detailed regulations have not impeded patronage systems from seriously affecting the course of the decentralization process at its different levels. Patron-client relationships have long been pervasive in Bolivian politics, but contemporary economic and political conditions have contributed to their exacerbation during the last decade. Whereas the privatization of public enterprises has reduced job opportunities in the public sector at the national level, slow economic growth and the private sector’s weak capacity in creating new jobs have submitted political parties to renewed pressure from their membership for employment in the public sector. At the same time, the fragmentation of voters’ preferences between four or five political parties of relatively equal size has led to the establishment of large and unstable political coalitions to ensure the executive branch’s control over Congress. These coalitions have been largely based on the distribution of spheres of influence and opportunities for personal gain among coalition members.

It is at the intermediate level of departmental Prefectures that patronage systems have had the most damaging effects. Prefecture management has above all been submitted to the imperatives of national politics as politicians sought to control them to distribute as many posts as possible among their party members. This way Prefects in many cases were not able to exert authority over important sectors of departmental administration because the managers of these sectors responded first to their respective political party, not to the Prefecture’s formal authority. Removal of Prefects and managers has also been frequent, each change being accompanied by a large turnover in administrative staff. At the same time, instability and poor management at Prefecture level has provided a convenient pretext for health and education employees to resist the decentralization process and maintain their de facto large autonomy from public authorities at the departmental and local levels.

Prefectures should play a critical role of vertical and horizontal coordination between national government and municipalities, on the one hand, and between municipalities within the same department, on the other. This has not been happening in any significant way, and when some coordination took place, it was habitually influenced by the need to reward political allegiances. As many Bolivian analysts have emphasized, Prefectures have definitively been the «missing link» (Laserna, 2003) in the decentralization framework in Bolivia.
The culture of patronage has also curbed local participatory processes and affected the quality of municipal management in many municipalities, particularly in the largest cities, where political parties often reproduced the same type of coalitions of interest that prevailed at the national level. In these municipalities, Vigilance Committees have easily been captured and put to the service of municipal authorities (Blackburn, 2000).

Local dynamics have, however, curbed these tendencies in several places. Mayors strongly committed to their constituencies have been a key factor in facilitating a genuine social participation and ensuring a responsive and relatively efficient management of municipal affairs. These municipal administrations have been able to take advantage of the support provided by several capacity-building programmes sponsored by the government or by NGOs, and financed by international cooperation.

In a few large cities, renewed local leaderships have emerged, asserting their independence from major political parties. This tendency towards independence from major political parties may be reinforced in the future with the recent approval of a constitutional modification that allows citizens’ groups and indigenous peoples to present their own lists to municipal and national elections. At the same time, new political parties, which count on a strong power base among rural poor and indigenous people, have emerged on the national political scene in recent years and will now compete for mayors’ offices and town councils in all but a few municipalities of the country.

It is likely that in the near future municipalities will strengthen their ability to represent the social and ethnic diversity of the country. The question will be whether these representatives have the means and capacities that are needed to meet their constituency’s expectations and how this enhanced representation can contribute to the reduction in socio-economic inequalities and to national consensus-building.

(23) This opening of the electoral system will be put in place for the first time in the municipal elections of December 2004.
4. Conclusions and recommendations

The examination of the decentralization process in Bolivia in the light of international experience has allowed us to improve our understanding of the potentialities and limitations of decentralization with regard to poverty reduction. In this last section we will focus our discussion mainly on a few issues related to the institutional framework for decentralization that we consider to be critical for the strengthening of the decentralization process in Bolivia and for the improvement of local government capacities to provide public services in favour of the poor.

The primary general conclusion is that the decentralization framework should definitely be made more flexible. The rules and systems in place should take into account the major differences in resources, capacities and geographic conditions that exist between large cities, on the one hand, and small (in population) rural municipalities, on the other. Such flexibility would probably lead towards an asymmetrical type of decentralization framework in which sub-national governments would have the possibility to opt for relatively distinct degrees of decentralization.

National institutions should also restrain their inclination to regulate local governments functioning down to the last detail, so that local administrations have more autonomy in applying general regulations according to local conditions and preferences. Greater flexibility and diversity should also prevail at the moment of establishing the modalities of social participation. Experience has shown, for example, that vigilance committees in large cities do not account for the full diversity of social and economic actors that should have a say in local governments’ planning processes. In rural areas, several indigenous peoples’ organizations are also looking for new avenues of participation that would better correspond to their customary forms of organization.

It should be noted that political debates about decentralization in Bolivia at this moment are centred on the question of the «autonomy» (autonomía) of departmental administrations. The idea of consolidating a third level of elected governments at the intermediate echelon has been gaining strength in the face of Prefecture administrations’ serious shortcomings (Barrios Suvelza, 2003). But above all it is the call for the establishment of a Constituent Assembly in the second half of 2005 that has opened the way to a broad reconsideration of the Bolivian model of decentralization towards the consolidation of autonomous regional governments. This idea finds widespread support in the relatively better-off departments of Santa Cruz and Tarija, which also happen to
be the regions where most of Bolivia’s recently discovered large reserves of natural gas are to be found.

If the general idea of «regional autonomy» may arrive at some consensus, actually quite different interpretations of this notion exist, going from extremely decentralized federalist types of arrangements to minor adaptations of the actual model. The debate has not yet touched on seriously concrete issues such as legislative competencies, fiscal responsibilities and the like, and for that reason it would be definitely premature to express a judgment about its possible results. Still, one cannot but warn against the risks of a discussion where genuine claims against excessive centralism mingle with regional elite’s interests in preserving, if not increasing, regional and socio-economic inequalities.

Be that as it may - and coming back to our main interest, the municipal level- we share the conviction that there is a strong case for gradually extending municipal government responsibilities in the providing of public services, mainly in the fields of local infrastructure (road, energy, irrigation, water and sanitation), urban services, education, health, nutrition and social safety nets. For this process to be successful, three critical questions will have to be addressed.

The first concerns the improvement of the system of intergovernmental transfers so that these transfers simultaneously allow for local governments’ needs and capacities, foster local efforts in mobilizing own resources, and ensure access to essential social services for all citizens throughout the territory. In the case of Bolivia, we have seen that conditional transfers have been augmented significantly in recent years up to the point that, for the large majority of local governments, they potentially represent more than 50 percent of municipal incomes. At the same time, central government has raised the proportion of co-participation transfers, unconditional in principle, that are earmarked for the financing of national health programmes. Therefore, while municipal incomes have increased, local autonomy has been progressively limited.

There are no ready-made solutions to ease this tension between strengthening local autonomy and working resolutely towards the achievement of national poverty reduction goals. Next we will summarize a few proposals that may provide useful guiding principles for improving the system of intergovernmental transfers in Bolivia and elsewhere.
On the basis of an appraisal of several Latin American countries’ practices, Finot (2003) puts forward an interesting scheme through which the current system of intergovernmental transfers should be progressively divided into a system of social transfers and a system of territorial transfers. The objective of social transfers would be to ensure all inhabitants, wherever they live in the country, equal access to essential social services such as health, education and drinking water. In this system, municipalities would act as local operators of nationally financed services, and transfers would be distributed according to local needs (for instance school age population) and relative costs of providing those services in different geographical and demographic settings. Furthermore, such a system would help in overcoming the bias towards infrastructure investment to the detriment of operational costs, a bias typical of social fund transfers that usually reward local governments for constructing new facilities and not for maintaining existing ones (Bird, 2001).

The objective of territorial transfers would be to compensate for territorial inequalities and complement local development efforts, mainly in the supply of infrastructure services, such as roads, energy, irrigation, sanitation and the like. These transfers would be proportional to local financial contributions and municipal governments could freely decide on their use according to their own priorities. In order to allow for relatively different local fiscal capacities, Finot recommends taking into account as quasi local taxes the diverse types of citizens’ contributions to the provision of public goods, especially their contributions in work and in kind which are customary in poorer areas.

Along the same lines, Centelles and Navarro (2003) suggest modifying the formula of co-participation transfers in order to include three components. The first one (the smallest) would be a fixed share equal for all municipalities in order to ensure each one basic administrative capacities, regardless of its size. According to Bird (2001) evidence suggests that a core minimum number of professionals are required for efficient local government, whereas the size of this core does not need to increase proportionally with population. The second share (the largest) would be in proportion to population size (as in the present system). Finally, the third one would be in proportion to the annual percentage of increase in municipal incomes.

As we have already seen, in Bolivia as in many other countries, property taxes are the main source of local income. In order to strengthen local autonomy and local accountability, the main recommendation is to allow municipal governments to set their own
tax rates (perhaps within limits)\(^{(26)}\). Cadastral maps should be updated and more current valuations made, for which tasks the support of independent national agencies may be most appropriate (Bird, 2001; Finot, 2003). At the same time, and probably more important, closer attention should be paid to what Bird (2001) calls the «sharp end», that is collection and enforcement.

This last point directly calls our attention to the second critical question for the strengthening of local governments, which is the development of their management and administrative capacities. The enthusiastic adhesion of many donors and experts to the «New Public Management» approach in recent years has overlooked the elementary fact that Bolivia, like many other developing countries, still faces the challenge of establishing the foundations of a professional bureaucracy closer to the traditional Weberian model. By this we mean a bureaucracy staffed by competent civil servants who comply with the rule of law, act impartially and are not corrupt. In return these civil servants should be recruited on the basis of their merits and enjoy career stability.

We have seen that the culture of political crony capitalism has been the main obstacle to the consolidation of these essential civil service qualities. The experience in Bolivia and elsewhere has shown that the most important conditions for the success of institutional reforms are strong political leaderships and consensus-building among strategic actors, at the national and sub-national levels, based on a shared understanding of the costs and gains brought about by these reforms (Prats, 2003).

The crisis of the political system that broke out in October 2003 and the ensuing call for a Constituent Assembly may offer a propitious scenario for those strategic actors to engage in genuine dialogue processes and reach the fundamental agreements to enable progressive transformations of the public administration at all levels. Assuming that significant advances are possible, we highlight here one particular recommendation for the strengthening of local governments’ administrative capacities.

This recommendation is inspired by Nickson (1995) and Bird (2001), who suggest an integration of staff systems at the horizontal level, between municipal administrations, and at the vertical level, between national and sub-national administrations. This would make possible the creation of a career system allowing local government employees real opportunities of mobility and promotion. At the same time such an integrated system might encourage public servants from the national public sector level to volunteer to work at

\(^{(26)}\) In Bolivia municipal governments must request Senate’s approval to modify property tax rates.
the local level, contributing to the improvement and professionalization of local staff.

A third critical question for the improvement of local governments’ performance is the reinforcement of national monitoring and evaluation capacities. Until now, municipal authorities have evaluated their results basically in terms of kilometres of new paved road, number of new schools and health buildings, or amount of food rations distributed to pupils. Accordingly, supervision of national institutions is focused on municipal financial execution, its legality and its compliance with approved budgets. It is imperative to broaden monitoring and evaluation towards impact on people’s quality of life. The Millennium Development Goals (MDGs), for example, could perfectly constitute the framework for establishing minimum benchmarks and measuring progress at the local and national levels.

Insofar as municipalities are responsible for the delivery of essential social services, central government has the responsibility of regulating and monitoring the efficiency and equity of those services with regard to the overriding national objective of ensuring universal access. In the words of Bird (2001), municipal governments must be accountable both to those who benefit from their services and to those who pay for them.

Information is the key to accountability and transparency. It also represents a vital input for genuine processes of democratic deliberation and participation. Quoting Bird (2001) once more, an information system that regularly provides reliable comparative information on local governments’ performance is probably the best way to encourage the adaptive development of the decentralization framework in response to changes in needs and capacities.

The development of this information system will require time and resources. In a country like Bolivia where fiscal constraints are currently very severe, this is a field where donors’ contributions could be of strategic importance. The institutional framework that will guarantee the credibility of this system will also have to be well thought out. If the information that is published, be it neutral or not, is perceived as reflecting only the interests of central government, it will not produce the expected results. Some sort of intergovernmental directory, coupled with the participation of an academic or nongovernmental research institute, may be the best way to win the confidence of all interested parties.
Bibliography


