Development DESTIN Studies Institute

Working Paper Series

LSE

ISSN 1470-2320

2005

No.05-60

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Published: June 2005

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DECENTRALIZING BOLIVIA: Local Government in the Jungle[1]

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9 May 2005

Forthcoming as Chapter 1 of P. Bardhan and D. Mookherjee (eds.), *Decentralization to Local Governments in Developing Countries: A Comparative Perspective,* Cambridge, MA: MIT Press.

1. Introduction

Does decentralization change policy outputs at the local level? If so, for better or worse? Do such changes reflect deep changes in the policy-making process itself, or are they related to technical parameters in the flow of funds? Why do some local governments respond well to decentralization while others respond badly? These are some of the most important questions surrounding the issue of decentralization, which – Bardhan and Mookherjee point out in chapter 1 – remain open despite a large related literature. This chapter seeks to answer some of these questions for the remarkable case of Bolivia, through a blend of econometric analysis at the national level and detailed qualitative research into local political and institutional processes. I argue that the "outputs" of decentralization are simply the aggregate of local-level political and institutional dynamics, and so to understand decentralization we must first understand how local government works. Hence this chapter examines what decentralization did at the national level, and then digs down into local government processes to understand how it did it. Employing a blended qualitative-quantitative approach allows us to benefit from econometric rigor and generality as well as the deep insight of qualitative approaches, which in the best circumstances allow a researcher to choose amongst competing theories and pin down causality. Focusing on one country avoids problems of data comparability and controls for external shocks, political regime, institutions, and other exogenous factors. Bolivia is

particularly deserving of study because reform there consisted of a large change in policy at a discrete point in time. The data available are of surprising scope and quality for a country of its socio-economic characteristics, and include information on the political, social and civic, economic, institutional, and administrative characteristics of all of Bolivia's municipalities. They beg to be exploited.

I define decentralization as the devolution by central (i.e. national) government of specific functions, with all of the administrative, political and economic attributes that these entail, to democratic local (i.e. municipal) governments which are independent of the center within a legally delimited geographic and functional domain. The rest of the chapter is organized as follows. Section 2 reviews Bolivia's decentralization program, focusing on its legal and budgetary aspects, and then provides summarized analysis of the economic outcomes of decentralization. Section 3 introduces the second, qualitative half of the chapter, which examines local government in close detail in Baures and Guayaramerín, two lowland municipalities in Bolivia's tropical northeast. Section 4 analyzes the governance process in each in terms of its local economy, local politics, and civil society. Section 5 provides a conceptual model of local government based on these fundamental concepts. Section 6 connects this analysis to the broad trends in Bolivian public investment post-decentralization, and concludes.

2. Decentralization in Bolivia

2.1 Historical Context

On the eve of revolution, Bolivia was a poor, backward country with a repressive state and extreme levels of inequality (Klein 1993). The nationalist revolution of 1952 expropriated the "commanding heights" of the economy and launched a state-led strategy to create a modern, industrial, egalitarian society by

breaking down provincial fiefdoms and transforming social relations (Dunkerley 1984). To this end revolutionaries built a monolithic state in which power and control cascaded downwards from the presidential palace to the farthest corners of this large country.

Forty years of military coups, combined with the intellectual trends of the 1950s-1970s, contributed to this centralizing tendency (Klein 1993). Such a regime had little need for municipalities. As a result, beyond the 30 or so largest cities local government existed at best in name, as an honorary and ceremonial institution, devoid of administrative capability and starved for funds. And in most of Bolivia it 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 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 center. 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 power and authority to Bolivia's regions.

So what spurred the change of tack? and why then? Two factors stand out. The less important one arises from Bolivia's failure to achieve sustained growth despite wrenching economic reform. Fifteen years of near-zero per capita growth sapped the credibility of the state and fomented social unrest. The new MNR

administration of Pres. Sánchez de Lozada 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 is 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 1952-3 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.[3]

2.2 Reform Design: The Law of Popular Participation

Against this background, the Bolivian decentralization reform was announced in 1994. The Law of Popular Participation was developed almost in secret by a small number of technocrats in the President's office (Tuchschneider 1997). The law was announced to the nation to general surprise, followed by ridicule, followed by determined opposition by large parts of society.[4] 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 it brought about were enormous. The core of the law consists of four points (Secretaría Nacional de Participación Popular, 1994):

1. **Resource Allocation.** Funds devolved to municipalities doubled to 20 percent 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, 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.
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.
4. **Municipalization.** Existing municipalities were expanded to include suburbs and surrounding rural areas, and 198 new municipalities (out of 311 in all) were created.

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.

2.3 The Economic Effects of Decentralization

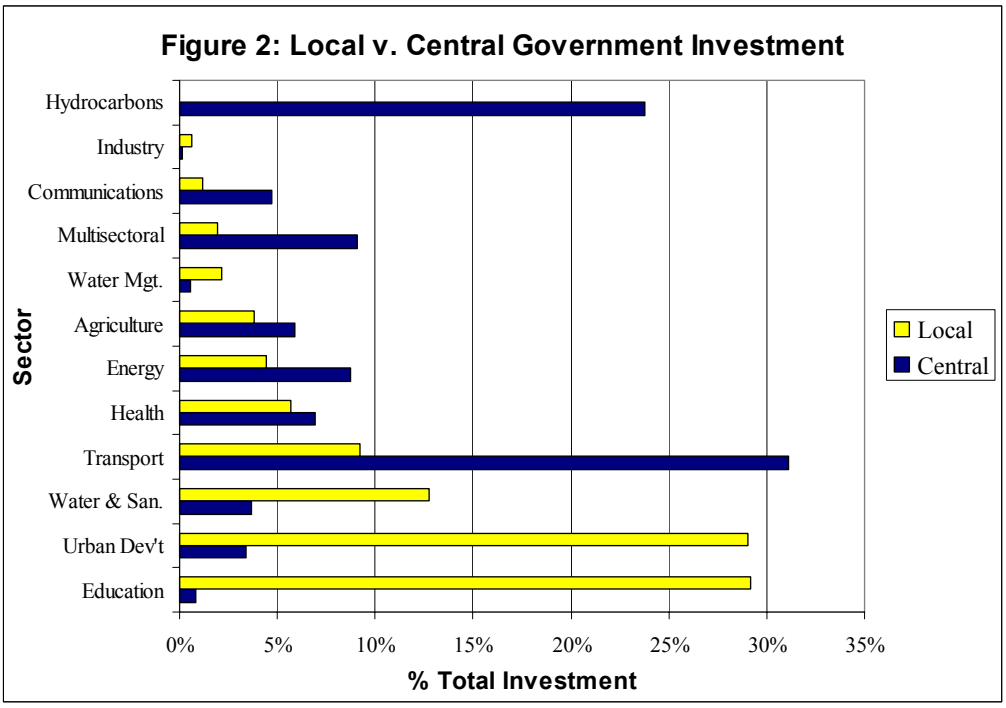
Figure 1: The Changing Allocation of Public Funds

	Central-to-Local Revenue Sharing (Bs'000)			% of National Total	
City	1993	1995	% Change	1993	1995
La Paz	114,292	61,976	-46%	51%	10%
Santa Cruz	51,278	63,076	23%	23%	10%
Cochabamba	25,856	38,442	49%	12%	6%
3 Cities Sub-total	**191,427**	**163,494**	**-15%**	**86%**	**27%**
Rest of Bolivia	**32,099**	**444,786**	**1286%**	**14%**	**73%**
Total	223,525	608,280	172%	100%	100%

N.B. Average exchange rate: US$1=Bs.5

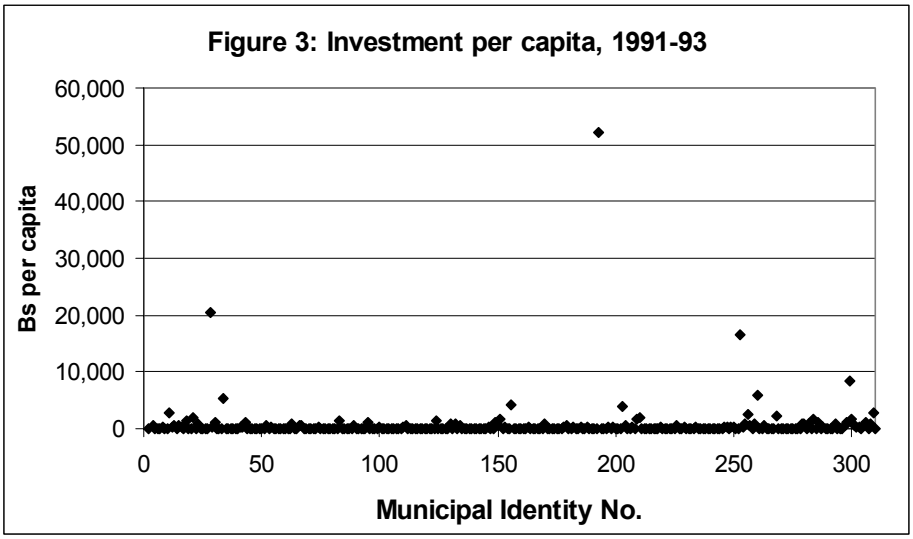
The extent of the change is perhaps best appreciated by examining the changes in resource flows it catalyzed. Figure 1 shows that before decentralization 308 Bolivian municipalities divided amongst them a mere 14% of all devolved funds, while the three main cities took 86%. After decentralization their shares reversed to 73% and 27% respectively. The per capita criterion resulted in a massive shift of resources in favor of smaller, poorer districts.

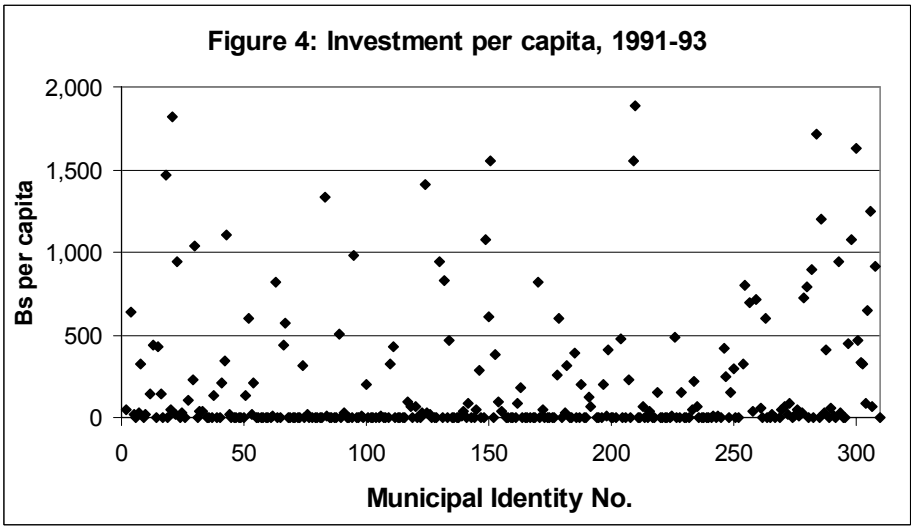
A more important and telling change was to the composition of investment. Figure 2 shows central and local government investment by sector for the periods 1991-3 and 1994-6. In the years leading up to reform, central government invested most in transport, hydrocarbons, multisectoral[5] and energy, which together accounted for 73% of public investment during 1991-3. After decentralization local governments invest most heavily in education, urban development, and water & sanitation, together accounting for 79% of municipal investment. Of the sectors accounting for roughly ¾ 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.

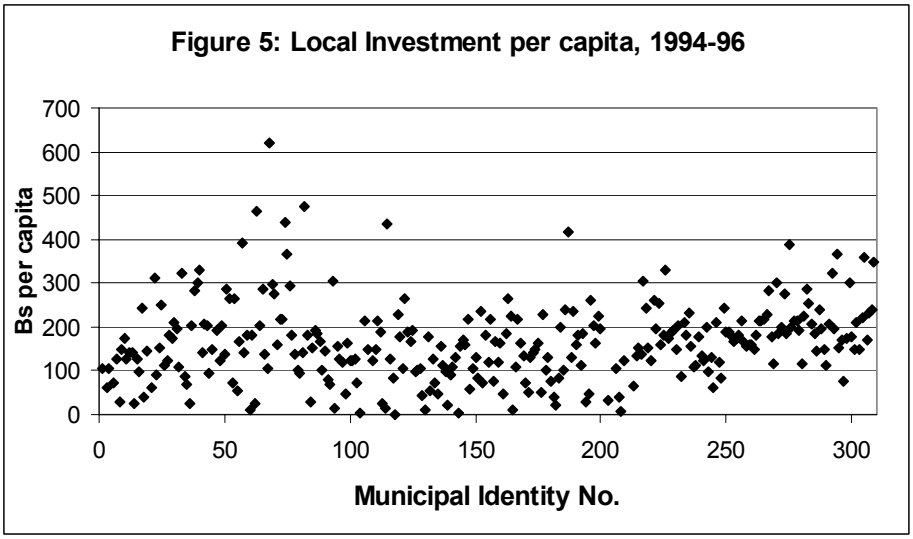


It is also instructive to examine how investment was distributed geographically among Bolivia's municipalities before and after decentralization. Figures 3-5 below give us a rough sense of this by placing Bolivia's municipalities along the horizontal axis and measuring investment per capita as vertical displacement. A highly skewed allocation would appear as a few points strewn across the top of the graph, with most lying on the bottom; an equitable distribution would appear as a band of points at some intermediate level. 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 twelve and showing only those below Bs.2000/capita. Though the distribution now appears less unequal, there is still monotonically increasing density as we move downwards, with fully one-half of all observations at zero. Investment under centralized government was thus hugely skewed in favor of a few municipalities which received enormous sums, a second group where investment was significant,

and the unfortunate half of districts which received nothing. Compare this with 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.[6] These crude indicators imply that central government, with a much larger budget and free rein over all of Bolivia's municipalities, chose a very unequal distribution of investment across space, while decentralized government distributes public investment much more evenly throughout the country.







A third key fact comes from Faguet (2002b), which uses econometric models of public investment to show that decentralization increased government responsiveness to real local needs. After 1994, investment in education, water & sanitation, water management, and agriculture was a positive function of illiteracy rates, water and sewerage non-connection rates, and malnutrition rates respectively. That is to say, although investment in these sectors increased throughout Bolivia after decentralization, the increase was disproportionate in those districts where the objective need for such services was greatest. I argue that 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.

The econometric models in this paper yield a fourth notable fact: centralized investment was economically regressive, concentrating public investment in richer municipalities and ignoring poorer ones. Decentralization, by contrast, shifted resources towards poorer districts; after 1994, public investment rose in municipalities where indicators of wealth and income are lower. The four key facts are summarized in figure 6.

Figure 6

Key Facts About Decentralization in Bolivia

Decentralization...

1. shifted public investment into social services and human capital formation, at the expense of economic production and infrastructure
2. distributed investment more equally across space
3. made investment more responsive to local needs
4. shifted investment towards poorer districts

3. Understanding Decentralization in Bolivia

3.1 Introduction

To say that decentralization drove these results is only to relocate the fundamental question. How and why did decentralization achieve this? Why did central government behave so differently when all resources lay in its largely unfettered hands? To answer these questions we must examine how local government works, as the effects of decentralization are inseparable from those of the local governments it empowers. Hence the remainder of this paper comprises a detailed examination of local government in two of the best and worst municipalities I was able to find in Bolivia – Baures and Guayaramerín. I focus on extremes of municipal performance in order to better highlight the systematic differences in decision-making that characterize each, leading to their very different outcomes. The fact that both are located in the Beni department, in Bolivia's tropical northeast, strengthens the contrast.

I rely on qualitative information gathered during six months of field work in Bolivia, in a number of municipalities selected to control for size, region, economic base, rural vs. urban setting, and cultural and ethnic characteristics. In each of these I conducted extensive semi-structured and unstructured interviews of local government

and community leaders, key informants, and citizens at the grass-roots level. I spoke to over 300 people in more than 200 interviews, following a systematic program in which I put standard questionnaires to key local officials and central government representatives, local business and labor leaders, NGO spokesmen, grass-roots leaders, and ordinary citizens. Interviews were carried out in the main city/town and throughout the rural catchment area in each district. In each district I was careful to visit a significant number of rural communities. The majority of the interviews by number (and duration) were with members and spokesmen of grass-roots organizations. What follows is a highly summarized account of the findings of this research. Full account is given in Faguet (2002a).

Before commencing the analysis, it is useful to review quickly the institutional framework of local government in Bolivia. The Law of Popular Participation (LPP) 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 fragmented political culture, grafted onto an American-style presidential system, ensures that most municipal (and national) governments are coalitions. Hereafter, this paper uses "mayor" to refer to the mayor and executive branch of local government, including all appointed administrative and technical officials – by far the largest and most important of the three. The third institution of local government is the oversight committee (OC), which is composed of the representatives of grass-root organizations within each municipality. A municipality will typically be divided into four or more regions, each of which nominates one member to the OC from amongst its local grass-roots leaders. 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.

3.2 The Quality of Local Government in Baures

Top marks amongst civic leaders, grass-roots respondents, business, union and religious authorities, and other local notables clearly go to the youngest municipal government of the bunch, Baures. The quality of its investment projects and the public services it provides was judged "good" or "very good" by all of the respondents I spoke to, a standard which none of the others approached.[7] Its investment planning system was based on village-level assemblies which discussed and approved project requests, on which local government then based its Annual Operating Plan (AOP). These meetings were reported to be extremely open and participatory – "even animals can attend," in the words of one respondent[8] – and won the broad approval of the local population. And the mayor and municipal council were deemed of high quality and eager to serve their jurisdiction. "Here they work well and the people are content with them," the leader of Jasiakiri said of the council. "They're with the people."[9] Several respondents from both town and countryside testified approvingly that town hall had so far favored rural farmers, "as they have the greatest needs and are in the majority here,"[10] and not cattle-ranchers nor miners, whose needs were less pressing. *Baureños'* contentment with their municipal government stood in stark contrast to their denunciation of the previous one, based in Magdalena, of which they were then a part. There was a broad consensus in Baures that Magdalena had ignored their needs and given them nothing, and had run an

untransparent administration that was possibly corrupt. Self-government, they testified, had solved these problems.

3.3 The Quality of Local Government in Guayaramerín

Guayaramerín presents a very different picture of governance. Most respondents testified that public investment and services in Guayaramerín were "regular" or "bad". Planning procedures were dominated by municipal staff and closed to popular input. While some projects did originate in community ideas, others did not, and communities had little or no say in project planning or execution, and no recourse for altering official plans. One technical officer in the municipality of Guayaramerín told me, "We reformulate the AOP as we see fit. We don't consult grass-roots organizations because they bitch too much. We know we should, but we don't."[11]

Luckily for Guayaramerín's authorities, public opinion had not yet boiled over. In particular in the city, in the wake of a previous mayor widely considered corrupt and ineffective, people suspended judgment as they waited to see what the current one might accomplish. Further out, however, rural community leaders attacked the mayor for grossly favoring the city at their expense. The municipal councils was widely held in very low esteem as a politicized, unresponsive institution, and councilmen were generally considered corrupt. "The municipal council," observed the director of the Guayaramerín Hospital, "is worthless."[12]

4. Economics, Politics, Society

Given a single reform program, and the same institutional framework for local government nationwide, how can we explain such large differences in local government effectiveness? As I have said elsewhere (Faguet 2004), an explanation of local government performance based on the quality of its institutions focuses only on

proximate causes. More fundamental causes lie deep in the interactions of the local economy, political dynamics and social structure of each municipality. Understanding these is the key to understanding *how* local government occurs, and *why* it is good or bad in different places. We take each factor in turn.

4.1 The Local Economy

Baures is a farming community. The mainstay of its inhabitants is twofold – subsistence or near-subsistence agriculture on family plots, and a cattle economy of 35,000 head. The few large farms in the district belong to ranchers based in La Paz, Santa Cruz and Trinidad, and remaining ranchers are medium-sized to small.[13,14] Baures once had large land-owners whose farm workers were virtual slaves.[15] But they entered decline in the 1970s and eventually died out. Partly as a result, land is not a source of social conflict. In a sparsely populated district, land is in abundance, easily available, and there is little competition for it.[16] The town primarily supports the farming economy through commerce and agricultural services, and is essentially devoid of all other industry.

By contrast, Guayaramerín consists of a highly urbanized municipality with an extensive rural hinterland which, alone amongst our group, comprises a single agribusiness economy. It has the transport and trade-based economy of a frontier town, but also benefits from large agricultural enterprises, including almond, Brazil nut, and heart-of-palm packagers/exporters, cattle ranchers, loggers and timber merchants, and a significant retail sector that exploits exchange-rate movements between the *Boliviano* and *Real*. This last spans the barrier of legality, running to drugs and contraband. The nature of these businesses implies that the urban and rural economies are intertwined: wealthy businessmen have large rural landholdings and employ many villagers, and the economic conditions that large and small actors face –

given by weather, disease and infrastructure among others – are often the same. But this economy is dominated by a small group of powerful businessmen who collectively own much of the local economy and all of its large businesses. Some of the strongest among them are timber merchants and cattle ranchers, who also control the local political parties and through them local government, to which we return below. The most important two, "Cacho" and "Gigi", were locked in a battle for influence that is typical of the dominance of the business elite to which they belong. Hernán "Cacho" Vargas Rivera is the most powerful businessman in Guayaramerín, with Brazil nut, heart-of-palm, and river and land transport companies, two television stations, and 140,000 hectares of land in Pando.[17] His rival, Adrián "Gigi" Rivera, is a hotel-owner, president of the local electricity cooperative, and money-lender at rates of 5-7% per month.[18] Their names came up often in my interviews throughout the district when respondents were asked "who runs the show".[19] While Cacho attempted to gain control of municipal policy via the local Acción Democrática Nacionalista (ADN) party, which he leads, Gigi refused to lend the electricity cooperative $37,000 unless the municipality agreed to assume the debt, thus ensnaring it in his web. Though Cacho raged against this "scandal", he also admitted that, in his view, "the municipality has become an instrument" of powerful interests in Guayaramerín.[20]

4.2 Local Politics

The only district with a fully competitive party regime was Baures, where clearly delineated governing and opposition alliances existed which mirrored at least in form the national pattern of politics. Local government was in the hands of an ADN-MIR coalition, and the MNR was in opposition. Indeed although politics in such a small population had an undeniably cozy air, and politicians knew each other and their families personally and well, politics was quite competitive in Baures, with

rival blocs vying to unseat each other in local elections. "There's a lot of politics in this town," said one observer, referring to how party loyalties ran deep in local society. "Yesterday the people [at the village festival] were absolutely divided by political party, each off to one side."[21] Not surprisingly, Baures had the lowest rate of electoral absenteeism amongst the seven, at 24%. Perhaps as a result, politics was not dominated by powerful economic or other interests, but was open to all and represented a broad range of views. Indeed, in the previous election the MNR had co-opted the indigenous vote by naming a *Baureño* to its party list.[22] And unlike other municipalities, as we shall see below, municipal councilmen did not cover up each other's transgressions; thus two MNR councilmen from the 1995 election had not yet been recognized, pending allegations against them from the previous government. But despite political competition that was often sharp, politicians managed to work relatively smoothly together, and it is telling that Baures' worst political conflict during this period came from the outside. This happened when the (MNR) prefect unilaterally donated a generator belonging to the town of Baures to nearby El Cairo when the latter's, used to pump water, broke down. The municipal council and oversight committee intervened at the scene of a public commotion and prevented him from doing so.[23] Their action was widely applauded throughout the district, even in the village of El Cairo.[24]

Guayaramerín, by contrast, suffered high rates of absenteeism and endemic interest-group capture. Money politics dominated. Prominent businessmen – the spiritual descendants of the cattle barons of the past – were firmly in control of the major political parties, and through them local government, using their resources to fight elections and expedite their political strategies. And once in power, officials and their businesses profited from the contracts, contacts and policy-making powers that

local government afforded to further their business interests. Thus when the MNR sought to prevent the re-election of Guayaramerín's long-time ADN mayor, who had won the popular vote,[25] it offered the MBL councilman $30,000 for his vote. This councilman, an ex-priest of modest means, used the money to buy a local television station, and so became one of Guayaramerín's media magnates.[26] His vote elevated a prominent logging and timber merchant to the mayoralty of a district that contained large tropical forests. But it is notable that these political dealings occurred amongst individuals much more than amongst parties. Political alliances were much the same. Indeed, during my stay the mayor and senior ADN councilman inaugurated a new coalition between their respective parties with a *karaoke* duet in a local nightclub. This broke up the previous MNR-MBL pact. But the local ADN chief was unconvinced. "Ivan [the ADN councilman] and Tico [the mayor] don't seem to belong to any party anymore. They're just looking to accommodate themselves."[27] Political competition in Guayaramerín was the province of narrow interests – *i.e.* individual businessmen – vying for control over the machinery of government and its policy-making. It was not a broader contest of ideas or ideologies, and in it broad collective interests were essentially unrepresented. Once elected, Guayaramerín's politicians were content to find an accommodation, and did little to oversee or discipline each other's activity. The fact that they were friends and members of the same restricted social set greatly facilitated this process. The fate of the previous mayor, widely accused of embezzlement but never investigated by the municipal council on which he still sat, was illustrative.[28]

In a political system in which accountability did not obtain, voters not surprisingly reported a loss of faith in government, and a loss of interest in politics. "The people here feel that their vote has no value," added an observer in

Guayaramerín. "It's all cooked between them [politicians], so why vote?"[29] This worsened the problem of absenteeism, which in turn made it easier for elites to perpetuate themselves and decreased their accountability – a vicious cycle that was potentially difficult to break.

4.3 Civil Society

With five rural and three urban GROs, Baures comprised a compact society where whites lived largely in town, indigenous people in the countryside, and mestizos in both. The district had some 720 indigenous residents,[30] and people of mixed race made up the majority. But the social implications of this ethnic diversity were less than elsewhere in Bolivia due to the greater degree of assimilation by *Baureño* natives and mestizos. In linguistic terms, for example, 93% of Baures' people spoke only Spanish, 5% Spanish plus a native tongue, and 0.1% a native tongue only; this compares starkly with Bolivian averages of 32%, 19% and 43% respectively.[31] *Baureños'* dress was essentially Western dress, largely free of distinguishing features such as the multi-layered skirts and bowler hats of the altiplano, and mixed *Baureño*-Spanish surnames abounded, indicating a high rate of intermarriage. Consistent with this, observers reported smooth social relations among these groups, and described Baures as "pacific". "Here everyone gets along well," said the nuns from CETHA. "All participate equally in each others' feast days."[32] Indeed, the controversy surrounding the generator and the prefect "was the first time since 1704 that there was a commotion in the town," the head of one GRO reported.[33]

Good social relations can partly be explained by the similar economic interests of its citizens, whether indigenous, mestizo or white. As explained above, Baures comprised a single agricultural and cattle economy devoid of industry, lacking in trade, where small and medium-sized landowners prevailed. Town and countryside

faced similar economic incentives, and when the countryside prospered the town did too. There was, thus, an encompassing interest in Baures, and one that expressed itself in a context of social harmony using a common language, Spanish. This bred a similarity of outlook that transcended politics and reached down into the social realm; as their goals were similar, the social organizations they employed to advance them were similar too. Rural and urban communities alike described their communities as "grass-roots organizations",[34] using the language of the 1994 LPP reform, so eschewing the opposition between "indigenous/original communities" and urban "neighborhood councils" common in the rest of Bolivia. We might expect trust to flourish in such a context, and in Baures it did. "The distribution of money is much better now," said the head of Jasiakiri's GRO, explaining that his community was willing to forego investments in one year so that resources might flow to other communities. "Now communities take turns to receive investment. It's good this way."[35] This leader valued cooperation as such, illustrating an attitude that was common throughout the district.

With high levels of trust, a clear encompassing interest, and social relations that were close and smooth, Baures' civil society boasted a high level of institutional coherence and the ability to involve the people in their local government. Its geography may well help to explain these characteristics. Isolated by large plains that flooded half the year, its only reliable link to the rest of Bolivia was by air. With only 5,133 inhabitants, and outside Bolivia's main west-east migratory flows, it comprised a micro-society with its own rules, traditions and social patterns of interaction. It was a stable population that changed little from year to year, and its inhabitants knew that conflicts with their neighbors would not go unnoticed, nor become much diluted.

With only the most limited of outside recourse, *Baureños* got along because they had to.

Guayaramerín was made up of eight rural and two urban GROs, and though 85% of its population claimed Spanish as their language, many also understood Portuguese. It had the typically mixed population of a thriving border town. But uncharacteristically, Guayaramerín was the product of a migratory boom that multiplied its population thirteen times during the previous half-century.[36] As a result it was a relatively new town, the sum of many cultures and ethnic groups, with relatively little unity amongst its diverse population. "There is mutual tolerance here," said Sr. Ana of *Caritas,* "but the people don't relate much amongst themselves. Each group celebrates its own feast day."[37] It was also a "very complex society", where enormous wealth rubbed shoulders with abject poverty[38] and drugs, prostitution and alcoholism abounded.[39] New social organizations were slow to form in a context of high demographic flux, which provided local politicians with a valuable opportunity. When community groups finally did organize, it was at the instigation of local government. But rather than catalyze the sort of social self-organization that has been the rule throughout Bolivia, the government of Guayaramerín provided a channel for political parties to penetrate a weak and easily divisible civil society during GRO formation, and so colonize civic institutions for political ends.[40] According to the secretary of the Chamber of Commerce,

> "The GROs are terrible here…they're totally politicized. They make midnight deals in search of payoffs…. GROs don't consult their members before making decisions – rather the leaders meet with the parties, receive money, and then commit their misdeeds."[41]

By falling under the sway of the parties, GROs became complicit in the endemic corruption of Guayaramerín's local government. Such collusion was both a symptom of, and contributing factor to, the lack of social mobilization in

Guayaramerín. Had organized civil society preceded politics, it might not have been co-opted so easily, nor so thoroughly, by the parties. Instead GROs became political franchises that stifled civic participation in government. "The people are like children here," the 1º de Mayo community explained. "They receive a misery [from local government] and are happy with that."[42] Lacking an autochthonous organization and excluded by their civic leaders, the people of Guayaramerín lay dormant before the government they had elected.

Guayaramerín, where urban and rural sectors were intertwined in a modern agribusiness economy, benefited from an encompassing interest. This gave city and countryside a common outlook and facilitated collective action for the progress of the municipality. "The development of this town has been through the money of its own citizens," reported the parish priest. "They pooled their efforts to form their own water, telephone, and other cooperatives" in order to provide basic services and improve the local standard of living.[43] These efforts were spearheaded by the city's well-organized business elite, which formed a powerful, all-party, pro-Guayaramerín lobby. They benefited from growth throughout the district, and hence favored a comprehensive local development. If public services were better in richer than poorer areas, this was due as much to the financial constraints of cooperatives in a context of rapid population growth as to discrimination by the governing class.

Regarding trust, Guayaramerín's migrant peoples were simply too diverse and too unaccustomed to each other for trust to blossom amongst them. And the politicization of its civic institutions served to replace the logic of cooperation that operates at their core with a logic of (political) competition. Thus, on the few occasions when the practice of local government brought Guayaramerín's social groups into contact, it was not so much to organize collective action as to do battle on

behalf of their political patrons. A process which might otherwise have promoted trust served instead to undermine it further. And a latent and potentially powerful encompassing interest was ultimately undone through the active subversion of society's organizational structure by political parties intent on partisan gain.

5. Theorizing Local Government[44]

5.1 Analytical Concepts

Now abstract away from the experiences of Baures and Guayaramerín to consider the processes by which local governance is produced. I take the three factors – economy, politics and society – in turn. What is the role of **the local economy** in producing good or bad local governance? The striking contrast between Baures and Guayaramerín suggests a political version of economic orthodoxy in which open and competitive markets lead to the efficient allocation of resources. Parties – especially opposition parties – require resources to sustain themselves and to campaign. Where a municipality's economy is dominated by an economic hegemon, that hegemon will tend to reduce political competition by financing a favored party, and may well abuse its position in other ways in order to hinder its political rivals. Thus monopsony in the provision of political funds will tend to lead to monopoly in the party system. Such a reduction in political competition will reduce the level of oversight that local government institutions are subjected to as a by-product of political competition, and may well leave sectors of the population unrepresented and effectively disenfranchised. An open and competitive local economy, by contrast, promotes competition in politics, leading to an increased diversity of ideas and policy proposals that compete for public favor, as well as improved public accountability for government officials. Where an economic hegemon and a dominant political party actively collude, the effects can be multiplicative – together they can distort the local

party system, capture the institutions of government, and deform the governance process to their own ends.

With respect to **the local political system**, our comparison suggests that effective local governance requires a vigorous local politics in which competition spurs political entrepreneurship and policy innovation as parties vie to win new voters. The analysis above indicates two conditions necessary for such a local politics to obtain: (i) an open and transparent electoral system, which both promotes and is (indirectly) sustained by (ii) a competitive party regime. These combine naturally to produce a third, endogenous requirement of good local politics: a substantive focus on local issues and local people. Systemic electoral reforms which increase the transparency and ease of voting serve to increase participation by making voting both feasible and fair. Voters who are able to reach a polling center and cast a vote will be more likely to do so the less likely it is that results will be misrepresented or distorted by local interests. Reforms which promote all of these things encourage citizens to express their political preferences freely, both inside and outside the voting booth. This in turn raises the electoral return to parties which actively canvass local opinions and propose policies that respond to changing voter needs. Policy innovation of this sort can be termed political entrepreneurship.

But a competitive party system must be in place if the full beneficial effects of systemic opening are to occur. Political entrepreneurship which attempts to offer dissatisfied voters a political alternative will be thwarted by a party regime which is monopolized by one actor. In a way which is, again, closely analogous to the working of competitive markets, a competitive political environment will encourage policy entrepreneurs to innovate in the hopes of capturing electoral share from their rivals. Party systems characterized by multiple participants and free entry, featuring political

agents who succeed or fail based on their ability to attract votes, will tend to serve the welfare of their constituents better than those dominated by a single actor, and hence a narrower range of policy options. And a competitive local economy, as discussed above, will tend to promote a competitive political system.

The third key element in the local governance process is **civil society**. In order for civil society to provide useful oversight and a feedback mechanism for the governing process, it must be able to accomplish a limited but important set of tasks. First, it must be able to identify a specific failing of local policy at the community level. It must then formulate a coherent demand or complaint and transmit it upwards through, typically, two or three of its own hierarchical levels. Finally, local civic leaders must be able to take up this complaint and communicate it convincingly to the mayor or municipal council. Such abilities are not culturally or organizationally specific, and thus a wide variety of societies are likely to have them. But they will all share four general traits that facilitate these tasks. The first is simply the ability to communicate, often across large areas and diverse ethnic groups. The second is norms of trust and responsibility, both within communities and across them (including leaders in the seat of government), as well as across time. Where community leaders do not comply with their duties of leadership and advocacy, government will not reap the information it needs to right policy mistakes. Communities must then trust leaders farther up the hierarchy to accurately represent their interests before government, and leaders must trust that their information is correct. And civic leaders at the municipal level must then actively pursue communities' demands if government is to be held socially accountable for its policies at the community level.

The third trait is a minimum level of human capital amongst civic leaders such that those at the municipal level are able to interact productively with local

government. This involves both cooperating with elected officials to advance policy goals, and opposing their decisions in such a way as to modify their actions. The last trait, and often the most difficult in Bolivia, is a minimum level of resources required to carry out these activities. Even if civic officials are unpaid, there remain unavoidable and non-trivial transaction costs associated with their activities. Communities in Bolivia have for the most part long-standing traditions of reciprocal generosity which cover the transactions costs of community self-government. But the extension of these social institutions to the municipal level has in many places strained such finances beyond the breaking-point.

5.2 A Model of Local Government

Local government is a hybrid. Its function is to produce local services and policies at the intersection of two market relationships and one organizational dynamic. Hence local government occurs at the confluence of two distinct forms of social interaction. Political parties and politicians are at the center of both market relationships. The first of these occurs between parties and individual voters. This can be thought of as the primary, or retail, political market in which parties exchange ideas and declarations of principle for votes; parties compete with promises and ideas to attract voters, who vote for the party or candidate that inspires the most confidence. The second market connects parties to private firms, producer associations, and other economic and issue-oriented interest groups. This can be thought of as a secondary, or wholesale, political market in which specific policies or entire policy bundles, as well as broader influence over legislators and the policy-making process, are sold to interest groups in exchange for money. , For simplicity, I assume from here onwards that civic organizations do not engage in this market; the assumption is supported by evidence from all nine case studies. The first of these relationships is intrinsic to the

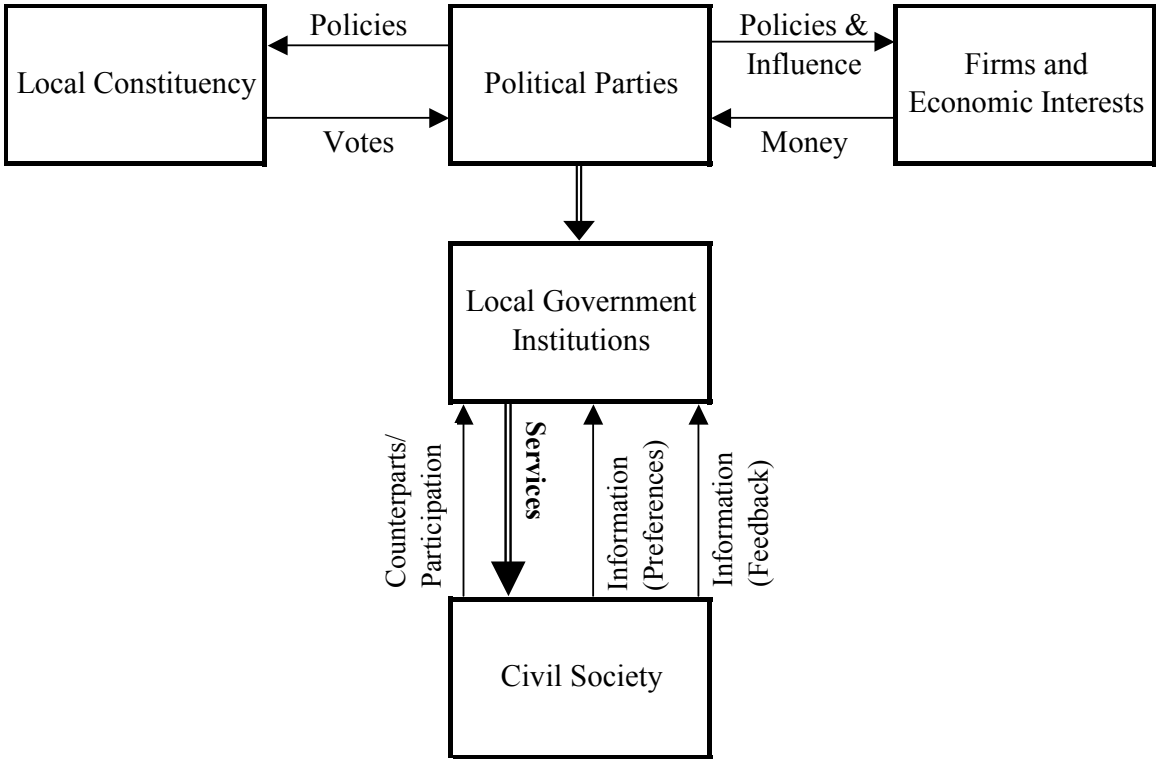
process of representative democracy. The second is derivative but compelling, arising from political parties' need to fund election campaigns and sustain party operations.

It is important to emphasize the distinction between politicians/parties and government institutions: it is politicians and not governments who compete for votes in elections; likewise, it is not governments who sell influence in exchange for campaign and political funds, but the parties and politicians who control them. I follow Downs in defining party as "a team seeking to control the governing apparatus by gaining office in a duly constituted election." This raises a wealth of complex ethical issues concerning the mechanics of political finance and the limits of official responsibility. For purposes of the analysis that follows, I sidestep these issues by assuming that elected politicians engage in this secondary market *as politicians*, and not as governing officials, observing the organizational and behavioral constraints necessary to ensure this is so. The fact that such constraints are regularly violated in practice does not contradict the logic of the argument, nor its generality.

The second form of social interaction in local government involves civil society conceived as a collectivity or set of collectivities – as opposed to atomized individuals – and their relationship with the institutions of government. Where governance is concerned local civil society operates like a complex of organizations, aggregating preferences and representing communities' needs, mediating community participation in the production of certain services, facilitating social expression and the assertion of local identity, and enforcing political accountability on the institutions of government. It is not useful to conceive of it as a quasi-market, either internally or in its dealings with government, as its dynamics are not founded on buying and selling. It is rather a set of social organizations that develop their own norms of behavior and responsibility organically, and over time may develop stores of trust and

credibility that enhance capacity, or may not. Local government depends on the relationships that collectively comprise civil society to elicit information necessary to the policy-making process, judge the efficacy of previous interventions, and plan for the future. Politicians also depend on these relationships to gauge public satisfaction with their performance between elections. The organizational dynamic of civil society is thus intrinsic to the process of local governance. Figure X illustrates how civil society combines with the political markets described above to give rise to local government. In this diagram, the political parties which are most successful in competing for votes and resources win control of government institutions. These institutions then enter into a separate, more complex interaction with civic organizations that features varying degrees of feedback and social participation.

Figure X: A Model of Local Government



In order for local government to be effective it is important that the market relationships and logic of social representation described above counterbalance each other, and none dominate the others. A stable tension between the three elements

creates a self-limiting dynamic in which the impulses and imperatives of interest groups can be contained within the bounds of political competition, and do not spill into the machinery of government nor erupt as civil strife. This is equivalent to allowing the economic, political and civic conditions outlined in the model above to obtain. Breaking this tension, on the other hand, can hobble government. Where the market for votes is weak or missing, government will tend to be undemocratic; where the economic market for political influence is weak, government may be insensitive to economic conditions; and where society's civic organizations are weak government will be lacking in information, oversight and accountability. In the interplay between these, the market for influence has the advantage of being a continuous process of exchange in which the priorities of economic interests are constantly brought to policy-makers' attention. By contrast, the electoral dynamic is binding on local governors only intermittently at elections. This lower periodicity is balanced however by the severity of the potential consequences – the ejection of politicians from power. These imperatives are therefore roughly balanced.

Under usual circumstances, as discussed above, civil society is at a comparative disadvantage. Despite having the most pervasive network of the three, the instruments which civic leaders can deploy to influence policy define the extremes of costs and consequences. They carry in one hand the relatively inexpensive lever of public complaint and admonishment, including encouraging the grass-roots to vote in a particular way. But experience indicates that this tool is weak against well-financed politicians with strong incentives to continue along a particular course. In its other hand society carries the threat of demonstrations and civil disobedience, culminating in civil revolt. This instrument is powerful indeed, but also very costly to deploy, and is only an effective threat when levels of social discontent have passed a given,

relatively high threshold. The genius of Bolivian decentralization was to include civil society directly in the local governance process via oversight committees, thus making accountability an explicit and continuous process. Bolivian society now has a third instrument at its disposal: the ability to freeze all central disbursements to municipalities – and thus effectively cripple the vast majority of the country's districts – if it is dissatisfied with local policy. This, along with the direct insertion of the OC into the policy-making process, gives it a permanent voice and continuous participation in how it is governed. It allows public problems to be identified at an incipient stage, before discontent rises dangerously. It also levels the playing field between the competing logics of market and representation that are intrinsic to local government. But in doing so it increases the premium on social trust and responsibility and the coherence of social organizations, which enable civil organizations to effectively represent their interests before government.

6. Conclusion

It is now time to stand back and consider what decentralization achieved in Bolivia. Detailed empirical evidence shows that decentralization made public investment more responsive to the real local needs of Bolivia's citizens, and shifted resources towards poorer, mostly rural districts. As a result, public investment became much more equal across space, and investment shifted massively away from economic infrastructure in favor of social services and human capital. These results are impressive, and do much to recommend reform to us. But *how* did decentralization achieve this?

Quantitative approaches are unsuited to a nuanced examination of such issues, and so in the second part of the chapter I turn to a qualitative analysis of one of the best, and one of the worst, municipalities I encountered during extended fieldwork in

Bolivia. In little Baures, the institutions of government – mayor, municipal council and oversight committee, operated transparently, boasting regular consultations with the populace and an easy openness to citizens and their concerns. In Guayaramerín, by contrast, power was openly bought and sold, and the institutions of local government were populated and dominated by a tiny clique of businessmen who attended to themselves first, second and third.

Based on this evidence, I develop a conceptual model of local government which construes local government as the nexus of two political quasi-markets and one organizational dynamic, where votes, money, influence and information are freely exchanged. In order for local government to be effective, these three relationships must counterbalance each other and none dominate the other. Such a stable tension leads to a self-limiting dynamic where pressures from various interest groups are contained within the bounds of political competition.

Now, reconstruct Bolivia's decentralization story from the ground up. Decentralization created of hundreds of local governments throughout the country. These proved more sensitive to local conditions, and more accessible to lobbying and grass-roots pressure, than a central administration that simply abandoned large expanses of territory as convenience dictated. The superior responsiveness of local government is a product of the structure of local governance, in which power and influence are nurtured and ultimately channeled by voting and information. Indeed, the effectiveness of decentralization as policy reform is largely the result of enabling such local government dynamics throughout the country, where previously no policy-making took place. In so doing, decentralization engaged thousands of neighborhood councils, peasant communities, ayllus and mallkus, as well as interest groups and business associations which previously had no voice in how their communities were

run. By locating real resources and political power in municipal institutions it reached out to rich and poor strata alike offering them the means to improve their lives, and a concrete incentive to participate.

And throughout Bolivia the people did participate. Their energies were channeled in positive ways that improved the quality of the nation's public investments. Of course, there were bad Guayarameríns alongside the good Baures. But the Baures were legion, and their effects were much greater.

This study has ultimately been about the possibility of change, and its message is hopeful. The reform of institutions and their associated incentives can bring about significant, nationwide changes in social and political behavior in the space of a few years. The Bolivian experiment argues against Putnamite assertions that policy performance is determined by thousand-year historical conditioning. When reform creates the opportunity to establish social organizations that improve group welfare, people can rise to the challenge and succeed. This includes the very poor and oppressed. The conditions necessary for reform to prosper are a complex of economic, political and social characteristics, and may well be lacking as often as they are present. But under the right circumstances, decentralizing resources and political authority can generate real accountability where none existed before and improve the quality of government a society achieves.

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[1] I am grateful for financial support from the World Bank Research Committee, the ESRC, the LSE/DFID Crisis States Programme, and the LSE's William Robson Memorial Prize. I am indebted to Tim Besley, Teddy Brett and Paul Seabright for extensive criticisms and advice. I also wish to thank Pranab Bardhan, Shanta Devarajan, James Dunkerley, Armando Godínez, Dilip Mookherjee, François Ortalo-Magné, James Robinson, Fabio Sánchez and seminar participants at DESTIN, the World Bank and the 2003 STICERD conference for their thoughtful comments and suggestions. All remaining errors are my own.

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

[4] "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).

[5] A hodgepodge, including feasibility studies, technical assistance and emergency relief, that is difficult to categorize.

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

[7] All respondents were asked to rate public investment projects and the quality of local public services on the following scale: Very Bad – Bad – Regular – Good – Very Good.

[8] Oscar Durán, neighborhood council president, interview, Baures, 2 May 1997.

[9] Juan Jahnsen, Jasiakiri community leader, interview, El Cairo, 3 May 1997.

[10] Hugo Melgar Barbery and Erland Ayllón Parada, municipal council president (MIR) and member (independent, ex-MNR), interview, Baures, 2 May 1997.

[11] Alberto Albert, municipal technical advisor and ex-municipal council president, interview, Guayaramerín, 20 October 1997.

[12] Gabriel Sosa Salvatierra, hospital director, interview, Guayaramerín, 22 October 1997.

[13] Hugo Ayllón Parada, Cattlemen's Association president, interview, Baures, 2 May 1997.

[14] Grover Martínez Franco, mayor, interview, Baures, 2 May 1997. I adhere to local definitions, where large is more than 1,000 head of cattle, medium is 300-600, and small is less than 300.

[15] El Cairo, *op. cit.* See Chapter 4, Box 3: The Slavery of Captive Communities, for a description of the general phenomenon.

[16] H. Ayllón, *op. cit.*

[17] Hernán Vargas Rivera, agro-industrialist, TV station owner and ADN chief, interview, Guayaramerín, 21 October 1997.

[18] Adrián Rivera, electricity cooperative president, money-lender and hotel owner, interview, Guayaramerín, 21 October 1997. The only bank in Guayaramerín is a branch of BIDESA, which dispenses local salaries but does not lend.

[19] *Quien manda?* in Spanish.

[20] Vargas R., *op. cit.*

[21] Sisters Pilar and Teresa and Prof. Oscar Velázquez, CETHA, interview, Baures, 4 May 1997. CETHA is a church-supported institution specializing in adult education.

[22] Juan Oni Antelo, municipal councilman (MNR), interview, Baures, 2 May 1997.

[23] Melgar and Ayllón, *op. cit.*

[24] El Cairo, *op. cit.*

[25] Guido Roca

[26] Vargas R., *op. cit.* Cacho owned Guayaramerín's two other TV stations.

[27] *ibid.*

[28] *ibid.* "Tilly" Rodríguez was widely denounced by people throughout Guayaramerín.

[29] Sr. Ana López, NGO director, interview, Guayaramerín, 22 October 1997.

[30] Self-identified.

[31] 1992 census.

[32] Sisters Pilar and Teresa and Prof. Oscar Velázquez, *op. cit.*

[33] Oscar Durán, president of the Nicolás Carageorge neighborhood council, interview, Baures, 2 May 1997.

[34] *Organizaciones Territoriales de Base* in Spanish, or OTBs.

[35] Jasiakiri, *op. cit.*

[36] Sosa S., *op. cit.* According to him, the city's population rose from 3,000 to 38,000 over 54 years.

[37] Sr. Ana López, Director of *Caritas* (NGO), *op. cit.*

[38] *ibid.*

[39] Fr. Julio Corredor, parish priest, interview, Guayaramerín, 19 October 1997

[40] Manlio Roca, port (customs) manager, ex-mayor and ex-MP, interview, Guayaramerín, 21 October 1997.

[41] Elío Simoni Casangeli, Chamber of Industry and Commerce secretary, interview, Guayaramerín, 21 October 1997.

[42] Dionisia Cuéllar Pérez, Emilse Choquere and Santiago Méndez, community officers, interview, 1º de Mayo, 23 October 1997.

[43] J. Corredor, *op. cit.*

[44] The arguments in this section are based on Faguet (2004b).