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Impacts and Consequences of the New Regime of Autonomies in Bolivia: Elements for a Discussion

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1. Introduction

Decentralization is one of the most widespread and influential policy trends of the past generation. In countries as different as Colombia, Egypt, India and the Ukraine, public administrations are being decentralized in an attempt to make them more efficient, flexible and responsive. And under the guises of subsidiarity, devolution and federalism, reform is firmly in the foreground of policy discourse in rich countries too. Indeed one recent study (Manor 1999) estimates that between 80% and 100% of the world's countries have experimented with one or another form of decentralization during recent years.

One of the most radical and sincere of decentralization reformers is Bolivia, whose 1994 Popular Participation reforms devolved widespread political powers and resources to hundreds of municipal governments that were created throughout the land. This experience has been widely studied in the international literature, and cited as an example for reformers as far afield as Bangladesh and Nepal. Bolivia is currently debating a further round of reforms that would deepen decentralization. The proposed Framework Law of Autonomies and Decentralization is a wide-ranging bill that would reform public administration by granting a degree of autonomy to departmental, regional, municipal, and indigenous and rural governments.

What effects might this have on public investment patterns, government responsiveness, government fiscal relations, the sustainability of public finances, and political accountability? Acknowledging from the outset that it is impossible to analyze the effects of a law that has not yet been promulgated, this paper instead examines its main provisions in light of the insights provided by the international fiscal federalism literature, and extensive evidence on the effects of Bolivia's 1994 reforms. My hope is that by submitting the law to the dual rigors of high-level theory and detailed evidence, we can arrive at contingent predictions of its likely effects which, if not precise, are at least reasonable baselines. These in turn allow us to make recommendations for amendments and adjustments, not so much to the legal text itself as to the more complicated and nuanced question of the implementation of reform.

The deeper aim of this paper is both to bring the proposed reforms to light for a wider audience, and to inform and enrich the current debate within Bolivia on how autonomies can be implemented in ways that strengthen democracy and give voice to the poor. The paper proceeds as follows: section 2 reviews the main definitions of decentralization and autonomy employed by the literature, and section 3 surveys the most important empirical results on the effects of decentralization found in that literature. Section 4 presents the main provisions of the proposed autonomies law, and section 5 does the same for the 1994 decentralization reform. Section 6 uses an original database to examine the empirical effects of decentralization on the universe of Bolivian municipalities during the past 16 years, attempting to trace outcomes back to salient features of the reform. Section 7 returns to the proposed law, analyzing it in light of this evidence and insights on "international best practice" from the fiscal federalism literature. Section 8 concludes.

2. What are Decentralization and Subnational Autonomy?

Before embarking on an analysis of Bolivia's recent reforms, let us briefly analyze the terms "decentralization" and "autonomy", which mean substantially different things in both the empirical literature and the international policy debate. I take each term in turn. The literature contains many taxonomies of decentralization, one of the most influential of which is Rondinelli, *et. al.* (1984), who classify the different "kinds" of decentralization as follows:

i. *Deconcentration* moves some administrative authority to lower levels within central government agencies. This Gives limited discretion to field agents (to plan and implement programs and projects, or to adjust central directives to local conditions within the guidelines set by the higher level of government).
ii. *Delegation* transfers managerial responsibility for specifically defined functions to organizations outside the regular bureaucratic structure, and only indirectly controlled by the central government. But sovereign authority retains ultimate political and administrative responsibility.
iii. *Devolution* creates or strengthens subnational units of government, the activities of which are substantially outside the control of central government. Local governments are independent, autonomous, and usually have exclusive authority over explicitly reserved functions.
iv. *Privatization* is the auto-divestiture by governments of functions either transferred to voluntary organizations or left to the private sector.

The various ways in which decentralization is commonly defined are ably treated by Rondinelli *et al.* (1983) and Ostrom *et al.* (1993), amongst others, and I refer the reader to them for a more detailed discussion. It is important, however, to point out that reforms along the lines of the four categories outlined above are *not* different forms of the same thing. Despite the treatment that they often receive in the empirical and theoretical literature, these reforms create fundamentally different institutional arrangements that establish different incentives, and thus prompt different behaviour. Public officials in deconcentrated systems are not subject to the same incentives as officials in systems that have been devolved or privatized. We should not expect such officials to behave similarly, and hence we should not expect such reforms to have similar outcomes.

This is why grouping such disparate reforms under the common rubric of "decentralization", and empirically analyzing cases which have implemented reforms that differ fundamentally in incentive terms, is a mistake. As I discuss elsewhere (Faguet 2010), this elemental conceptual mistake is responsible for a large share of the indeterminacy in the international empirical literature on decentralization, which has failed to find strong and consistent results across the literally thousands of studies and scores of countries analyzed.

In the interests of analytical clarity and empirical tractability, I follow Faguet (2004 & 2009) in defining decentralization henceforth as the devolution by central (that is, national) government of specific functions, with all of the administrative, political and economic attributes that these entail, to democratic local (that is, regional or municipal) governments which are independent of the centre within a legally delimited geographic and functional domain.

This leads us naturally to the concept of autonomy, a word employed much less frequently in the literature. Autonomy is defined by the Oxford English Dictionary (2009) as "*Of a state, institution, etc.*: The right of self-government, of making its own laws and administering its own affairs." Dickovick (2005) helpfully signals the three most important types of autonomies as legal, political and fiscal. The function of decentralization as defined in this study is therefore to modify a country's legal framework so as to increase the political and fiscal autonomy of its subnational (regional or municipal) governments.

The theoretical justification for such reforms is debated at great length in the decentralization literature, a debate which has converged to no common position. This study has no space for discussion of such complex, contested theoretical matters, and instead refers readers to Treisman (2007) and Faguet (2010), which provide careful, nuanced discussions of the theoretical implications of decentralization. Instead, I limit myself here to simply stating what in my opinion are the principal arguments in favor of decentralization that theory provides. When implemented correctly and sincerely, the local autonomy that decentralization generates should increase citizen voice and participation in public decision-making, so improving the accountability, and hence responsiveness, of governments to the governed. These changes result in a practice of democracy that is deeper and stronger than the comparatively centralized government that came before.

3. The Empirical Literature

The empirical literature on decentralization spans a number of disciplines and, if the so-called policy-oriented "gray literature" is included, runs into literally thousands of studies over the past 30 years. If we are to review this huge body of work within the limits of a study such as this one, some sampling method is required that reduces the number of studies examined without losing the diversity of disciplinary and methodological approaches, nor of research findings, that characterize this literature. The rough-and-ready approach used here is to focus on studies of decentralization recently published in *World Development*, the peer-review academic journal that has published the largest number of decentralization papers over the past three decades. The fact that this is an interdisciplinary journal publishing work in fields as diverse as anthropology and economics, and that it is considered the most prestigious journal in the field of Development Studies, only strengthens my case. What follows is I hope representative of the main questions asked and methodologies employed by students of decentralization. The section ends with a number of meta-studies that summarize a great deal of additional work.

Of 24 articles on decentralization, local government and responsiveness published in *World Development* since 1997, 11 report broadly positive results, and 13 are negative. Fiszbein (1997), Shankar and Shah (2003), de Oliveira (2002) and Parry (1997) are amongst the most enthusiastic, finding that decentralization can spur capacity building in local government (Colombia), decrease levels of regional inequality through political competition (a sample of 26 countries), boost the creation and administration of protected areas (Bahia, Brazil), and improve educational outcomes (Chile), respectively. Rowland (2001) and Blair (2000) find that decentralization improved the quality of democratic governance achieved in both large cities and small towns. And Petro (2001) finds that local government played a pivotal role in raising levels of social capital in Novgorod, Russia by establishing common social values and priorities for the community. Other authors, such as Andersson (2004), Larson (2002), McCarthy (2004) and Nygren (2005), are more cautious, arguing broadly that decentralization is a complex, problematic phenomenon, but may ultimately have positive effects on local welfare.

Amongst skeptics, some of the most striking are Ellis, Kutengule and Nyasulu (2003), Ellis and Mdoe (2003) and Ellis and Bahiigwa (2003), who find that decentralization will likely depress growth and rural livelihoods by facilitating the creation of new business licenses and taxes that stifle private enterprise (Malawi), and propagate rent-seeking behavior down to the district and lower levels, so becoming "part of the problem of rural poverty, not part of the solution"[1] (Tanzania and Uganda), respectively. Similarly, Bahiigwa, Rigby and Woodhouse (2005) and Francis and James (2003) show that decentralization in Uganda has not led to independent, accountable local governments, but rather to their capture by local elites, and hence to the failure of decentralization as a tool for poverty reduction. Porter (2002) agrees for Sub-Saharan Africa more generally. Regarding the environment, Woodhouse (2003) predicts that decentralization will fail to improve access of the poor to natural resources, or reduce ecological damage. Casson and Obidzinski (2002) go further, reporting that decentralization in Indonesia has spurred depredatory logging by creating bureaucratic actors with a stake in its proliferation. The cross-country evidence of Martinez-Vazquez and McNab (2003) is similarly unhopeful, showing that we don't know empirically whether decentralization affects growth directly or indirectly, and have no clear theoretical grounds for predicting a relationship either way. Worse, de Mello's (2000) study of 30 countries predicts that failures of intergovernmental fiscal coordination will lead to chronic deficits and, eventually, macroeconomic instability. The papers of Sundar (2001), Thun (2004) and Wiggins, Marfo and Anchirinah (2004) offer more cautious, nuanced arguments, that are on the whole skeptical about the possibility of beneficial change through decentralization.

The larger literature is similarly inconclusive. Amongst studies of Latin America, Campbell (2001) highlights the extraordinary scope of authority and resources that have been decentralized throughout the region, and argues that this "quiet revolution" has generated a new model of governance based on innovative, capable leadership, high popular participation, and a new implicit contract governing local taxation. But Montero and Samuels (2004) argue that the

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[1] Ellis and Bahiigwa (2003), p.1010.

political motives of reformers often combine with ex-post vertical imbalances to make decentralization bad in terms of elite capture, regional inequality and macroeconomic stability. Rodríguez-Posé and Gill (2004) elaborate further on the tension between inequality and stability for the case of Brazil, while Eskeland and Filmer (2002) find econometric evidence that decentralization did lead to improvements in Argentine educational achievement scores.

Perhaps this assessment of the literature is unfair? Perhaps the studies published by *World Development* are skewed in some way so as to be unrepresentative? We can check for this possibility by consulting several broad surveys that, at various points over the past 25 years, have assessed the state of the field attempting to reach concrete conclusions about decentralization's empirical effects. Amongst the most general and most cited international surveys is Rondinelli, Cheema and Nellis (1983), who note that decentralization seldom, if ever, lives up to expectations. Most of the developing countries they report on experienced serious administrative problems implementing decentralization. Although few comprehensive evaluations of the benefits and costs of decentralization efforts had been conducted then, those that were attempted indicated limited success in some countries but not others.

A decade and a half later, surveys by Piriou-Sall (1998), Manor (1999) and Smoke (2001) are slightly more positive, but with caveats about the strength of the evidence in decentralization's favor. Manor notes that the evidence, though extensive, is still incomplete, but ends on the positive note that "while decentralization …is no panacea, it has many virtues and is worth pursuing". Smoke finds the evidence mixed and anecdotal, and asks whether there is empirical justification for pursuing decentralization at all. More recently, in a review of 56 studies published since the late-1990s, Shah, Thompson and Zou (2004) find evidence that decentralization has in some cases improved, and in others worsened, service delivery, corruption, macroeconomic stability, and growth across a large range of countries.

Litvack et al. (1998) summarize the literature this way: "It is not much of an exaggeration to say that one can prove, or disprove, almost any proposition about decentralization by throwing together some set of cases or data" (p.30). Treisman's (2007) more recent review of the literature is bleaker still. He finds results on the effects of decentralization mixed at best, and for the most part inconclusive, weak and contradictory. "To date," he says, "there are almost no solidly established, general empirical findings about the consequences of decentralization" (p.250). "Almost nothing that is robust or general has emerged" (p.268). The lack of progress over 25 years and hundreds of studies reviewed by these authors is striking.

By contrast with this unfortunate state of affairs, the experience of decentralization in Bolivia has produced clear and unambiguous results. The following sections introduce Bolivian reforms and then review evidence of their effects from a database that includes the universe of Bolivian municipalities. I begin describing the central tenets of the current autonomies bill, and then turn to the older, well established Law of Popular Participation (LPP). Taking these reforms in reverse order allows us to use 16 years of evidence on the effects of decentralization at the municipal level to predict likely outcomes of extending these political and administrative autonomies to departmental, regional, and indigenous and rural governments – in effect what the autonomies bill proposes.

4. The Law of Autonomies and Decentralization

Continuing with its recent trend of expanding the scope of subnational government, Bolivia is currently debating a bill to grant regional and indigenous autonomies at the subnational level (Government of Bolivia 2009). The draft framework law (Government of Bolivia, July 2009) regulates the territorial organization of the state and integrates the new legal concept of autonomies into the pre-existing regime of municipal and departmental decentralization, with some adjustments to both of the latter levels. What exactly is this "autonomy"? The law states that autonomy is exercised when citizens freely elect subnational political authorities who have the following powers:

- create, administer and collect taxes
- enact local resolutions and regulations
- design and implement local policies, plans and programs in the judicial, administrative, technical, economic, financial, cultural and social fields, and
- use coercive powers to compel respect for the legal norms and decisions that they implement. (Art. 7)

Autonomous governments are obligated to give account to their constituent citizens and organizations for their actions and decisions. And the taxes and policies they enact may not restrict the free movement of individuals, goods and property, services or other economic activities.

Four levels of autonomy are defined: Departmental, Regional, Municipal, and Indigenous and Rural. While the first three represent a clear hierarchical descent in territorial extent and level of government, the fourth is a sort of autonomy that is qualitatively different in terms of social makeup and hence political characteristics, and which can be exercised at different hierarchical levels. I examine all four types of autonomy in turn below.

In conjunction with the new Constitution, the law also defines the procedures required for different territorial units to attain autonomous status. These range from the straightforward in the case of departments – mainly a referendum, to complicated arrangements in the case of regions, where municipal councilors must form a provisional (regional) assembly to write their normative statutes, submit them to the Constitutional Tribunal for approval, and then both statutes and the question of autonomy be approved by electoral majorities in each territorial unit that makes up the region. Where territorial units have not chosen to become autonomous, the previous decentralized administration of the state (prefectures, regions and municipalities, all modestly reformed) will remain in force. The law thus proposes two distinct political and administrative systems to operate in parallel across Bolivia, with territorial units in effect choosing between them: the decentralization regime, and that of departmental, regional and local autonomies. Because Bolivian decentralization has already been treated in section 4 and proposed reforms are modest, I henceforth focus on the proposed new autonomies and their likely effects on government efficiency and responsiveness, the sustainability of public finances, and political mobilization and stability.

Let us first consider what the various autonomies are. *Autonomous Departmental Governments* (Arts. 15-17) consist of a legislative and executive branches. The departmental assembly has deliberative, legislative and investigative powers, and is elected via a combination of universal suffrage and the traditional customs of indigenous and rural communities. The executive is led by an elected governor. Departmental revenues include statutory transfers, royalties and natural resource exploitation rights, income from the sale of property and services, legacies and other donations, departmental taxes as defined in the Constitution, and other departmental charges and fees as defined in the Constitution (Art 127).

Autonomous Regional Governments (Arts. 18-22) occur at the sub-departmental level, when municipalities and/or provinces within a department whose population or area sums to at least ten percent of the departmental total join to form a contiguous region. Regional governments consist of a regional assembly with deliberative, normative, administrative and investigative powers, elected via a combination of universal suffrage (itself a combination of first-past-the-post and proportional representation constituencies), and the traditional customs of indigenous and rural communities; and also an executive branch led by an elected maximum authority. Regional revenues include a share of departmental royalties and natural resource exploitation rights, charges and fees as defined in the Constitution, income from the sale of property and services, and legacies and other donations (Art 130).

Municipalities with at least 10,000 inhabitants (or 5,000 in the case of border towns) can transform themselves into *Autonomous Municipalities* (Arts. 23-27), whose governments consist of a municipal council, with deliberative, legislative and investigative powers, and an executive led by an elected mayor. Like departmental assemblymen, councilors are elected via a combination of universal suffrage and the traditional customs of indigenous and rural communities. The law explicitly provides for deputy mayoralties and sub-municipal districts in order to further deconcentrate local management, planning, service delivery and promote greater participation. Municipal revenues include municipal taxes as defined in the Constitution, municipal charges, licenses and fees as defined in the Constitution, a share of departmental royalties and natural resource exploitation rights, income from the sale of property and services, and legacies and other donations (Art 128).

And lastly, *Indigenous and Rural Autonomies* (Arts. 28-43) are for Bolivia's indigenous and rural

> nations and peoples who share a cultural identity, language, historical traditions, institutions, territory and world view, whose existence pre-dates the colony, but to include also the Afro-Bolivian people, and whose territory is presently inhabited by such nations and peoples. (Art. 30(1))

This form of autonomy allows such communities to apply their own principles and institutional forms to the question of self-government, defense of their cultures, and organization of their economies. The law stipulates that all such autonomous authorities must respect the rights and guarantees laid out in the Constitution, including particularly the security of private property. Indigenous and rural autonomy can be exercised at the territorial, municipal, or regional level, but not at the departmental level. The reason for this is presumably that none of Bolivia's nine departments complies with the law's criteria of indigenous majority and homogeneity – *i.e.* departments are too multi-ethnically diverse for this form of autonomy to apply.

The law lays out specific requirements for each hierarchical level to attain this form of autonomy. For example, highland territories must have at least 10,000 inhabitants, but lowland territories need only have 3,000 inhabitants; and the State Autonomies and Decentralization Service (newly created by this law) must certify that an adequate institutional capacity exists in the territory. The law goes into greater detail on requirements and processes for each hierarchical level, including specific measures for the re-drawing of municipal borders where particular autonomy petitions may make this necessary. For the sake of brevity I refer readers to the text of the law and omit further detail here.

What do indigenous and rural autonomous governments look like? In the spirit of recognizing pre-existing social norms, customs and institutions amongst Bolivia's indigenous peoples, the law leaves this question notably open (Arts. 36-38). Such governments, it says, will consist of collegiate institutions such as assemblies, councils, districts, captaincies, and others; named executive authorities such as executive secretaries, *apumallkus*, *mamatajllas*, captains, chiefs, and others; and also other principle governing bodies such as councils, confederations, coordinating committees, and others. The law requires autonomous communities to name their authorities, define their attributes and functions, determine explicit methods for periodic renewal, and determine sanctions for breach or non-compliance. More specific organization features are left to autonomous communities' discretion. Their revenues include local charges, licenses and fees as defined in the Constitution, a share of departmental royalties and natural resource exploitation rights, income from the sale of property and services, and legacies and other donations (Art 129).

The specific powers and attributes of the various autonomous governments are left undefined by the law. These would be determined on an individual basis, after specific autonomy petitions have succeeded and normative statutes have been approved, as stipulated by the law. The law establishes a procedure for the transfer of individual powers to each of the four levels of autonomous governments, generalizes at this stage what their specific powers and attributes may be. In the absence of clear guidelines, one reasonable assumption is that each level of autonomous government will largely inherit the powers and attributes of the decentralized administration that preceded it. Hence autonomous departments will largely inherit the powers of prefectures, autonomous municipalities of decentralized municipalities, and both autonomous regions and indigenous and rural governments will inherit the powers of the previously independent units that make them up. This implies that the political foundations, legitimacy and accountability of each level of government would be changed far more than its specific attributes and powers, an approach that presumably responds to the underlying purpose of the law.

The transfer of new authorities and functions to autonomous governments would be accompanied by a corresponding transfer of resources from higher levels of government. The magnitude of these transfers are to be calculated based on initial cost calculations, adjusted for local fiscal effort, inflation, and (national) economic growth. Autonomous governments could also finance investments (but not expenditures) through public debt. The law includes a "no bail-out" clause stating that debt contracted by autonomous and decentralized entities is the strict responsibility of the borrowing entity, and not of the national government nor subnational governments. The Comptroller General oversees the fiscal accounts of autonomous and decentralized governments, who are additionally and more generally accountable for their broader administrative and fiscal affairs to Congress.

But it is the people, the law clearly states, who principally enforce accountability on autonomous and decentralized governments, using the political process to control their actions and audit their accounts. This occurs not only through elections and lobbying, but also through civic organizations exercising "social control" of the quality of public services offered by Bolivia's subnational governments (Arts. 163-166).

5. The 1994 Decentralization Program

To understand the 1994 decentralization reform, it is important to place it in its historical context. The Bolivian revolution of 1952-1953 destroyed an autocratic plutocracy that not only oppressed the indigenous majority but – especially in rural areas – literally enslaved them (Klein 1993). This was replaced with a nationalist project to recast social relations through the active intervention of the state in the nation's social and economic affairs. Revolutionary protagonists sought to transform a poor, backward, extremely unequal country by expropriating the 'commanding heights' of the economy – land and mines – so smashing the power of an entrenched elite. The new government then embarked upon a state-led modernization strategy in which public corporations and regional governments initiated a concerted drive to break down provincial fiefdoms, transform existing social relations, and create a modern, industrial, egalitarian society (Dunkerley 1984). Revolutionaries deemed direct political control necessary, and so the country quickly acquired one of the most centralized state structures in the region.

Intellectual trends of the subsequent four decades – *Dependencia* theory, Developmentalism, and Import Substitution Industrialization – all contributed to the centralizing tendency, as did the military governments which overthrew elected administrations with increasing frequency from the 1960s onwards (Klein 1993). With political power so little dispersed, there was little point in establishing the legal and political instruments of local governance. As a result, local government existed in Bolivia only in the 30-40 largest and most important cities. Beyond these, municipalities existed at most in name, as a ceremonial institution devoid of both administrative capability and resources. And in most of the country they did not exist at all.

Although the 1994 reform was sprung on an unsuspecting nation, the concept of decentralization was by no means new. For more than 30 years a decentralization debate focused on Bolivia's nine departments ebbed and flowed politically – at times taking on burning importance, other times all but forgotten. The issue became caught up in the country's centrifugal tensions, as regional elites in Santa Cruz and Tarija consciously manipulated the threat of secession to Brazil and Argentina respectively – with which each is economically more integrated than La Paz – to extract resources from the centre. The Bolivian paradox of a highly centralized but weak state, and a socially diverse population with weak national identity, meant that such threats were taken seriously by the political class, which blocked all moves to devolve more power and authority to Bolivia's regions.

What spurred the change of tack? Why then? Two factors stand out. The less important one arises from Bolivia's failure to achieve sustained, healthy growth despite wrenching economic reform overseen by the IMF and World Bank. Fifteen years of near-zero per capita economic growth sapped the credibility of the state and fomented social unrest. The new *Movimiento Nacionalista Revolucionario* (MNR) administration of Pres. Gonzalo Sánchez de Lozada (1993-1997) saw the structure of government itself as an impediment to growth. Decentralization was an attempt to deepen structural reform in order to make the state more efficient and responsive to the population, and so regain its legitimacy in the voters' eyes.

The more important factor arises from the rise of ethnically-based, populist politics in the 1980s, which undercut the MNR's traditional dominance of the rural vote, and posed a serious challenge to its (self-declared) role as the 'natural party of government'. This rural dominance was itself born out of the MNR's agrarian reforms of the revolution. Hence a party with a tradition of radical reform, which found itself in secular decline, sought a second, re-defining moment. In a typically bold move, it sought to reorganize government, re-cast the relationship between citizens and the state, and so win back the loyalty of Bolivians living outside major cities. To a very important extent, decentralization was a gambit to capture rural voters for at least another generation.[2]

Against this background, the Bolivian decentralization reform was announced in 1994. The Law of Popular Participation, developed almost in secret by a small number of technocrats (Tuchschneider 1997), was announced to the nation to general surprise, followed by ridicule, followed by determined opposition of large parts of society.[3] It is notable that opposition to the law, which was fierce for a few months, came principally from the teachers' union, NGOs and other social actors, and not from political parties. Judged by their public declarations, this opposition was an incoherent mix of accusations and fears that denoted a deep suspicion of the government's motives, and not a careful reading of the law. The lack of opposition from parties can largely be attributed to the sweeping reforms that were being enacted by the MNR government at the same time as decentralization. With privatization of the main state enterprises, education reform, and a comprehensive restructuring of the executive branch all being pushed at once, decentralization was relegated to the second tier of political parties' concerns. The opposition focused its attention elsewhere, and it never became a fighting point.

First made public in January of that year, the law was promulgated by Congress in April and implemented from July. The scale of the change in resource flows and political power that it brought about were enormous. The core of the law consists of four points (Secretaría Nacional de Participación Popular, 1994):

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[2] At the time MNR strategists gleefully predicted such a result. They proved wrong.

[3] "Injertos Tramposos en 'Participación Popular'", *Hoy*, 19 January 1994; "La Declaratoria de Guerra del Primer Mandatario", *La Razon*, 27 January 1994; and "Arrogancia Insultante", *Presencia*, 27 February 1994 are only three of the many articles which appeared in the Bolivian press documenting popular reaction to the "Damned Law". These are documented in Unidad de Comunicación (1995).

1. *Resource Allocation.* Funds devolved to municipalities doubled to 20 per cent of all national tax revenue. More importantly, allocation amongst municipalities switched from unsystematic, highly political criteria to a strict per capita basis.
2. *Responsibility for Public Services.* Ownership of local infrastructure in education, health, water & sanitation, irrigation, roads, sports and culture was given to municipalities, with the concomitant responsibility to maintain, equip and administer these facilities, and invest in new ones. But the staffing of this infrastructure, including responsibility for salaries, remained central attributes.
3. *Oversight Committees (Comités de Vigilancia)* were established to provide an alternative channel for representing popular demand in the policy-making process. Composed of representatives from local, grass-roots groups, these bodies propose projects and oversee municipal expenditure. Their ability to have disbursements of Popular Participation funds suspended if they find funds are being misused or stolen can paralyze local government, and gives them real power.
4. *Municipalization.* Existing municipalities were expanded to include suburbs and surrounding rural areas, and 198 new municipalities (out of some 315 in all) were created.

The central agencies previously charged with regional and local investment projects – the regional development corporations – were scaled back as a result. There were relatively few direct transfers of staff to municipalities, although many 'quasi-transfers' appear to have operated informally, through the labor market. And a small, complementary program of municipal training and capacity building was established with support from international donors. The Laws of Decentralized Administration (1995), and of Municipalities (1999), followed subsequently, further defining the municipal mandate and locating it in a broader governmental architecture.

The change in local affairs that these measures catalyzed is immense. Before reform local government was absent throughout the vast majority of Bolivian territory, and the broader state present at most in the form of a military garrison, schoolhouse or health post, each reporting to its respective ministry. After reform, elected local governments sprouted throughout the land.

Before commencing the analysis, it is useful to review quickly the institutional framework of local government in Bolivia. The Bolivian municipal code stipulates that municipal councilmen be elected from party lists in single-constituency elections. The council then elects the mayor indirectly from amongst those of them who garnered the most votes. Bolivia's European-style, fragmented political culture, grafted onto an American-style presidential system, ensures that most municipal (and national) governments are coalitions.

The third institution of local government is the oversight committee (OC), in effect a non-electoral form of representation that operates in parallel to municipal councils and mayors. These are composed of the representatives of grass-root organizations within each municipality. Municipalities are divided into four or more regions depending on size and population. Each region contains a number of grass-roots organizations (GROs); these occur spontaneously and naturally throughout Bolivia, with greater density in some regions and lower density in others. Examples of such GROs include neighborhood councils in urban areas, pre-Columbian *ayllus* and *mallkus* for community self-government on the altiplano and in the Chaco region, and tribal structures in Bolivia's eastern lowlands, although there are many more. GROs have a wide variety of traditions and conventions of self-organization and leader selection which the Bolivian municipal code recognizes as legitimate, without intervention. In this way the traditional practices of community self-government, and their attendant social legitimacy, are explicitly incorporated into the Bolivian municipal governance system.

GRO leaders within each of a municipality's constituent regions nominate a representative to the OC, using whatever system they can agree on. OC members elect from amongst themselves a president, whose legal status is comparable to the mayor's. The OC's power lies in its natural moral authority, as well as the ability to suspend disbursements from central to local government if it judges that funds are being misused. Oversight committees thus comprise a parallel, corporatist form of social representation similar to an upper house of parliament, enforcing accountability on the mayor and municipal council.[4] Figure 1 illustrates this relationship schematically, where thin blue lines denote electoral representation (individual voting), and thick black lines denote the corporatist form of geographic representation described above.

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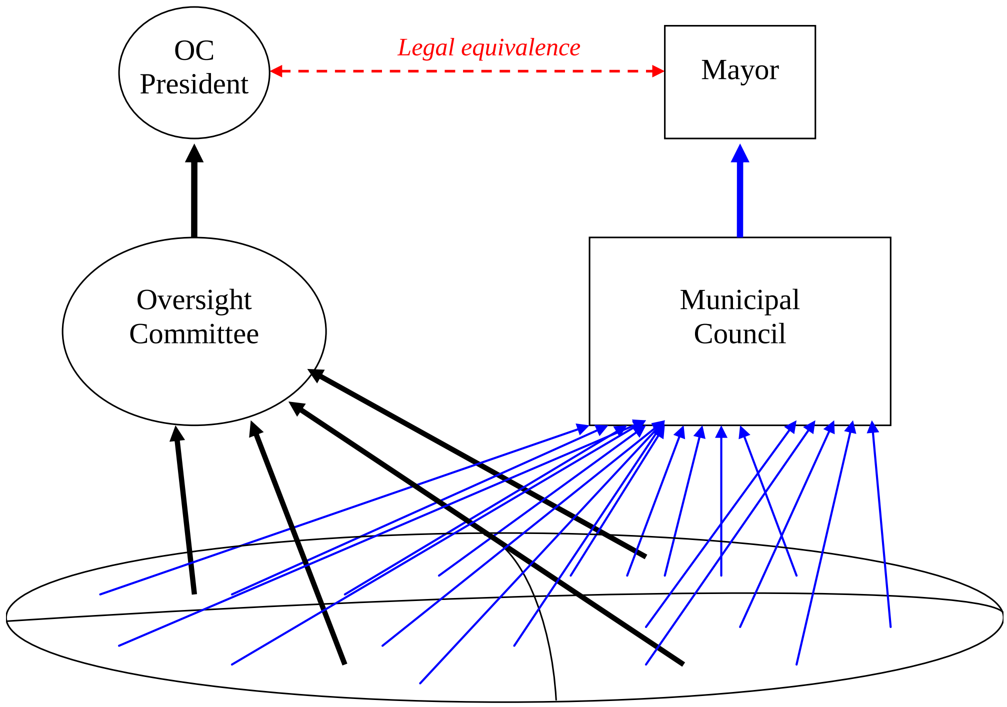
[4] I am indebted to Teddy Brett for this apt analogy.

Figure 1: The Institutions of Bolivian Local Government



6. The Effects of Decentralization in Bolivia

Measuring the effects of decentralization in a country where two thirds of municipalities did not exist before reform presents special methodological problems. The vast majority of public investment in villages and towns before 1994 was undertaken by the central government. But financial records of these projects do not include information on which municipality they would eventually belong to. Hence it became necessary to work with local experts in geographic information systems to allocate the thousands of public investment projects in the 1987-1993 Public Sector Investment Budget[5] to Bolivia's municipalities as created or expanded in the 1994 reform. This was carried out under the auspices of a World Bank-funded research project, 'Decentralization and Participatory Planning in Bolivia', which analyzed the effects of the 1994 reform on government responsiveness to objective and subjectively expressed local needs, through a blend of qualitative and quantitative methods. By comparing detailed financial reports from pre-reform investment projects with high-resolution maps of Bolivian towns, villages and geographic features, a small team of Bolivian geographers was able to identify the physical location of the majority of central government investments, and then allocate them to the municipalities defined by the decentralization reform. In this way, we were able to re-construct municipal investment data for a period in which most municipalities did not exist.

The extent of the change is perhaps best appreciated by examining the changes in resource flows decentralization catalyzed. Before decentralization, 308 Bolivian municipalities divided amongst them a mere 14 per cent of all centrally devolved funds, while the three main cities took 86 per cent. After decentralization the shares reversed to 73 per cent and 27 per cent respectively. The per capita criterion resulted in a massive shift of resources away from the richest, most developed urban centers. Amongst smaller, poorer rural districts, resource increases of 50,000 – 100,000 per cent were quite common.

A more important change was to the composition of investment. Figure 1 shows aggregate central government investment during the last three years before decentralization (1991-1993), divided by sector, compared to aggregate local government investment during the first three years after decentralization (1994-1996), divided by sector.[6] For the sake of a clean comparison, central investment (dark bars) includes only resources controlled by central government agencies, while local investment (pale bars) includes only resources controlled by local governments (that is, municipalities). The differences are large. In the years leading up to reform, central government invested most in transport, hydrocarbons, multisectoral[7] and energy, which together accounted for 73 per cent of public investment during 1991-1993. After decentralization local governments invest most heavily in education, urban development, and water & sanitation, together accounting for 79 per cent of municipal investment. Of the sectors accounting for roughly three fourths of total investment in both cases, central and local government have not even one in common. The evidence implies that local and central government have very different investment priorities. This trend is even stronger when we disaggregate the figures. It is notable that in many municipalities local tax revenues began to rise

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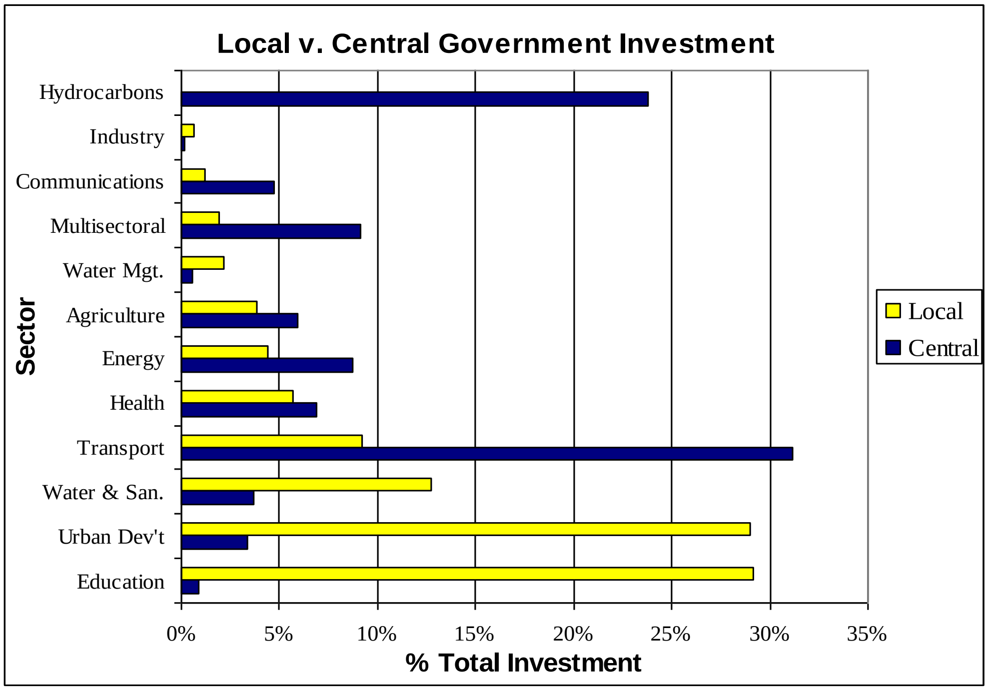
[5] Source: Ministry of Finance, National Secretariat of Public Investment and External Finance.
[6] In both Bolivia and Colombia, "local investment" refers to construction and maintenance of capital facilities, and equipment and supplies for the same. In Colombia it also includes salaries of the staff directly involved in providing those services. In Bolivia, by contrast, salaries, staff selection and retention remained core central government responsibilities.
[7] A hodgepodge, including feasibility studies, technical assistance and emergency relief, that is difficult to categorise.

sharply after 1994, albeit from a very low base. In those districts where local revenues formed a larger share of total investment, the shift to social investment was even stronger.

Figure 1



Source: National Secretariat of Public Investment and External Finance; original calculations.

This pattern is repeated when we sum central and local public investment and look at decentralization's effects on the total. Figure 2 shows how total investment changed between the same two periods, 1991-1993 and 1994-1996, by sector. We see that decentralization increased total (central + national) investment in education more than five-fold, more than doubled water and sanitation investment, and led to large increases for water management, transport and health. By contrast, total investment fell most strongly in economic production and infrastructure.

Figure 2

Net Change in National (Central + Local) Public Investment, 1991-93 vs. 1994-96

Sector	Change (%)
Education	547%
Water & Sanitation	133%
Water Management	77%
Transport	44%
Health	43%
Mining & Metallurgy	34%
Multisectoral	11%
Hydrocarbons	-18%
Energy	-23%
Urban Development	-27%
Agriculture	-34%
Industry & Tourism	-57%
Communication	-59%
TOTAL	**16%**

Source: National Secretariat of Public Investment and External Finance; original calculations.

It is also instructive to examine how investment was distributed geographically among Bolivia's municipalities before and after decentralization. Again, I compare central(-only) investment in 1991-1993 with local(-only) investment in 1994-1996. Figures 3-5 show total investment per capita in all Bolivia's municipalities, where each municipality is a dot. An equitable distribution of investment would appear as a narrow band of points. What do the data show? Figure 3 shows that per capita investment before decentralization was indeed highly unequal, with large investments in three districts and the vast majority at or near zero. Figure 4 corrects for the skewing effect of the highest observations by excluding the upper 12, allowing us to expand the vertical axis and see more detail. Though the distribution now appears less unequal, the density of dots increases steadily as we move downwards. Fully one-half of all observations lie on the horizontal axis. These municipalities received nothing. Closer examination reveals that these are disproportionately Bolivia's small, poor, rural districts.

Figure 3

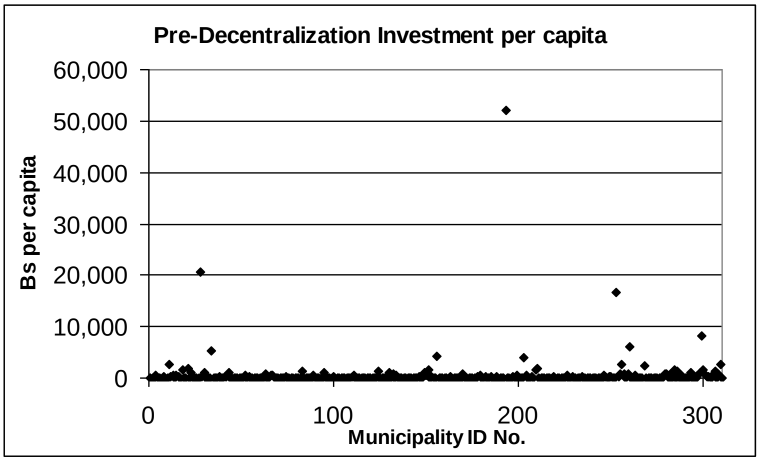
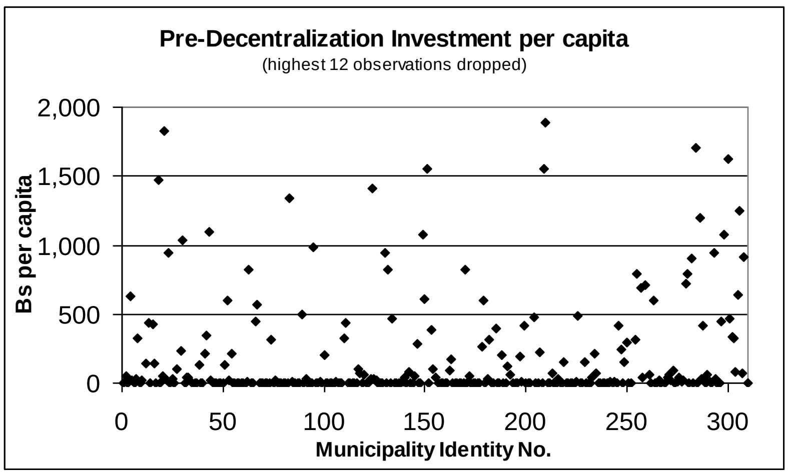


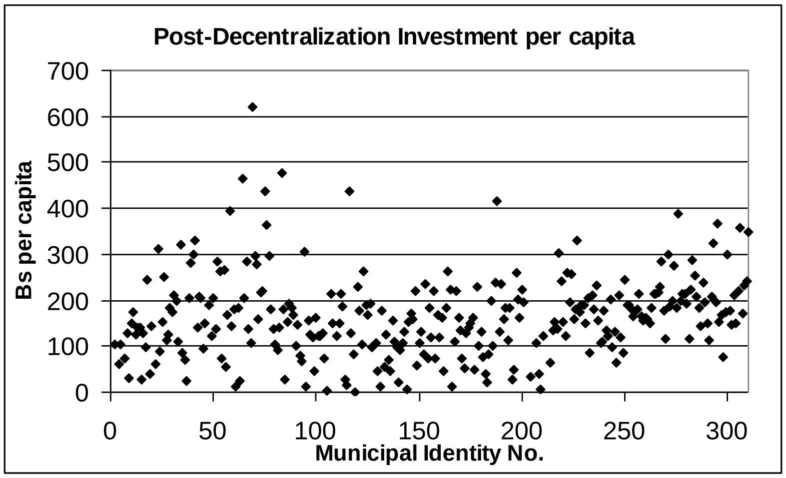
Figure 4



Source: National Secretariat of Public Investment and External Finance; original calculations.

Investment under centralized government was thus hugely skewed in favor of a few municipalities that received enormous sums, a second group where investment was significant, and the unfortunate half of districts which received nothing. Compare this to figure 5, which shows municipal investment after decentralization. This chart shows no district over Bs.700/capita, a broad band with greatest density between Bs.100-200/capita, and only a few points touching the axis. Average municipal investment for this period is Bs.208/capita, and thus the band contains the mean.[8] These crude indicators imply that decentralized government distributed public investment much more evenly than centralized government. Equality in per-capita terms is, of course, largely a result of the design of the reform, as noted in section 2.1, point 1. The *ex-post* result is thus not as surprising as the *ex-ante* one: central government, with a much larger budget and free rein over all of Bolivia's municipalities, consistently chose a highly unequal distribution of investment across space. I return to this point in lesson six below.

Figure 5



Source: National Secretariat of Public Investment and External Finance; original calculations.

Did these changes of allocation across sectors and space lead to any deeper changes in the *quality* of public investment? Ideally we would investigate such a question by comparing quality-adjusted units of public outputs before and after decentralization. But such information is unfortunately not available for either period (nor, indeed, for most countries). But we can investigate a related question, regarding decentralization's effects on the responsiveness of public investment to local needs. As noted above, improved responsiveness to local citizens is one of the central – and most disputed – arguments in favor of decentralization, and hence any evidence in this respect is of particular interest.

Figure 6 shows scatter plots of central government investment (left-hand side graphs) vs. local government investment (right-hand side graphs) in education, agriculture, water and sanitation, and urban development. The graphs plot central government investment during the last three years before decentralization vs. local government investment during the first three

[8] Investment sums here are much lower because they exclude central government funds.

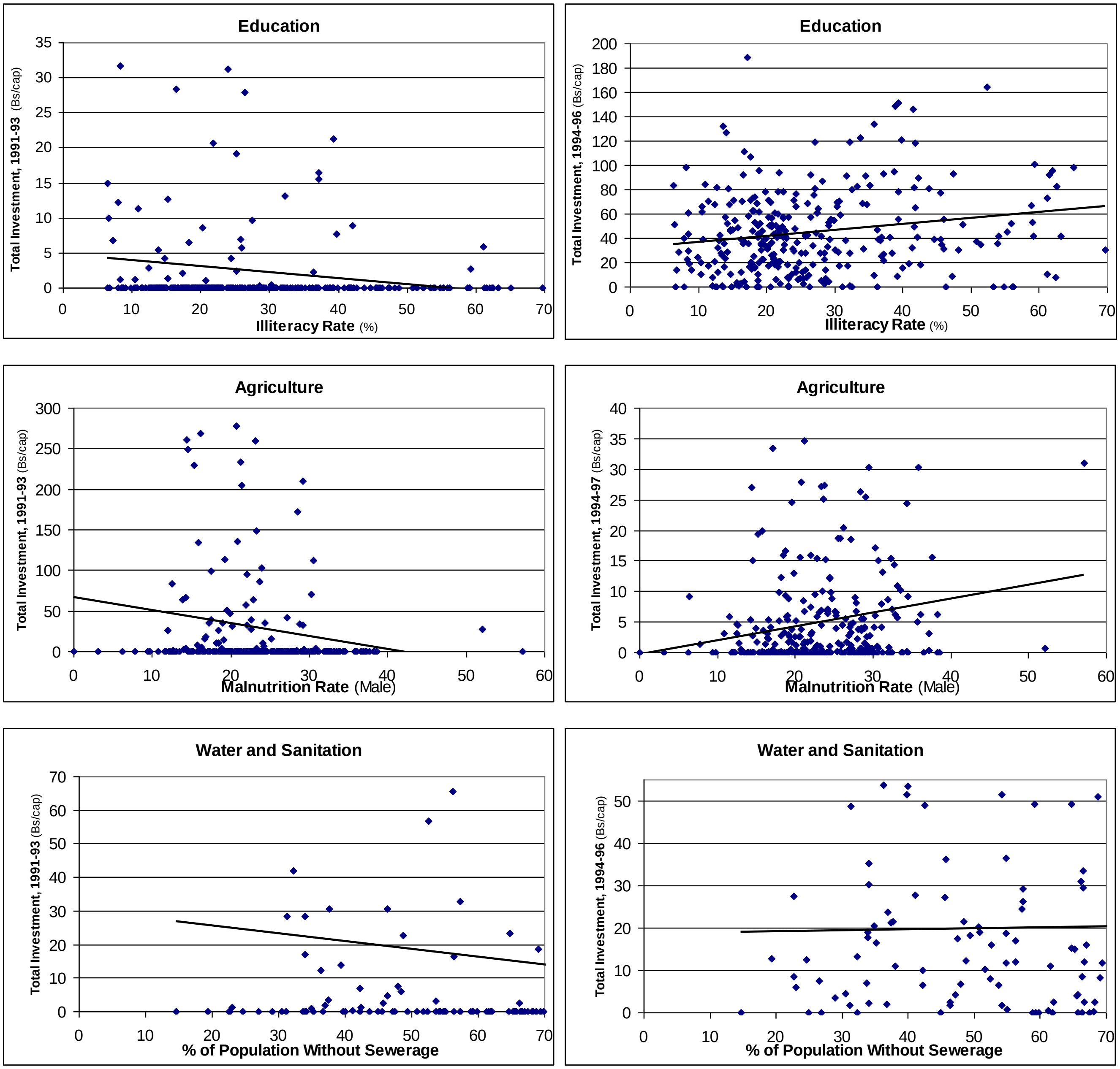
years after decentralization, against objective indicators of real local need in each municipality. Each graph includes a regression line summarizing the overall relationship.

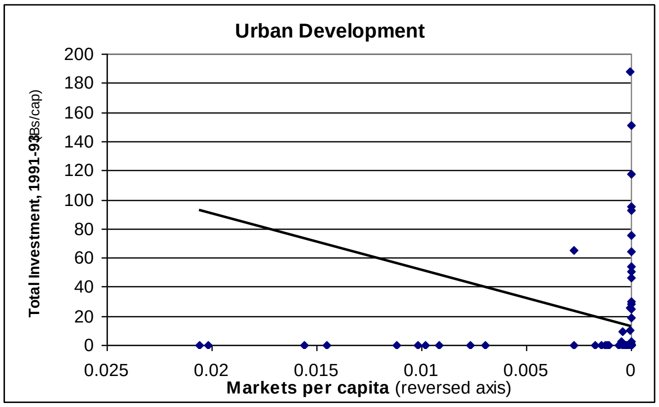
The first comparison shows that central education investment fell as the illiteracy rate rose, meaning central government chose to concentrate education resources where literacy was higher. This is the opposite of what we would expect if central government were investing in areas of greatest need. After decentralization, by contrast, local governments invested progressively more where illiteracy was higher. Both regression lines are statistically significant – at the 5 per cent and 0.1 per cent levels respectively. Note how many municipalities received no education investment at all under centralized rule. The following two graphs show a similar pattern for agriculture. Central government invested less where malnutrition rates were higher, whereas local governments invested more where malnutrition was higher. Both of these regression lines are significant at the 5 per cent level. The pattern is similar, though less dramatic, for water and sanitation, and urban development.[9] In both sectors, strong tendencies to concentrate investment where it was least needed were reversed with decentralization, although in both cases local governments' progressiveness is weak and statistically not significant. But even if we assume both decentralized regression lines have a slope of zero, this marks a significant change from central investment that increased where need was lower.

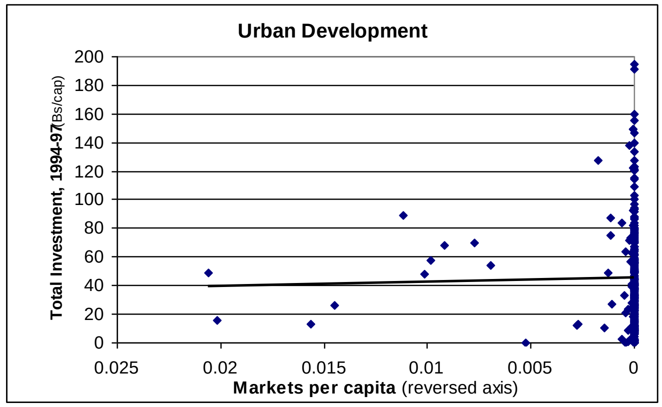
[9] Note that the x-axis is reversed for urban development, for comparability. This is because the dependent variable used here is a positive, and not negative, concept.

Figure 6

Central Gov't Investment, by Municipality | **Local Gov't Investment, by Municipality**







Sources: National Institute of Statistics, National Secretariat of Popular Participation, National Secretariat of Public Investment and External Finance; original calculations.

These graphs imply that decentralization increased government responsiveness to real local needs. After 1994, investment in education, agriculture, and water and sanitation was higher where illiteracy rates, malnutrition rates, and sewerage non-connection rates were higher; and urban development investment was higher in places where public infrastructure such as marketplaces was more scarce. That is to say, although median investment in these sectors increased throughout Bolivia after decentralization, the increases were even higher in those districts where the objective need for such services was greatest. These changes were driven by the actions of Bolivia's 250 smallest, poorest, mostly rural municipalities investing newly devolved public funds in their highest-priority projects. This evidence supports the findings of Faguet (2004), which investigates a similar question. Faguet 2002 further shows that centralized investment was economically regressive, concentrating public investment in richer municipalities and ignoring poorer ones. Decentralized governments, by contrast, shifted resources towards poorer districts. After 1994, public investment rose in municipalities where indicators of wealth and income are lower.

Thus we see that decentralization in Bolivia shifted public investment from physical and economic infrastructure into primary social services and human capital formation. Resources were shifted from large, well-off cities to smaller, poorer rural districts. Decentralization also redistributed investment much more equally across space. Lastly and most impressively, decentralization made public investment significantly more responsive to communities' real local needs than centralized investment had been before. This contradicts common claims that local government is structurally too corrupt, institutionally weak, or prone to interest-group capture to improve upon the actions of central government. Bolivia's local governments did just that.

This is a significant and impressive story of a successful Bolivian reform. In light of this precedent, what effects are current proposals to further decentralize Bolivian government via regional and local autonomies likely to have? Although it is by definition impossible to analyze the future, especially when the future will in large part be defined by a law that is still being debated, the present draft of the Autonomies and Decentralization bill is sufficiently specific as to allow conditional predictions on its likely impacts. I turn to this analysis in the section that follows.

7. Possible Effects of Subnational Autonomies

Although it is impossible to predict the real effects of the Law of Autonomies and Decentralization, it is possible to assess the law's main stipulations laid out above in light of both the theory of fiscal federalism and the Bolivian experience with decentralization. The principal effect of the proposed law is to grant political autonomy to both existing and newly created levels/instances of government. The law thus changes not only the number and levels of subnational governments in Bolivia, but also the political basis by which they are constituted, with effects on the legitimacy they enjoy in citizens' eyes. Its effect is to extend the political autonomy that existed at the municipal level in all but name to regional, departmental, and indigenous and rural governments, whose leaders will henceforth also be elected, and where indigenous groups' autochthonous forms of organization and representation will be formally incorporated into the governing framework, as described above.

Pubic Investment Patterns and the Responsiveness of Government

The theory of fiscal federalism develops a number of principals by which the relationships amongst different levels of government should be organized. The first of these is the *encompassing principle.* This says that government responsibilities should be assigned across different levels of government such that the costs and benefits of service provision are encompassed by the unit of government that provides it. In other words, externalities should to the extent possible be internalized within governing units and not borne by other units.

The most famous example of this principle is the *Oates decentralization theorem*, which holds that local governments should be responsible for all spending that does not inflict externalities on other jurisdictions (e.g. fire service, trash collection). Where such externalities do arise, respective spending and services should be provided at higher levels of government (e.g. regional, departmental, national).

In reality, different public services have different spatial/geographic properties. But it is expensive and administratively unwieldy to establish a distinct level of government for each type of public service. Hence most public services are provided by levels of government that operate as multipurpose service providers. In other words, the allocation of specific services to government levels represents a compromise between the economic and spatial demands of the service itself, and the existing fiscal and political hierarchy. Thus the actual political jurisdictions of any country will never adequately encompass all the relevant externalities, and there will always be a need for *intergovernmental cooperation*.

What are the effects of Bolivia's proposed autonomies likely to be? Applying the encompassing principle in densely populated countries, such as India, is complicated due to the rich potential for multiple spillovers amongst contiguous districts and villages. Doing so in a relatively large (as large as France and Spain combined) but sparsely populated country like Bolivia is far easier, as communities are far more isolated and the risk of externalities lower. The Oates decentralization theorem is similarly easier to apply. Intergovernmental cooperation, while still necessary, will not carry the stresses and weight that it does in more densely populated countries where spillovers abound.

Will public goods and services be assigned to the right hierarchical level under the new regime? This question cannot be answered, as the law explicitly fails to assign services to autonomous governments, specifying instead procedures by which specific functions and responsibilities can be transferred to them. But as stated above, the deeper logic of the law appears to be that autonomous governments will replace decentralized ones, and hence largely inherit their functions from the latter. The main characteristics of these autonomies mirror key elements found in the 1994 Law of Popular Participation. What do 16 years of accumulated evidence and experience with the LPP predict?

The broad success of decentralization in Bolivia implies that public functions are well allocated across the new regime. If responsibility for providing specific goods and services had been mis-allocated across levels of government, it is unlikely that the striking changes in resource use described above would have occurred. Furthermore, the extension of similar institutional forms to the departmental, regional, and indigenous and rural levels can be expected, in the aggregate, to further shift public resources towards social services and human capital formation, and make investment yet more responsive to real local needs.

Taxes, Transfers and Fiscal Relations

In the analysis of fiscal federalism, efficiency considerations imply that taxes should be levied on goods and services that are inelastically demanded. But such decisions have distributional impacts on society that must also be considered. For example, goods with inelastic demand are often necessities (food, shelter), and demand is often most inelastic amongst poorer segments of the population. Both sides of this trade-off should be weighed when taking decisions about tax incidence. Mobility presents an additional complicating factor. The fiscal federalism literature shows that local governments tend to charge inefficiently high taxes on immobile goods, services, and factors of production (e.g. property), and inefficiently low taxes on mobile goods, services, or factors of production (e.g. labor). This provides a presumption that most taxation should be carried out by higher-level governments, with taxes on property and other immobiles the preserve of local governments.

On the other hand, decentralizing taxation offers the possibility of greater accountability in the revenue generation activities of the state, much as appears to have occurred in Bolivia with regards to public investment. Such an effect would countervail inefficiencies related to elasticities and asset mobility. Hence we are faced with another trade-off in intergovernmental fiscal relations. Based on the text of the law and Bolivia's recent fiscal trends, the proposed regime would seem to steer a reasonable course amongst these trade-offs. Autonomous governments' revenues will come mainly from central government transfers, royalties, and user fees, with (if recent experience is any guide) a low proportion coming from taxes on business activity and other mobile sources. Hence in broad terms the proposed regime appears to be both reasonable and stable.

Intergovernmental Transfers

Intergovernmental transfers are an important element of any decentralized fiscal system. This is especially true of Bolivia, where transfers look set to play a large role in financing autonomous subnational governments. What principles should guide their design? Consider, first, the two types of imbalances that affect most fiscal systems to at least some degree.

The first is *vertical imbalances.* Because taxation tends to be centralized and expenditure decentralized in a federal system, vertical imbalances ensue. Hence the system relies on downward resource transfers in order to function. But such systems effectively involve central government in local government affairs, including in issues defined as primarily local. The center is implicated in the success or failure of local service provision, both administratively and politically, by providing a convenient scapegoat for public dissatisfaction with local politicians' performance. This creates an implicit central obligation to bail out subnational governments that get into fiscal difficulties (Rodden, Eskeland and Litvack 2003, Rodden 2006). Even when there is no legal obligation on central government, local politicians have every incentive to shift blame to the center for contributing to the initial problem and for failing to resolve it. This can generate significant pressures for bail outs that central governments often find hard to resist, leading to fiscal imbalances that can ultimately threaten macroeconomic stability (e.g. Argentina 2000).

The second is *horizontal imbalances.* Some districts are richer than others. Equality, poverty reduction goals, and spillovers can lead to redistribution amongst districts, as the center uses its taxing and transfer powers to redistribute resources from better off to more deprived districts. Done well, such equalization can help develop backwards regions and contribute to national unity. Done clumsily, such programs can stoke resentment in the richer regions, increasing centrifugal pressures for further autonomy and – at the limit – outright secession and national fragmentation.

The fiscal federalism literature holds that an effective transfer system should satisfy four criteria:

i. *Revenue Adequacy* – Transfers should ensure that subnational governments have sufficient resources to fulfill their obligations and responsibilities.

ii. *Local tax effort and expenditure control* – The transfer system should not undermine subnational authorities' incentives to collect taxes, nor encourage profligacy, deficits nor indebtedness.

iii. *Equity* – Transfers should rise with local needs and fall with local fiscal capacity.

iv. *Transparency and stability* – Transfer formulas should be announced in advance, allowing each locality to forecast total revenues in order to prepare its budget. The formula should be stable over time to permit long-term local planning.

How does the proposed law look with respect to intergovernmental transfers? The combination of large natural resource royalties and low tax capacity implies that large vertical imbalances will continue to be a feature of the Bolivian fiscal system. The autonomy law is unlikely to lessen vertical imbalances, and may well exacerbate them. But curiously, recent experience gives us little reason to fear the threat of bail outs. Whether the poverty of the central state made no-bail-out pledges by the center credible (when compared to neighbors like Argentina and Brazil), or deeper historical trends made them unlikely, the fact is that over the past few decades bail outs are prominent by their absence in Bolivia.

The question of horizontal imbalances is considerably more fraught. Central redistribution from faster-growing, resource-rich areas to poorer areas is one of the most potent rallying cries of regionalist opposition to the current government, and a demand with strong historical echoes in Bolivia. At the limit, it is possible that horizontal imbalances and the center's attempts to correct them could deepen political tensions, including demands for secession. The extent to which the proposed autonomy regime is likely to improve or worsen horizontal imbalances cannot be inferred from the text of the law as it depends crucially on central allocation criteria yet to be set by central government. And evidence from Popular Participation is mixed. At the outset of the latter, in 1994, reform had the clear effect of distributing resources far more equally across space. But subsequent changes to the regime, especially the advent of large hydrocarbons-related royalties in recent years, have made the distribution of resources across municipalities far less equal. Now, a few sparsely populated municipalities in resource-rich areas receive resources that, in per-capita terms, are a huge multiple of what the average municipality receives. In other words, the principle that a significant share of the royalties generated by resource exploitation should remain locally is overturning the principle of equity described above. If the advent of subnational autonomies deepens this trend and hydrocarbon royalties return to the recent highs, then we can expect horizontal inequalities to revert to levels not seen since the days of pure central government before 1994. This report strongly recommends modifying these resource flows such that per capita transfers are only modestly higher – in the range of 20-40% – in resource-rich areas compared to the average municipality, and redirecting excess funds on the basis of poverty indicators.

Where revenue adequacy is concerned, the proposed law appears to be on much firmer footing. Again, precise levels of transfers cannot be predicted from the text of the law. But the precedent set over the past 16 years is that municipalities benefitted from increasing levels of transfers which, explicitly or implicitly, recognized ever more fully the financial implications of the range of services and public goods that they were meant to provide. If these trends continue under the new dispensation, then the most reasonable prediction is that revenues will be adequate to fund most autonomous governments' obligations.

Regarding local tax effort, the draft law does well to clearly delineate sources of revenue for each of the new autonomous governments proposed. Simply doing so creates incentives for ambitious politicians to tap these sources of revenue and claim credit for expenditure. Where the incidence of expenditures greatly exceeds that of taxes – which will often be the case in a country like Bolivia – this constitutes a vote-wining strategy for elected politicians. But this simple sort of incentive can be overwhelmed by central transfers rules and the administration of central-subnational fiscal relations. Sadly, the latter has been the case in Bolivia in recent years. The simple incentive, albeit at lower power than that created by the proposed law, led to increasing municipal tax efforts in the first years of Popular Participation. But local tax efforts have more recently been in decline or even outright collapse as hydrocarbon royalties swamped the taxes that many municipalities could raise from their rural economies, leading scores to give up on local tax collection.

This reversion of a positive trend is a small tragedy for Bolivia as it makes local governments ever more dependent on the largesse of the center, reducing their real independence, divorces local policymakers from the local economy, and makes local budgets and service provision ever more the object of political maneuvering and competition at the national level. In a real sense, such developments undermine the autonomy that the proposed law seeks to establish. This report thus strongly recommends that the national government undertake vigorous efforts to reduce local dependency by returning to an incentive system that promotes local tax collection. This could easily be done by making central transfers dependent on local tax efforts, with clear targets and thresholds and a sliding scale that penalizes low tax efforts with low transfer levels. Put another way, the economic and political benefits of contributing to local service provision are obvious to the analyst, but perhaps not to the contributor. But if each boliviano he contributes is matched in a proportion of – say – 5:1 or 10:1 by the center, the likelihood that politicians will try to collect the tax and contributors will pay increases greatly.

The proposed law scores reasonably well on transparency and stability, although once again this is difficult to judge based on the legal text alone. The law (and the Constitution) define clear tax bases and transfer types for each level of autonomy, which is good. But once again, much depends on the fiscal transfer rules left to the discretion of the center and the political process. If central transfer rules are not set, or change frequently, or are simply ignored by the government, then subnational revenues will be neither stable nor transparent, hindering planning and long-term development. Recent experience clearly bears out the benefits of transparency and stability. An important component of Bolivia's success with the 1994 decentralization can be ascribed to the transparency of the transfer rule it set out – a simple per capita amount. This amount, along with local populations (a census had been carried out two years earlier), were widely publicized with the advent of Popular Participation through radio, newspapers and television, leading to broad grass-roots pressures for investments and services in poor communities throughout the country. Furthermore, although the amount was gradually increased over time, the per capita criteria did not vary during the crucial early years of reform. A more technically sophisticated and "correct" transfer rule might well have impeded this sort of pressure from below, and attenuated decentralization's success. Where the new autonomies are concerned, the best that can be said is that a good precedent for transparency and stability exists, but the final outcome is in the hands of the center.

Political Accountability

Lastly and most importantly, the decentralization literature[10] argues strongly that subnational governments that collect local taxes should be politically accountable to the citizens who pay them (Treisman 2007). Where such accountability is absent, politicians will have strong incentives to over-tax disenfranchised groups in order to provide services for those who

[10] The topic of political accountability is treated in greater depth by the literature on decentralization, more firmly grounded in political economy, than that on fiscal federalism, which is more concerned with public finance.

elect them. The resulting distribution of taxes and benefits is likely to be not only inequitable but inefficient. Public goods and services whose costs exceed their benefits will nonetheless thrive, as the costs and benefits will be perceived by different people. At the limit, this can lead to what 18th century political philosophers called "tyranny" (Madison, Hamilton and Jay 1961). By contrast, efficiency obtains when the costs of public goods and services are borne by those who benefit from them, as such individuals have no incentive to tax themselves to pay for services worth less than their cost.

For such accountability to obtain, the electorate should be sufficiently well informed that it can adequately evaluate the performance of subnational governments at election time. This implies, first, that the literal meaning of accountability has been exercised, and government officials have given account of their activities and decisions in a public forum.[11] Secondly, additional information about subnational government activities is available to the media, researchers, firms, NGOs, and the public generally. Thirdly, there is press and media freedom between elections, facilitating ongoing accountability via lobbying, demonstrations, petitions, personal communications, and any of the myriad other forms by which information is transmitted to politicians outside of elections.

How do we judge the new autonomy regime with regard to these criteria? Although incomplete, the evidence available is quite positive. The law itself states clearly that

> The people, by means of civil society, are the principal auditors of the public administration carried out by decentralized and autonomous territorial entities. Moreover, society exerts "social control" of the quality of public services offered by different territorial entities. (Art. 163)

It specifies the role and importance of participation both in general clauses of the law, and also in specific clauses relating to the constitution and administration of autonomous municipalities, regions, etc.

These latter sections continue with and build on one of the key innovations of the Popular Participation Law of 1994, which incorporated existing civic organizations and traditions of community self-government, with all of their attendant legitimacy and power of convocation, into formal institutions of municipal government. The Autonomy Law continues in this vein, allowing indigenous and rural communities to elect representatives to departmental and regional assemblies, and municipal councils, via their own autochthonous practices. Thus whereas the

LPP opened the door to such representation on the Vigilance Committee, the Autonomy Law extends it to the main legislative body of subnational governments. It then goes one large step further, creating the institutional form of indigenous and rural municipality where methods of (s)election and types of legislative body are left open to the discretion of the communities that gain such autonomy.

The new regime thus clearly intends that autonomous government should be accountable to the governed, providing the latter with multiple channels for making their views known and holding officials to their promises. Does it provide citizens with the necessary information to take advantage of these opportunities? The law does not address this point directly, but the 2008 Constitution does. The latter guarantees both freedom of expression and freedom of the press explicitly (Art 106). Laws and constitutional clauses notwithstanding, it is possible for such lofty principles to be comprehensively undermined by the practices and preferences of the state. How does Bolivia's experience with decentralization suggest that such lofty principles will be implemented?

Systemic evidence across 327 Bolivian municipalities suggests widespread press freedoms that sustain citizens' ability to make governments accountable to them when they are mobilized and persistent. The evidence from decentralization implies that in the majority of Bolivian municipalities, local governments provided public services that were far better tailored to local needs than central government had before, implying that citizens used the information and political leverage at their disposal to compel politicians to do what they wanted.

It is clear, however, that in certain municipalities accountability was comprehensively undermined by unaccountable officials who intentionally limited and distorted information so as to perpetuate their hold on power (Faguet 2009). Quantitative evidence suggests that such municipalities comprised a minority of the total; qualitative evidence documents that even in the worst such case that I was able to identify (Faguet 2009), entrenched abuse of the municipal powers and resources by a corrupt business-political alliance lasted only a few electoral cycles, and was finally drummed out of power by an irate electorate. Today, Viacha is a model of local reform, with participative decision-making and institutionalized transparency measures (Faguet 2010). In summary, the evidence from decentralization implies that, despite predictable

[11] This can take a variety of forms, including personal delivery, in written form in any of a variety of media, etc.

obstructions and local failures, citizens were in the main able to inform themselves sufficiently to hold governments to account, and so were successful in demanding policies which, in the aggregate, changed national investment patterns and made service delivery far more sensitive to objective local needs.

8. Conclusions

This paper has used the theory of fiscal federalism and empirical evidence from Bolivia's radical and much-remarked upon 1994 decentralization reforms as tools for assessing the autonomy and decentralization reforms now under consideration. This is particularly appropriate given that the logic of the new reform is to extend the municipal autonomy created in all but name by the previous reform upwards to the regional and departmental levels, and also laterally to proposed indigenous and rural (local) governments.

Comprehensive evidence from the universe of Bolivian municipalities shows that decentralization shifted public investment from infrastructure and economic production into primary social services and human capital accumulation. Smaller, poorer rural municipalities – largely ignored under the previous centralized regime – gained significant resources, producing a more equitable geographic distribution of resources. And decentralization made public investment much more responsive to objective local needs than centralized government had been before.

Can the present reform bill repeat these remarkable successes? The ultimate outcomes of reform cannot be predicted of course, especially when the law is still being debated and modified. But it is possible to make conditional predictions based on the insights of theory and the evidence cited above. If the new regime follows the functional assignation across hierarchical levels of government established by the LPP, which proves broadly sensible and workable in practice, then we can predict that resources will shift further towards primary social services, and make public investment yet more responsive to local needs. In terms of taxes and fiscal transfers, the proposed reform appears to steer a reasonable course amongst such competing considerations as elasticity of demand, factor mobility, distributional impacts, and tax accountability.

Although the autonomy law is likely to exacerbate vertical imbalances in Bolivia, recent experience gives us little reason to fear the threat of bail outs and accompanying macroeconomic instability. But the question of horizontal imbalances is considerably more fraught in Bolivia, feeding deep political tensions and strong centrifugal forces at the regional level. While nothing in the text of the law implies that horizontal imbalances will improve or worsen, recent trends in Bolivia clearly imply the latter. This report strongly recommends modifying the allocation of resources across space such that per capita transfers in resource-rich areas are only modestly higher – in the range of 20-40% – than those of the average municipality. That is to say, areas of natural resource exploitation should be allowed to benefit preferentially from the activity they host. But the scale of the benefit should be modest, not exorbitant. Excess funds should then be redirected to poor areas on the basis of objective indicators.

If the precedents of the past 16 years hold, subnational tax and transfer revenues should be adequate to fund most autonomous governments' obligations. But the same trends also predict that the share of own revenues will continue to decline, leaving "autonomous" governments dependent on central resources and priorities, and divorcing local policy-making from the local economy. This report strongly recommends that the national government undertake vigorous efforts to reverse these trends by using matching grants to incentivize local tax collection.

While the text of the proposed law implies little about the likely transparency and stability of fiscal transfers, the experience of the past 16 years provides reason for optimism. If these precedents are respected, then new autonomous governments should similarly reap the considerable rewards of transparency and stability in their fiscal receipts. If these precedents are not respected, anything is possible – the final outcome is entirely in the hands of the center.

Lastly and most importantly, the regime of autonomies clearly intends that autonomous government should be accountable to the governed, providing electoral and non-electoral channels by which citizens' views can be known and officials held to account. And Bolivia's experience with decentralization suggests that citizens will in the main be able to use these means to press politicians to take the decisions and provide the services they want.

In summary the proposed reform is in many ways an extension of the logic of the previous reform, deepening the participation of the people in their own government. If theory and recent experience are any guide, its effects are likely to be positive or benign if the new regime retains some of the key, tried and tested practices and parameters of the previous reform. But as we have discussed above, in areas like functional allocation and fiscal transfer rules, the law (rightly) leaves much discretion in the hands of central policymakers. Much thus depends on how the new reforms are managed, and the fairness, transparency and competence with which the current administration – which establishes important precedents and trends as autonomies are first implemented – comports itself. The good intentions and sensible designs of both new and old reforms discussed above could all be undermined by distorted or opportunistic administrative practice by the center. Alternatively, an objective implementation of the law that respects the sincerity of its intent could unlock the deep potential of this reform to improve citizen participation, make government more accountable to the governed, and deepen Bolivian democracy. Time, and the government, will tell.

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