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## The Bolivian Decentralization Process and the Role of Municipal Associations

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# **HWWA Discussion Paper**

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**Miriam Seemann**

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# The Bolivian Decentralization Process and the Role of Municipal Associations

## Abstract

This discussion paper looks at the Bolivian decentralization model. The objective of Bolivian decentralization is to consolidate the process of popular participation, and to promote regional economic development by means of a more equitable distribution of national income and improved administration of public resources. The legal framework of Bolivian decentralization is established by two principled laws; firstly, the LPP, defines decentralization on the municipal level and represents a new dimension of governmental reform, creating an important link between the state and civil society. Second, the Law of Administrative decentralization (LAD-adm) organizes the structure of the executive power in each Department so as to underpin administrative decentralization. Overall the decentralization process in Bolivia can be seen as an important step towards restructuring the old centralized state into a more democratic one. However, as the social uprising and protests which took place in October 2003 show, the decentralization laws alone didn't solve the economic and social problems in Bolivia.

**Keywords:** Decentralization, Poverty Reduction, Bolivia

**JEL Code:** H70, O20, O54

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## I. INTRODUCTION

Since the early 1980s, democratization and decentralization have changed Latin America's political landscape, offering opportunities for more efficient public services and more responsive government. These political changes have also challenged political leaders to reform governance and manage new arrangements between national and municipality governments on taxation, revenue-sharing, authority, accountability, service delivery, and demands for equity. Bolivia experienced a significant change in this respect. The revolutionary and contro-versial Popular Participation Law - LPP - (1994) is the most successful part of the neo-liberal reform strategy of President Gonzalo Sánchez de Lozada. The LPP, criticized by the opposition and yet highly praised by the international community, aims to incorporate Bolivia's marginalized populations into political and economic development processes.

However, considering the current political situation in Bolivia, one could argue that the above mentioned aims failed. Former President Gonzalo Sánchez de Lozada resigned the 17<sup>th</sup> of October 2003 after losing the support of his final key ally following a month of bloody street protests which have claimed up to 80 lives and more than 200 hundred injured. The huge popular uprising was fuelled by widespread fury over austerity plans sponsored by the international Monetary Fund (IMF), a US-backed crackdown on coca production and government plans to export gas to the US and Mexico through neighboring Chile. Mr. Sánchez claimed that the project would bring millions of dollars annually into Bolivia, but few people believe his claims that average Bolivians would benefit. Opponents argued that the US\$ 4,5bn project would only benefit members of the wealthy elite. The successor, the vice-president Carlos Mesa, began his first day in office by pulling tanks and soldiers off the street and calling unity. Mr. Mesa said he would hold early elections, describing himself as the head of a transnational government and promised to do more for the indigenous people of Bolivia, but said there would be no change to the US-backed policy of stamping coca crops (Guardian, 2003).

The main goal of this paper is to ascertain the strengths and weaknesses of the decentralization model in particular, to examine how municipal associations can play a critical role in supporting the municipalities and how this instrument can contribute to the decentralization process.

Chapter Two examines the general arguments in favor of and against decentralization and centralization. Chapter Three looks at the historical antecedents of the Bolivian decentralization process and points to the importance of the role of the population of Santa Cruz in formulating the first decentralization draft. Chapter Four explores the legal framework of the two laws (*La Ley de Participación Popular* and the *Ley de Descentralización Administrativa*) which initiated the Bolivian decentralization process.

Chapter Five assesses the nature of the Bolivian decentralization model. It examines the institutional weaknesses and stresses the important role of the municipal association, outlining its advantage as a tool for strengthening for supporting the municipalities. In the conclusion, the main factors relating to decentralization and the emergence of municipal associations are summarized and the so promising reforms are put into relation to the current political situation in Bolivia.

## **II. THE PROBLEMATIC OF DECENTRALIZATION AND CENTRALIZATION**

### **II.1 What is Decentralization?**

Throughout the 1980s, multilateral organizations like the World Bank and the IMF initiated structural adjustment programs. One important goal of the World Bank policy was to promote public administrative decentralization, not only in many Latin American countries, but also in other regions. Decentralization involves a change in state organization, promotes an enlargement of democracy and stimulates social and economic development (Thedieck,1994). Decentralization, however, is a complex comprehensive concept; it implies changing the distribution of power from the central government to subordinate or independent government organizations and/or the private sector. Although, it is perhaps important to differentiate between decentralization forms, such as, political, administrative, fiscal and market based decentralization, these are outside the scope of this particular thesis. Nevertheless, these should be distinguished because they have different characteristics, policy implications, and pre-conditions for success. These different types of decentralization can also appear in different forms and combinations across countries, within countries and even within regions. It is also important to separate privatization from decentralization; as privatization plays only a peripheral role in the context of decentralization, since this can also be carried out in a centralized state.<sup>1</sup> There is also a difference between de-concentration and decentralization. De-concentration reallocates authorities responsible in finance and politics among different levels of the central government, rather than shifting political power to local governments. Therefore, de-concentration can be considered as a central administrative unit, which compared to a subordinate regional and/or local administration, remains under the supervision of a central authority (World Bank, 2002).

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<sup>1</sup> For further reading see: Kieffer, F. (1991).

## **II.2 De-concentration, Decentralization and the Federal State**

There is no completely centralized state. Every state is partly decentralized and includes small administrative units such as municipalities. State power can be distributed in many ways: by de-concentration, by adopting a federal system, or by establishing a so-called decentralized unitary state. To understand the advantages of decentralization, it is helpful to compare these different forms of political decentralization.

In a state practicing *de-concentration*, powers at the local level are delegated to agents of the national government. These agents exercise power within local territorial units, but they are still officials of the central government. Centralized control is also exercised through financial and disciplinary measures. In states with a parliamentary system of government, local officials are ultimately responsible to a Prime Minister who also determines government policies and partly directs constitutional change by means of legislation. Therefore, so-called de-concentration really has important centralizing effects.

Unlike de-concentration, *decentralization* involves the real transfer of power from the national government or its agents to representatives of local territorial collective bodies, which are directly responsible only to themselves. These bodies cannot be controlled or dissolved either by the national government or by its agents. However, the decentralized units and the collective bodies can be redefined through legislation enacted by a central legislative government.

In a *federal system*, territorial states within a union exercise a degree of real autonomy, making them real units of government compared with decentralized units within a unitary state. In other words, a constitution establishes and guarantees the autonomy of federal member states, whereas decentralized units are based on a legislative level. The federal system provides for constitutional, legislative, executive and judicial autonomy and also makes it very difficult to change the rights and powers of member states. The decentralized system means that member states are primarily administrative units with neither legislative nor judicial powers (Basta,1999).

## **II.3 Historical Background of Decentralization and Centralization**

The national states, which characterized 19th and 20th century Europe and America, represented an indispensable developmental stage following independence.<sup>2</sup> The necessity of establishing a national identity and of strengthening a completely new state led in most cases to common political systems and a primordial role for government. Yet, today this national state is caught in a crossfire. On the one hand one sees

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<sup>2</sup> For further reading see: Smith, E. (1900).



economic globalization as multinational business extend their power, which is concentrated in a number of large economic groups. On the other hand, one encounters the awakening of civil society, which protests at the inability of a centralized government to ensure sustained development and fight poverty. Civil society is increasingly demanding the fundamental redefinition of both the government's role, and the structure and the role of civil society.

One can say the foundation of the Latin-American nations required centralism. The centralization of education and military service played as important a role for national identity as the unification of the armed forces did for the military. More recent interventions by the national governments regarding the provision of health care has turned out to equally important for consolidating their legitimacy. Centralism had, without a doubt, positive aspects: national integration, extending service provision, and offering a boost to industrialization.

However, it also played an important role in concentrating economic growth in each country in a single (or very few regions). In 1980 for example, 58% of the GNP of Argentina was generated in Buenos Aires, 63% of the GNP of Brazil was generated in the Southeast region, 45% of the GNP of Chile was generated in the metropolitan region and 51% of the GNP of Peru was generated in the Central Coast. The decade of maximum centralism in Latin America was the 1970s. It coincided with the abundance of petrodollars, which permitted expansion of the state sector, albeit at the cost of debt increases. Extreme political exclusion on the one hand, and growing inflation on the other, finally conducted centralism to a crisis of government. The debt crisis (1982) marks the final crisis of the centralism (Finot, 2001, p.13).

In summary, one can say that the crisis of the eighties, characterized by high inflation, external debt burdens, high rates of interest, a drop in agriculture prices, compounded existing structural problems, concentration of land ownership, unequal incomes and inefficient government, all served to exacerbate the economic problems of the region. The problems revealed not only structural deficiencies in the development model, but generated new obstacles to social mobility and social cohesion. Poverty was one of the main examples. By 1989, nearly 183 million people in Latin America lived in poverty (44% of the total population), 47 million more than at the beginning of the 1980s and 71 million more than the beginning of the 1970s. At the end of the 1990s around 88 million of the total poor were destitute (around 21% of the population) (Castillo Chirinos, 1997, p. 50). Considering this degree of impoverishment, decentralization no longer appears solely as a condition to deepen democratization and a strategy to face the debt problem, but also as the best form of organization to construct a new paradigm based on cooperation among the public, social, and private sectors. The crisis of centralism was

above all a crisis of efficiency. It was manifested in growing external debts, in deficits of public enterprises and of the central government, and in exclusive use of foreign currency (dollars) by the wealthy. The complexity of the state administration was multiplied. It became more inscrutable and less accessible to any form of participation, and favored both clienteles and corruption (Finot, 2001).

#### **II.4 Why Decentralization?**

Opponents of central government argue that it is often too far away from the what citizens experience in their daily life to meet the needs and problems citizens face every day. Local governments, on the other hand, are more aware of the needs of individuals and their families. Of course, all citizens benefit from good central government. But in many countries with centralized governance systems the pursuit of good government has stopped short of the local level. Many central governments provide only poor basic infrastructure and fail to improve the standard of living of the majority of the population. These governments often fail simply because they are too far away - both geographically and psychologically - from most of their citizens. In other cases, they lack money or poorly manage available resources. But central governments also frequently fail because their activities at the local level do not give citizens what they need and want. Local programs are simply imposed on citizens by agencies of the central government with agendas that reflect the interests of the central government. Central governments often fail to see where their interests and the interests of local populations really coincide. When central governments fail at the local level, the entire local population suffers, including the poor, and the women and children. When governments cannot solve problems like leaking pipes, or teacher shortages at the local school, citizens will not readily trust the government to deal with the larger problems that affect the country, such as unemployment, economic stability or corruption. One of the most important arguments for distributing power to local governments is that the state as a whole gains legitimacy. When the citizen trusts his public official and is more actively involved in the development of his community, his relationship to the state as a whole is also improved (Kälin, 1999).

#### **II.5 Reasons for Strengthening Local Governments**

Due to these many failings of centralized government, decentralization has become a worldwide trend. The most important reasons for the transfer of more authority to local governments, as suggested by Kälin (1999), are listed below.

## Efficient and Accountable Administration

The desire for a more efficient administration has motivated many of the recent constitutional and legislative changes in countries all over the world. History has shown that local governments often implement policies and programs more successfully than central governments. Local governments perform better because they know more about local situations and can therefore assign more appropriate programs and services. More important, the close relationship between citizen and government at the local level fosters accountability, since decision-making on local level prevents governments from abusing their powers. Not only is it more difficult to hide corruption among those in authority when the citizen knows his public officials, but it is also easier to hold local officials accountable for their actions. The more information available to officials taking appropriate action, the higher the degree of accountability and the better the use of available resources.

As Ter-Minassin states:

“Decentralizing spending responsibilities can bring substantial welfare gains. Government resources can be allocated most efficiently if responsibility for each type of public expenditure is given to the level of government that most closely represents the beneficiaries of these outlays.” (Ter – Minassin, 1997, p. 36)

## Improved Local Development

Many countries are trying decentralization mainly because it might improve local development. Even though development is possible without decentralization, strong local governments can administer local development projects more effectively, improving their quality.

- “Decentralization removes institutional and legal obstacles to self-help and encourages innovative solutions for local problems.”
- "Local resources for social and economic development can be more easily mobilized if such projects are decided by and implemented on the local level. Experience has shown that people are ready to contribute to local development projects if they can participate in decision-making and feel that the particular project improves their situation.” (Kälin, 1999, p. 51-52).

## Democracy and Protection of Liberty

Democracy not only means expanded participation in national elections, but also the ability to participate in decision-making which affects the daily life of the citizen and their ability to live in freedom and liberty. Local governments are more likely to supply these aspects of democracy than central governments. Democracy and individual freedom do not depend on decentralization, but decentralizing government furthers

these two fundamental values, provided that local units are truly participatory, and that national authorities do not tolerate authoritarian forms of government at the local level.

#### Protection of Ethnic Minorities

Finally, as Kälin (1999) argues, decentralization also protects ethnic and other traditional minorities in regions with limited self-government because it provides them autonomy. By increasing local participation in decision-making, including ethnic minorities, decentralization has the potential to diminish problems arising from ethnic diversity, as it takes their demands into account. This, can be seen for example in Switzerland, where the federal state helped in the survival of minority languages and cultural traditions and narrowed tensions between different religious and language groups.<sup>3</sup>

## **II.6 Problems of Local Government and Decentralization**

Some kind of decentralization usually exists, at least on paper as most countries often have local authorities. Unfortunately, local governments too often fail to perform even the very limited tasks that have been delegated to them. One reason is that many lack resources. While central governments may use decentralization to turn over important responsibilities to local units, they do not necessarily give them the required control of corresponding financial resources. Even when local governments can charge local taxes and levy fees, these monies are often difficult to collect. If collected, the money is often insufficient to fund the tasks assigned to local authorities. Additionally, access to central funds is often limited and not easy to gain. Second, local governments often lack qualified and well-trained staff, without whom, local authorities cannot carry out their tasks, even if money is available.

Thirdly, while local governments may acquire broad powers, these often overlap with those of the central government. This often causes confusion. Problems are not solved at either level, and people lose faith in both their local authorities and the central government. Another common problem is the lack of democratically elected local authorities. In some cases, the central government appoints local authorities, suspends elected bodies or postpones elections for long periods. In these cases, administrators appointed by the central government have taken over daily governance. In many countries, a further problem is excessive control by the central government, which must often approve the budget before the local government can spend anything. Budget approval is frequently delayed and the procedure is used to impose many conditions. Alternatively, local governments must get prior approval for all expenditures above a

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<sup>3</sup> For further reading see: Duchacek, I. (1979).

certain level. Threatening to dismiss the local body for not performing “properly” is another very effective form of control. In other words, these control mechanisms guarantee that local authorities are constantly policed by central government officials, which not only slows the progress of local activities, but also blocks local initiative. Furthermore, decentralization risks creating unjustifiable intermediate units designed only to provide sources of additional jobs for representatives of the elite already in power. Given that decentralization changes the distribution and definition of power, it can also involve dangers, since not all persons are prepared to relinquish power that gives them concrete advantages. This shows that decentralization should not be considered a universal solution. While under certain conditions, decentralization allows societies to better respond to local needs, decentralization can also be a source of stagnation (Kälin, 1999).

### **III. HISTORICAL ANTECEDENTS OF THE BOLIVIAN DECENTRALIZATION**

The literature on federalism indicates that there has been a clear worldwide tendency in the last few decades toward political and administrative decentralization of governments, even in countries with a long centralist tradition.<sup>4</sup> Although there have been abortive decentralization proposals and decentralization attempts throughout the twentieth century, the decentralization that is nowadays on the march is intimately associated with the democratic recovery at the beginning of the eighties. Decentralization is also tied to the great economic, political, social and cultural transformations at the end of the century. This can be seen not only in Bolivia, but in the entire world (Castro, 1998). Thus, Bolivia did not escape from the worldwide tendency towards decentralization during the last decade and, consequently it has experienced both the benefits and the costs associated with the process.

#### **III.1 The Process of Decentralization in Bolivia**

The first antecedent for administrative decentralization in Bolivia is found in the Constitution of 1848. Yet, while this Constitution creates Municipalities, and grants concessions to them, (such as the right of small-holding, corresponding to small land plots for agricultural production), decentralization was never properly implemented.

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<sup>4</sup> For further reading see: (i). Tanzi, V. (1995); (ii) Ter – Minassin, T. (1997) or (iii) Albino, M. & Jiménez, J. (2000).

In the mid nineteenth century, there were several efforts to promote federalism as a form of administrative political organization for the country, as a response to the increasing centralism that all regions underwent. Nonetheless, decentralists could not address the deep institutional crisis that affected the entire country, as it could not help connect regions as diverse as the highlands, the mountains, the valleys and the Amazon (Branford & Kucinski, 1988). The institutional crisis finally ended in a civil war from 1899 to 1903 between unionists (conservatives) and federalists (liberal). Although the war was won by the federalists, they kept the unionist spirit in the Political Constitution of the state for political reasons, arguing for the necessity of maintaining national unity at a time when the Nation was at war with Brazil, in the Acre zone, northeast of Bolivia (Klein, 1992).<sup>5</sup>

Later, in the 1920s, several parliamentary initiatives culminated in the plebiscite of 1931, which approved the administrative decentralization of the country. Nevertheless, president Daniel Salamanca (1930 -1934) delayed this measure as a result of the war that broke out in the Chaco in 1932. Again, the necessity of national unity was invoked. Since the revolution of 1952, centralization increased as state intervention in the economy and the extension of state regulatory power deepened. With important reforms such as; nationalization of the mines, agrarian reform, creation of corporations as legal entities, such as the *Corporación Boliviana de Fomento* (Bolivian Promotion Corporation)<sup>6</sup> furthered the industrialization of the country. However, while economic crisis in 1965<sup>7</sup> demanded a program of stabilization which implied monetary devaluation, price controls and controls on financial concerns, stabilization did not change fundamental structural aspects in relation to state intervention but rather increased the importance of the state in economic activities.

This economic policy continued throughout the 1960s and 1970s without significant modification and culminated in a financial crisis that began in 1978, and lasted until 1985. The financial crisis had important effects on the economy, generating hyperinflation and increasing the public debt (Galindo & Medina, 1995). When Víctor Paz Estenssoro took office in 1985, the country faced a foreign debt of \$ 5 billion, and a hyperinflation of 23 000 percent (Branford & Kucinski, 1988).

In the area of fiscal policy the first Statutory Law of Municipalities was promulgated in 1946 and it reaffirmed the existence of a Municipal Authority as recognized in the Constitutions of the 1940s. Later on, regional campaigns conducted by civil organizations forced the government in 1950 to pay producing departments “supplementary payment” income from oil operations. This supplementary income was fixed at

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<sup>5</sup> Klein, H. is one of the classical authorities on Bolivian history.

<sup>6</sup> CBF = Corporación Boliviana de Fomento

<sup>7</sup> For further reading see: Arnade, C. (1984).

11% of the value of the oil productive capacity, the same rate that applies to date (Galindo & Medina, 1995). The National Revolution of MNR<sup>8</sup> in April 1952, created new opportunities for democratization of civil society. Since the Revolution, labour unions, through the creation of COB,<sup>9</sup> had played a leading role in political discourse (Morales, 1994). The nationalistic and popular revolution opened more possibilities for decentralization as national interests overlapped with new regional ones such as: the exploitation of hydrocarbons and the promotion of the agro-industrial sector in the southeast part of Bolivia. Another key factor of the transformation of the state structure was the right to vote, which opened the door of thousands of illiterate and marginalized farmers (Salinas, 2000).<sup>10</sup> Labour groups had played a critical role both in the 1952 National Revolution and in the return to democracy in 1978-82. Still, the socio-economic realities of Bolivia as it emerged from the economic crisis in 1982, politically shattered the power of the labour unions, which suffered the almost complete erosion of their power (Morales, 1994).

### **III.2 The role of Civic Committees in the Process of Decentralization**

As Thedieck, (1994) states, the source of the drive for Bolivian decentralization came from the population of Santa Cruz who demanded greater attention to their political and economic interests from 1950 onwards. The result was a Civic Committee, called; *Cooperación Regional de Santa Cruz* (CORDECRUZ) a model for development that under the government of General Banzer (1971 -1978), spread all over the country. Since 1978, CORDECRUZ was transformed into public cooperatives and given gradually more administrative, technical and financial autonomy to the population of Santa Cruz (Finot, 1990; Thedieck, 1994).

Since the restoration of democracy in 1982 the Regional Civic Committees exerted much pressure in favor of political - administrative decentralization. The most organized and vocal proponents of decentralization during this decade were the civic societies, which called for decentralization at the departmental level (Centellas, 2000). This pressure from the Regional Civic Committees led successfully to the direct election of mayors, counselors and also to the approval of the Statutory Law of Municipalities in 1985, which recognizes municipalities as independent local governments. However, the attempt to decentralize education and health systems in 1987 failed due to the resistance of the affected employees (Finot, 1990). In the last phase of the government of Paz Estenssoro (1985–1989), a regional component within the *Programa de Fortalecimi*

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<sup>8</sup> MNR = Movimiento Nacionalista Revolucionario - Nationalistic Revolutionary Movement

<sup>9</sup> COB = Central Obrera Boliviana - National Labour Federation.

<sup>10</sup> In 1952 the Bolivian voting population jumped from 200,000 to almost 1 million personsb(Klein, 1992, p. 232).

*ento de la Gestión Económica Pública: EMSO* (Program of the Strengthening of the Economic Management of the Public Sector)<sup>11</sup> was created. During the electoral campaign of 1989, decentralization was a main subject of the political debate, because of its relationship to the highly important issue of state modernization. The elected president, Jaime Paz Zamora (1989-1993), sent a bill for a ‘Law of Creation’ for departmental governments to Congress in January 1990. This opened a general discussion. Until the end of 1991, however, no political strategy was formulated as there was little political agreement about the form a decentralization process should take (La Razón, 18 of December 1991, p. 7).

In 1991, progress was made toward a consensus on the development proposal of a decentralization law, whereby the majority of political forces participated, including the Civic Committees and other social actors, such as producer, syndicates and neighbourhood groups (Thedieck, 1994). These social organizations, still led by the Civic Committee of Santa Cruz called for nine departments to directly elect prefects and a departmental legislature. In essence, this proposal called for the actual federalization of Bolivia. These demands were presented at the December 1992 Tarija conference: “*Actores sociales y descentralización*” (Social actors and decentralization) (Centellas, 2000). In 1992, the Senate approved the draft of the proposed law. Although the House of Representatives refused to consider it when the head of these negotiating teams of the Civic Committees chose not to make concessions, maintaining the inflexible carry out position of ‘*todo o nada*’ (everything or nothing), the government of Sánchez de Lozada (1993-1997), finally approved in 1994, on the 20 April, the Law of Public Participation, (or its Spanish acronym LPP). This initiated the territorial municipal process and incorporated civil society in the administration of public funds at a municipal level (Castro, 1998; Thedieck, 1994). The LPP should not be seen as the result of a fashionable trend or an imposition, either by the IMF, the World Bank, or by another external power. As stated above, the initiative arises entirely from national roots. In the first stage of the law’s formulation in October 1993, political leaders, parliamentarians, professionals specialized in social communication and guests were invited to form part of a National Commission presided over by the Vice President of the Republic. As Salina (2000), says:

“The law is therefore a synthesis of many contributions and suggestions, examined and elaborated through discussion, and personally approved in its final form by the President of the Republic.” (Salinas, 2000, p.7).

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<sup>11</sup> EMSO is an organ of the Ministry of Planning, with the main aim to identify an adequate administrative decentralization model for Bolivia.



After the promulgation of the LPP, the legal framework for decentralization was finally completed with the two major legislation's; the Law of Popular Participation (Ley 1551) and the Law of Administrative Decentralization (Ley 1654).

#### **IV. LEGAL AND INSTITUTIONAL FRAMEWORK OF THE BOLIVIAN DECENTRALIZATION PROCESS**

As we have seen in the previous chapter, the government of Sánchez de Lozada (1993 - 1997) supported decentralization, believing that it would strengthen democratic participation and improve the quality and coverage of local public services. At the beginning of his administration, Lozada organized a group of young academics to join the newly created *Unidad de Participación Popular* (UPP, Popular Participation Unit), which later developed the actual decentralization reform package (Centellas, 2000).

The legal framework, which allowed Bolivia to initiate the process of decentralization on a municipal and departmental level, was evolving, and culminated in two laws.

- (i) the Law of Popular Participation; *Ley 1551* (LPP)<sup>12</sup> which defines decentralization on the municipal level and represents a new dimension of governmental reform.
- (ii) the Law of Administrative Decentralization; *Ley 1654*, or its Spanish acronym LAD-adm,<sup>13</sup> which deals with decentralization on a smaller scale on the departmental level.

These two laws complement each other; while the LPP prioritizes local political decentralization, the LAD-adm emphasizes restructuring the Bolivian State on an administrative, intermediate level by adapting it to the new decentralization conditions set by the LPP (Thévoz, 1999; Viceministerio de Participación Popular y Descentralización Administrativa, 1998).

##### **IV.1 Objectives of the Law of Popular Participation (LPP)**

The Bolivian government implemented the *Law of Popular Participation* in an attempt to democratize the decision-making process. “The (two main) objectives of this law are to create a more democratic and accountable local government and to create a more cost- efficient delivery of service at the municipal level.” To achieve these objectives essential steps were, the decentralization of financial resources and the distribution of

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<sup>12</sup> Approved on April 20th, 1994; 39 articles.

<sup>13</sup> Approved on July 28th, 1995; 29 articles.

new responsibilities to the Bolivian municipalities (Industry Canada, Government of Canada 2002, p.1).

One can say that the LPP introduced four major changes, which promoted the institutionalization of social participation on a local level and the administrative and economic decentralization on a municipal level. The *first change* involved institutionalizing relations between civil society and the Bolivian State, through a unique system of committees called *Organizaciones Territoriales de Base* (OTBs).<sup>14</sup> In other words, ca. 20.000 OTBs, (12.000 rural communities and 8.000 neighborhood organizations), were now assigned to a legal official who intervened on their behalf in municipal planning and participated in administrative health and educational services. The OTBs supervise municipal services, participate in public hearings, oversee government expenditures, and have the responsibility to comment on development decisions and bring legal claims under relevant environmental and financial laws. This was a quite revolutionary fact, implying, for the first time in Bolivia, that multicultural society was officially recognized.<sup>15</sup> (Manoel, Albino, & Jiménez, 2000, p.16). As the PNUD: Report on Human Development (1993) found:

"The participation means that the people intervene precisely in the cultural, social, economic processes and politics that affect their own lives. It is important that (the people) arrange for constant access to decision – making and to power. Participation in that sense is an essential element of human development." (Cited in: Foro Económico 34; La Participación Popular. PAP, 1994, p.12).

Additionally, a Watchdog Committee (WC)<sup>16</sup> in each municipality was established. The committee's principal function was to promote an effective relationship between the municipal governments and OTBs, by controlling the use of municipal financial

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<sup>14</sup> English term: Basic Territorial Organizations. "The OTBs provide an explicit institutional basis for citizen participation in the juridical, political and economic life of the country. In essence, the OTBs can be seen as a new type of local non-governmental institution that is granted a certain quasi-governmental status. Each OTB serves to organize and channel debate over local development issues, and has a representational capacity on behalf of local communities nationally. As such, the OTBs overcome one of the common criticisms of non-governmental organizations pointed by governments – that they are non-democratic and not representative of civil society – and the OTBs carry a legitimacy that is often denied to traditional NGOs. The OTBs also serve to channel national resources for sustainable development to local communities, and because of their formal and representative nature, the national government can have a fairly high degree of confidence that the resources will be well-applied" (Donini & Dannennaier, 1998, p.1).

<sup>15</sup> Today there are 37 ethnic groups, each with their own dialect, officially recognized in the Bolivian constitution (Zamora, 2001).

<sup>16</sup> In Spanish: Comité de Vigilancia. The Watchdog Committees oversee the expenditures of municipal governments and are specifically charged with assuring that: municipal resources are distributed equally between urban and rural areas; community organizations are able to exercise their popular participation rights; no more than 15% of municipal budgets are spent on salaries and overhead; and at least 85% is invested in programmes and services. For further reading see: Salinas, R.(1998). & Secretaría Nacional de Participación Popular (1996).

resources, municipal administration costs as well as consulting and formulating proposals for the municipal budget. Furthermore, they could notify national and/or departmental authorities of cases of abuse or mismanagement of municipal financial resources (Manoel, Albino, & Jiménez , 2000).

The *second change* introduced by the LPP permitted the municipalisation of the entire country by creating 311 municipalities, each with its own territorial power, in which all town councils and mayors would be democratically elected. The LPP transferred responsibilities to the newly created municipalities, such as the promotion of rural development and infrastructure and equipment in the areas of health, education, sport, local roads, and small – scale irrigation. Furthermore, under the LPP, each municipal government, through agreement with social organizations such as the OTBs, WC's and other state organizations working in the municipality, has to elaborate a *Plan de Desarrollo Municipal* (PDM), which guides the municipal development for five years. To this end each municipality develops an annual *Plan de Operaciones Anual* (POA)<sup>17</sup>, which details the objectives, activities, time scale, financial resources and responsible persons for the planned activities (Faguet, 2000; VPEPP 2000).

The *third change* is aimed at achieving a more equal redistribution of financial resources from central government to the municipalities (instead of existing departmental authorities). The share of all national tax revenues, which automatically and permanently was transferred to the municipal governments, was raised from 10 percent to 20 percent and is monitored by the LPP. More importantly, transfers were no longer allocated according to political criteria, but strictly in proportion to the population of each municipality. As such it aims to eliminate the privileges of the cities over the countryside (Castro, 1998). In addition to the 20 percent of the national tax revenues directed to the municipalities, 40 percent goes to the departments and 5 percent to the universities, in other words, 65 percent of the state investment is now decentralized (Zamora, 2001, p. 2).

The *fourth change* was the reorganization of the national executive to comply with LPP regulations. In other words regional development units were reorganized in order to support municipal government functions, integrating these with their own functions. The national executive is also responsible for helping municipal governments to function properly, for example by providing complementary economic resources for OTBs and municipal governments in development projects (Thévoz, 1999).

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<sup>17</sup> The POA is a instrument, which within the period of one year permits to intervene in the municipal economic resources in order to achieve the PDM. The municipal government can only accomplish projects and activities, which are inscribed in the POA Municipal and the PDM. Thus, the POA is an instrument for social control over the municipal governments activities and permits a transparent financial management (VPEPP, 2000).

## **IV.2 Objectives of the Law of Administrative Decentralization (LAD–adm)**

The general objective of the Law of Administrative Decentralization is to regulate the delegation of responsibilities of the national executive to each of the nine country departments in accordance with the new political-administrative municipal structure established by the LPP. Despite the fact that the LAD – adm preserves the national political unit, it aims to achieve the following objectives:

- The creation of a prefecture administration<sup>18</sup>, which oversees, in each department, all decentralized public services, which up until now, had been scattered in different locations.
- It defines the attributions of the prefectures, whereby the most important tasks are to represent the national executive power in each department, to formulate and design departmental development plans, programs and projects in coordination with the municipalities and the national executive power, and to continue the relationship with the municipality governments, respond to their requirements and to support them in their administration. Furthermore, the transfer of additional responsibilities to the new prefecture administrations also includes, secondary roads, rural electrification, production support, technical assistance and environmental protection.
- The creation of departmental councils elected by municipal councilors of all municipalities. The most important roles of the departmental councils are to oversee the departmental development plans, programs and projects, to approve the prefecture's annual pre-financial plan, to control the management of prefecture authorities and to promote coordination with the municipal governments (Comisión de Participación Popular, Gobiernos Locales y Descentralización, 1999-2000).

In this sense, the departmental prefecture has the mission to become into an communication point between politics and the supply of national resources, departmental development plans, and municipal demands and priorities. In more ambitious terms, its mission is to improve municipal localism<sup>19</sup> (Thévoz, 1999).

## **IV.3 National System of Planning**

The new system of decentralization was linked to a National System of Planning. In 1995, in accord with the two laws LPP and LAD-adm, the basic norms of the *Sistema Nacional de Planificación* (SISPLAN) were approved by the resolution of the Bolivian National Development Council. Pre – 1995, there was no system of municipal planning, all decisions being taken by the Minister for Sustainable Development and Planning

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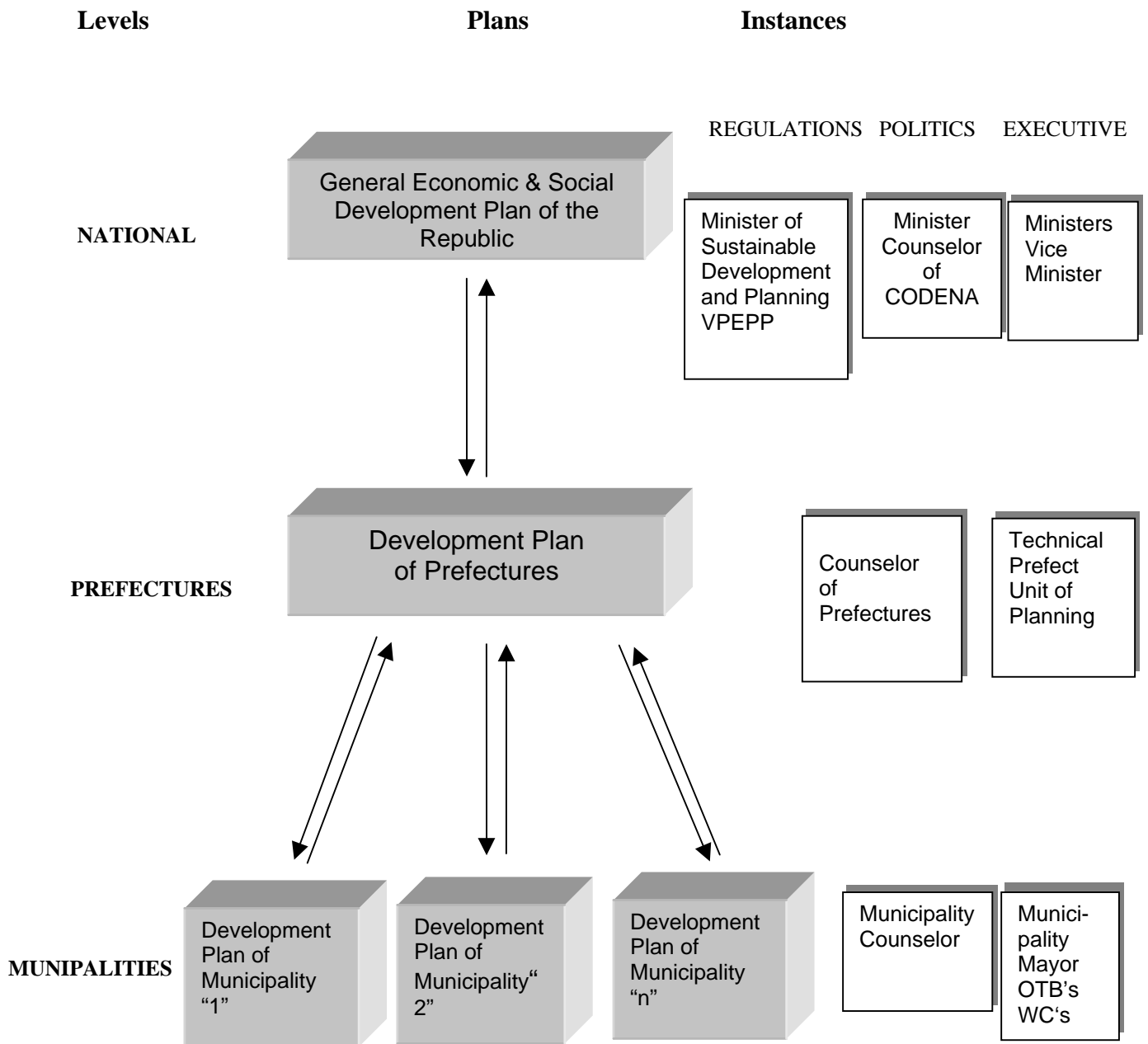
<sup>18</sup> A prefect is confirmed as the direct representative of the President of the Republic. The Prefect is responsible for maintaining law and order and for managing the prefecture administration. (Comisión de Participación Popular, Gobiernos Locales y Descentralización, 1999-2000).

<sup>19</sup> See: Law of Administrative Decentralization, No. 1654 of 28th of July 1995.

(Balderrama, Pers. Com. 2003). SISPLAN operates in three public arenas; national, departmental and municipal; each is constituted by administrative authorities, as graph 1 illustrates. The planning process outcomes are consolidated in the plans of each three public levels. According to Article N° 43: “the inter-municipal planning is constituted as an compatible instrument between municipal and departmental planning and has an *analytical character*. The themes of this planning are the *Unidades Técnicas de Planificación Departamental* (Technical Units for Departmental Planning) and the involved municipalities.” (Cuéllar, Gandarillas, & Molina, 2000, p. 48).

**GRAPHIC 1:**

**THE NATIONAL SYSTEM OF PLANNING**  
**(ORGANIZACIÓN DEL SISTEMA NACIONAL DE PLANIFICACIÓN -**  
**SISPLAN)**



Source: Cuéllar, Gandarilla & Molina, (2000) Own translation.

## V. THE NATURE AND REALITY OF THE BOLIVIAN DECENTRALIZATION PROCESS AND THE EMERGENCE OF MUNICIPAL ASSOCIATIONS

The *Ley de Participación Popular* (LPP), passed in 1994 by the government of Gonzalo Sánchez de Lozada (1993 - 1997), subdivided Bolivian territory instantly into 311 municipalities (today there are 320 municipalities). Under legislation, known as the *co-participación*, twenty percent of all national taxes are now distributed among the municipalities on a per capita block grant basis.<sup>20</sup> Citizens now elect their own mayor and counselors who sit on the municipal council and run the day-to-day operations of the municipality.<sup>21</sup> Furthermore, *Organizaciones Territoriales de Base* (OTBs), including traditional rural communities, are encouraged to register and organize, each one of them designating one member of the Watchdog Committee (*Comité de Vigilancia*).<sup>22</sup> While state agencies and NGOs still maintain some local projects, the responsibility for coordinating most local needs (such as sanitation, education, infrastructure and other public works) is now shifted to local municipalities and their citizens (Industry Canada, Government of Canada 2002 & Thévoz, 1999). Hence, the successful implementation of *Participación Popular* in Bolivia depends very much on the voluntary work at both the local community level and the municipality level.

### V.1 Decentralization and its Fiscal Impact

The extent of change brought by the LPP is perhaps best appreciated by examining the reassignment of financial resources. Even before all municipality offices were functioning, the central government opened 311 individual bank accounts (one per municipality) in private banking institutions into which were transferred the resources assigned to the municipalities (in proportion to their population), on a daily and automatic basis. Table

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<sup>23</sup>. The payment of these funds is reliant upon Central Government authorities accepting a locally designed municipal development plan (PDM) - see Chapter Three.

<sup>21</sup> Although, the municipal election of 1995 shows that there was a significant increase in the number of indigenous candidates running for local office, the number who were actually elected were fewer. NACLA (1996, p. 20) suggests this is due to two reasons; first, the distance from residence to polling booth put many off from voting. Consequently, rural absenteeism was between 40% and 60% of registered voters and according to the 1992 census, 50% Bolivian women were not even registered to vote. Second, the Bolivian Constitution still demands party affiliation in municipal elections. Consequently, political initiatives have either remained in the hands of the parties or candidates pre-selected by local organizations have to negotiate with the local party to be accepted as a member.

<sup>22</sup> The 1995 municipal elections already showed the strong participation of rural and indigenous candidates, with one third of all elected municipal councillors either coming from rural areas, or were indigenous representatives. At the end of 1997 more than 12,000 OTBs had a local legal representative and 311 WCs had been founded, although their establishment was a slow and difficult process. Thévoz, (1999, p.168).

One shows that; from US\$ 52 million in 1993, the transfers destined for the country's municipalities grew to US\$ 137 million in 1995 (+163 percent), and US\$ 184 million in 1997. Though this is certainly significant, more impressive is the growth in municipal investments, from US\$40 million in 1994 to US\$ 118 million in 1995 (+195 percent), while the number of municipal projects planned rose from 3,700 in 1994 to 18,000 in 1997 (+ 386 percent).<sup>23</sup> While in 1993, before decentralization, the central government was responsible for 80 percent of all public investments by 1997 its share had fallen to 40 percent. The availability of own resources (thirteen most populated municipalities) due to municipal taxation also increased significantly from US\$ 38 million in 1993 to US\$ 78 million (+105 Percent) by 1996. The per capita criterion of the LPP results in a massive shift of resources in favor of the smaller, poorer and rural municipalities in Bolivia, the transfers destined for the latter increasing from US\$ 4 million in 1993 to US\$ 83 in 1995 (+1975 percent) (Faguet, 2000; Secretaria Nacional de Participación Popular, 1997).<sup>24</sup>

**Table 1: The financial transfers to the Municipalities and their Investment**

<b>In millions of US\$</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
Transfer to the municipalities	\$52	\$86	\$137	\$161	\$184
Transfer to rural municipalities	\$4	\$41	\$83	\$98	\$112
Own resources of the country's 13 most populated municipalities	\$38	\$52	\$68	\$78	-
Total national public investments	\$480	\$513	\$520	\$540	\$611
Central government investments as percentage of total public investments	80%	79%	62%	42%	40%
Total municipal investments	\$2	\$40	\$118	\$117	\$118
Number of municipal projects	-	3,700	9,600	-	18,000

Source: Secretaría Nacional de Participación Popular (1997).

<sup>23</sup> The main criticism of the actual implementation of the plan is that co - participation funds are being distributed to all municipalities, which have field an annual operation plan with the central government, regardless of whether there is a functioning Watchdog Committee to provide accountability and transparency. This left theses funds susceptible to corruption. Hollis, Peirce, M. (1997). p.11.

<sup>24</sup> Interestingly enough, while the nine departmental capitals shared 93 percent of all funds devolved from the centre, leaving just 7 percent for Bolivia's other 302 municipalities (the three leading cities, La Paz, Cochabamba and Santa Cruz, alone accounted for 86 percent of the total), before the LPP, their share to 27 percent after decentralization. Faguet, J.P. (2000). p.4.



## V.2 The Prefectures and their Problems

In order to strengthen local power, the National System of Planning establishes, through the LAD-adm, three levels of planning and development: National, Departmental and Municipal (see chapter three). Nine prefectures were instantly established to operate on the departmental level, whereby the most important tasks are to represent the national executive power in each department, to formulate and design departmental development plans, programs and projects in coordination with the municipalities and the national executive power (Their role and functions are further described in the LAD-adm). These three levels, however, are very poorly defined and public policy does not often differentiate between these levels. Therefore, confusion of roles and functions exist, as in the case of the prefectures. Prefectures are simultaneously local government entities yet are also viewed as units of central government, for only the central government and municipalities can levy taxes in Bolivia. Equally, prefectures cannot be considered as decentralized units of government. While it is true that the prefect is usually an official who can therefore “represent” the people to a certain extent, this extent is very limited, since the prefect is appointed by the President, and not elected by the people. It is also true that there is a regional council in every prefecture, but this council is composed of indirectly elected members. Each district of municipalities designates one or two members for the regional council, selected from their own ranks, on a purely political basis. Consequently, they represent the political parties of the area more than they represent the people and, as such, they have weak legitimacy. The managerial capabilities of prefectures vary from case to case, but on the whole they do not seem to be very high.<sup>25</sup>

Moreover, the role of the regional council is minimal; it approves the budget, but there is not much to approve, at least on the income side, since prefectures collect no taxes of their own. Although, the de - concentration Law states very clearly: “in each region, a Prefect designated by the President of the Republic is in charge of, and administers the Executive Power” (Art.4), it is not clear, however, how in practice a prefecture will carry out the important tasks. It has no authority to control or coordinate the activities of the various ministries in its region, nor the power to raise taxes or spend central government money. Therefore, the prefecture does not function in the manner intended by the LPP (Castro,1998; Thévoz, 1999; Manoel, Albino & Jiménez 2000; Prud’homme, Huntzinger, Guelton, 2000).

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<sup>25</sup> For further reading see: Banzer Suarez, Viall Baciglalupi, & Barriga Arroyo, (1998).

### V.3 Challenges faced by the Municipalities

The LPP, as stated above, extends the field of action of municipalities in terms of jurisdiction and resources, and incorporates BTO's and civil society into local development planning. The new tasks assigned to municipalities, however, are often not easy to fulfil. First, there is a repressed demand for works that exceeds the amount of resources available. Responsibilities are immense and cover most types of public services, but resources are insufficient. A second problem is that the resources assigned are calculated on a per capita basis using 1992 National Census figures. Since then, however, cities such as Cochabamba have grown in population by 7 percent (The national population annual growth rate was 2,2 percent between 1975-1999), which should have increased the amount of resources that it would receive (De la fuente, 2000; Industry Canada, Government of Canada 2002, p. 2). Furthermore, despite the National Census of 2001 demonstrating that the number of Bolivians had increased from 6,4 million (1992) to 8.2 million inhabitants, the quantity of resources remains fixed at 175 million dollars. Consequently, the resources distributed decreased from 27 to 21 dollars per capita and while 112 municipalities increased their incomes, 202 municipalities saw their income decline (La Razón, 2002). Thirdly, the taxes collected by municipal governments do not yield much, particularly in smaller poorer communes, and the amount of the block grant remains small. Overall, municipal governments undertake about 30 – 40 percent of total public expenditures and receive approximately 15 – 20 percent of total public revenues for that purpose. Equally important, while there are funds such as the *Fondo de Inversión Social* (F.I.S.),<sup>26</sup> el Fondo Nacional de Desarrollo Regional (F.N.D.R.),<sup>27</sup> and the Fondo de Desarrollo Campesino (F.D.C.),<sup>28</sup> they still haven't set concrete priorities for the co-financing of projects with local municipal governments or with regional corporations of development (Galindo & Medina 2000; Prud'homme, Huntzinger & Guelton, 2000). Fifth, the advance in terms of strengthening municipalities financially contrasts with shortcomings related to administrative capacity and management. Municipalities often cannot assume the new responsibilities that have been assigned to them. Social services remain weak, mainly due to administrative weakness, which is also partly due to the spoils system that prevails.<sup>29</sup> Municipal governments also lack a professional civil service. At the municipal level, there is a clear lack of experience in directing meetings, organizing discussions and reaching a consensus. These are skills that need to be developed, but

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<sup>26</sup> Social Fund of Investment

<sup>27</sup> National Fund for Regional Development

<sup>28</sup> Rural Fund for Development

<sup>29</sup> According to the Corruption Perception Index of Transparency International, Bolivia ranked 84 in 2001 out of 91 countries surveyed. Bolivia has actually become more corrupt since 1996. In that year Bolivia ranked 36 out of 54 countries and in 1998 it was number 69 out of 85 For further reading see: Fabbri, J. (2002, p. 1).

training and capacity building processes are extremely time consuming. They are not only led, but also staffed by, politicians. There is therefore little continuity in policies and follow-up. Furthermore, as the accounting system used is complicated, reporting and auditing procedures are therefore often ineffectual. Furthermore, Bolivian Municipalities and the municipal governments that manage them are very diverse in terms of history, size, resources, managerial capabilities, etc. In other words, some municipal governments have a long experience of self-government (such as the municipal of San Benito and Chuño in the province of Sacaca), while others have no experience at all with local governance (such as the municipal of Ancoraimes, in the province of Omasuyus). In spite of these differences, however, municipalities are all fitted into the same political-administrative framework (Bade & Casanovas Sainz, 1998; Prud'homme, Huntzinger & Guelton, 2000; Salinas, 2000). Finally, the central government and its agencies display a lack of confidence in municipal governments. Municipalities cannot increase taxes or fees without *a priori* parliamentary approval, and Congress must also approve their budgets. Such approval is often not granted. Municipal governments also face additional difficulties, due to the weakness of the Prefectures (which are supposed to act as a bridge to central government), as well as insufficient support for the consolidation process from central government (Thévoz, 1999). In summary, the lack of funds, inexperience in local public management, and the lack of qualified human resources, among other factors, complicate effective and efficient municipal management. But it is important to put this weakness in perspective. The decentralization law created Bolivian municipalities and municipal governments in their present form only in 1994. Eight years is not much time to change centuries-old practices and attitudes, and it is not perhaps surprising that municipalities presently remain weak, inefficient and often not accountable in Bolivia. Although the Bolivian decentralization brought economic and political power back to the local level, the big challenge today is to ascertain how municipalities can resolve their new assigned responsibilities.

#### **V.4 Municipal Associations**

According to Ameller<sup>30</sup> (2002), 73 municipal associations<sup>31</sup> in Bolivia have been registered to date in the Departmental Register of Municipal Associations. According to

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<sup>30</sup> Ameller, V. is responsible for the territorial planning direction of the Vice Minister for Popular Participation and responsible for all the problems related to planification on the national and territorial level and all the polticis related to productive administration.

<sup>31</sup> "A municipal association " is a voluntary association of two or more legally constituted municipalities, with the purpose of coordinating joint actions for social economic development for the municipalities that conform it. This process becomes an joint instrument to face the basic needs of the population, and to define objectives through plans, programmes and projects to achieve a greater impact of development."(VPEPP, 2000).

this data, 178 municipalities of the 320 existing in Bolivia participate in some municipal association, which represents approximately 60 percent of all Bolivian municipalities. Keeping in mind that many municipalities are in the process of forming a municipal association, these are not yet officially reported in the Register of Municipal Associations of the VPEPP and therefore the recorded figures understates the importance of the initiatives of 2001, 30 new municipal associations are registered. In the latest management report of 2002 another 5 associations were registered (Pers. Com.: Ameller, 2002).

Although municipal associations are not a new concept, (countries such as Chile or Brazil have similar experiences), only Bolivia has given the municipal association a legislative character. Bolivia thus becomes a reference point of the municipal associative process, not only in Latin America but also in the international context. France, for example, which now has a similar process, makes explicit reference to Bolivian experiences (Pers. Com.: Riveros, 2002). According to an interview with the Municipality Consultant of municipal associations of the *Vice Ministerio de Planificación Estratégica y Participación Popular* (VPEPP), Dr. Riveros (2001) said:

"Local development in Bolivia has generated multiple instruments of management and municipal operation, among them the municipal association. Although the first legal formulation of municipal associations appears in the constitutional reform of 1967, it only began to operate effectively in 1996, after the approval of the LPP." (Riveros, 2001. p. 2).

In its beginnings, the municipal association was conceived as an instrument to support those municipal governments with scarce populations. However, following the approval of the Law of Municipalities and Supreme Decree 26142,<sup>32</sup> the municipal association was given a more solid legal base, incorporating the experiences of the last years (Riveros, 2001). Since 1996, the VPEPP has supported municipal associations.<sup>33</sup> In the first phase, which lasted until 2001, the VPEPP supported municipal associations in their management and formation at the national level. In the current (second) phase they support the consolidation of municipal associations, with priority given to those that are most viable<sup>34</sup> (Pers. Com.: Ameller, 2002). Additionally, the VEPP provided a safety net offered by the Project PDCR II for weaker municipal associations, supporting the

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<sup>32</sup> For further reading see: Banzer Suarez, H.(2001).

<sup>33</sup> The VPEPP supports municipal associations by offering: Legal and technical assistance at the request of the municipal association, project aid through *Goles – Grupos operativos locales* (Active Local Groups) and *JCP – Jóvenes Contra la Pobreza* (Young People Against Poverty), funds for the management of 6 municipal associations, technical aid in the identification, development and management of municipal association projects, technical equipment for systems to administer goods and services, technicians for project development and internal audits of municipal associations. (Pers. Com.: Ameller, 2002).

<sup>34</sup> "Out of the seventy existing municipal associations, around twenty function at a standard considered viable, whereas the others remain weak." (Pers. Com.: Riveros, 2002).

formation and consolidation of municipal associations for municipalities with scarce populations.<sup>35</sup> The project has supported the formation of fifteen so – called ‘Municipal Associations of Scarce Population’, comprising a total of 52 municipal governments<sup>36</sup> (Pers. Com.: Polo, 2002; Riveros, Mauricio, 2001; Comisión de Participación Popular 1999-2000).

#### **V.4.1 Aims of Municipal Associations**

In order to support municipalities in their new assignments, municipal associations can be created and can therefore play an important role in the administration of the territory. Municipal governments interested in programs, plans, projects, services and other common activities that traverse municipal boundaries generally create municipal associations.<sup>37</sup>

In short:

*Municipal Associations Seek:*

- to improve the socio-economic conditions of the inhabitants, while establishing common and priority aims,
- to preserve regional identities, whether these are ethnic, cultural, ecological or other types
- to develop institutional capacity to stimulate the productive process and jointly achieve short -, medium - or long - term goals.

Additionally, municipal associations can obtain their own legal personality, allowing them to develop concurrent investment dealings with the public, private, social and productive sector (Molina, 2000).

According to Cuéllar, the municipal association permits total, partial or joint administration, by two or more municipalities for the purpose of overseeing local projects. Municipal associations have the potential to undertake activities, such as environmental management, strengthening of socio – cultural unity, exploitation of

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<sup>35</sup> Of the 320 existing municipalities, almost a third don’t meet minimum population requirements to receive resources from the block grant tributaries. To remove this defect the LPP and the Law of Municipalities of 1999 (Law 2028), obliged these municipal governments to join a municipal association to get access to a block grant. The Law of Municipalities, therefore, complements and reinforces the municipality system, established by the LPP (Riveros, 2001; Comisión de Participación Popular 1999-2000).

<sup>36</sup> Support for municipal associations of this type includes: aid for meetings and negotiations between municipalities; identification of the municipal association’s objectives; processing of the municipal order and formulation of inter - municipal agreements; the establishment and regulation of municipal association funding mechanisms, legal personnel and including accountants for fund management (Riveros, 2001).

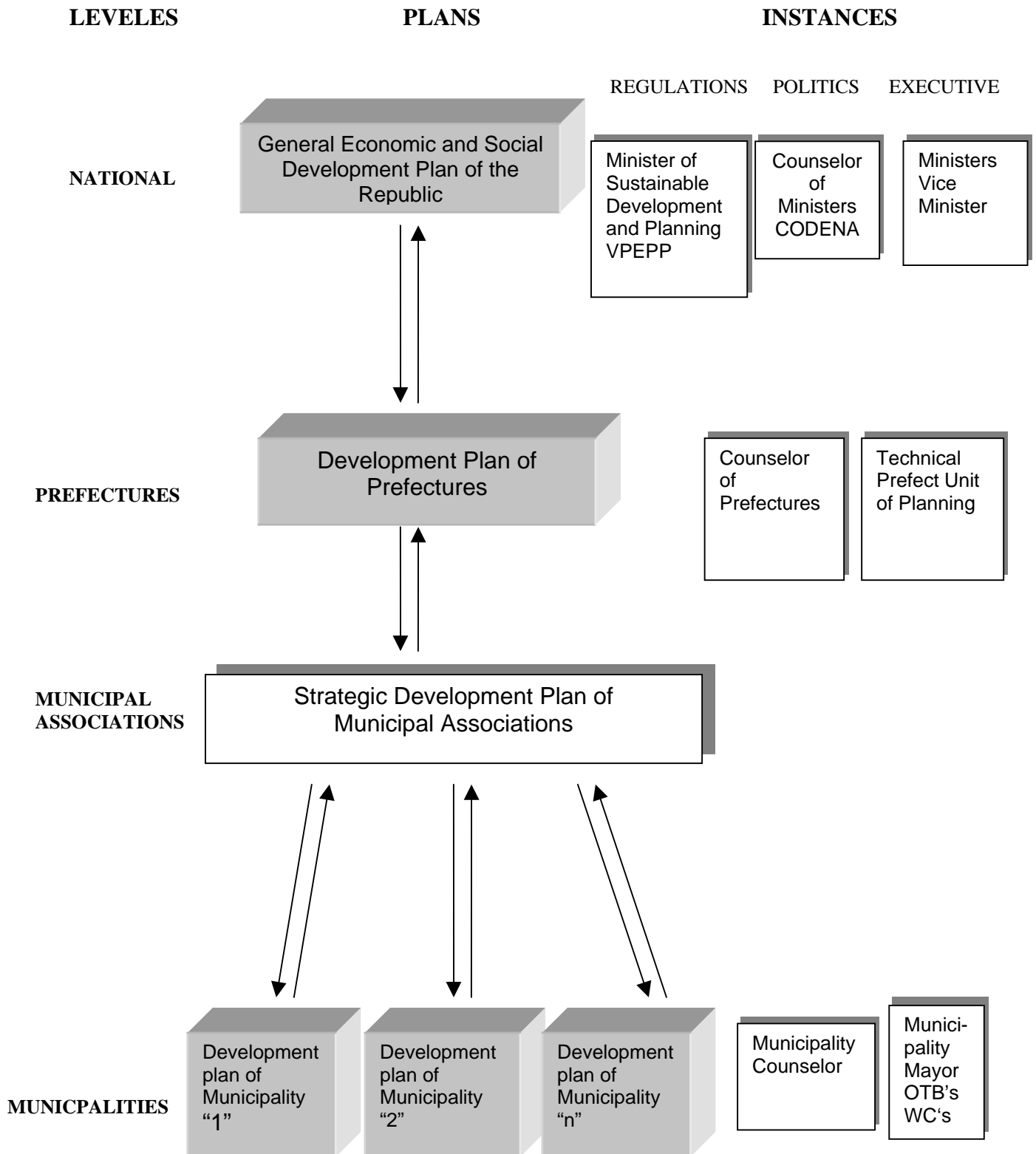
<sup>37</sup> Alternatively, there is the possibility to form a UTN (*unión transitoria municipal*), with the aim of carrying out, just one specific project. When the project is completed the UTN is wound up (Inay, 2002).

natural resources, improving the administration of one or more common services and gaining access to conversion funds (Cuéllar & Molina 2001). According to Pabón, the objectives behind the formation of municipal associations are related to six areas of intervention: promotion of development, strengthening of financing institutions, human development, strengthening of fiscal administrative capacities, protections of common lands and natural preservation of resources (Pabón & Balderas, 2000). Thus, municipal associations can support the State in the optimal administration of the territory, by inserting municipal association plans in the *Sistema Nacional de Planificación* (SISPLAN) (see graph 2). According to the norms of SISPLAN, planning on the municipal association level has an *analytical character*. The compatibility and complementary of municipal association planning should be realized through departmental and municipal planning. Authors like Molina (2002), suggest:

“The municipal association is not only constituted to support traditionally weak municipalities in the exercise of their powers, it is also an instrument to reinforce a distinct vision of state administration. The basis of this administration is constituted by municipalities and public bodies chosen by the Bolivian state to develop decentralization. This opens possibilities for local actors to experiment with their own strengths to achieve less centralism.” (Pabón & Balderas, 2000. p.13)

**Graph 2:**

**PLANNING OF MUNICIPAL ASSOCIATIONS IN THE FRAMEWORK OF THE SISPLAN**



Source: Cuéllar, Gandarilla & Molina, (2000) Own translation.

Additionally, the formation of municipal associations in Bolivia brings multiple benefits. Firstly, the generation of economies of scale; where two or more municipalities join together to carry out a project, costs can be immensely reduced. Another advantage that Bolivian municipal associations offer, are the so called ‘technician networks’. Each participating municipality of the municipal association provides a specific number of technicians or experts in a field necessary to carry out a project, potentially creating better solutions to problems, as the saying goes: “Two heads are better than one“ (Pabón & Balderas, 2000). In sum, the so-called management model of municipal associations is meant to expand the capacity of management; to increase the chances for development, to generate better conditions; to promote coherent policies, to minimize costs and to improve the quality of life of Bolivia’s inhabitants. This model can be seen as a historic opportunity to allow municipal governments to take advantage of a municipal association arrangement to establish a joint process of development (Molina, 2000).

#### **V.4.2 Challenges of Municipal Associations**

Municipal associations can clearly be seen as one of the main paths for the consolidation, and improvement of municipal management and national administration in Bolivia (Molina, 2000, p.12). According to Polo (2002), the main problems faced by municipal associations are firstly, the lack of competent municipal association managers. Secondly, municipal associations often do not have technicians to fulfil the wide range of projects. Thirdly, municipal associations often lack a clear strategic plan and a municipal association POA; *Plan Operativo Anual* (Yearly Operative Plan).<sup>38</sup> And finally, the municipalities often face internal problems and do not comply with their assumed commitments within the municipal association (Pers. Com: Polo, 2001; Riveros, 2001). Consequently, in order to operate effectively municipal associations should fulfil a set of necessary aspects, such as:

- strong internal consolidation, in order to manage and execute projects,
- good governmental administration, therefore a strong municipal association manager is required,
- a high degree of social participation, from its constitution until the execution of plans, programs,
- technical expertise and good investment sources, in order to execute joint projects, and
- a high internal motivation and the municipalities have to comply their tasks to the municipal association, in order to gain long-term results. (Pers.Com: Polo, 2001; Riveros, 2001).

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<sup>38</sup> For further reading see: Pabón & Balderas, (2000).



The success of municipal associations depends therefore on how these above mentioned points have been conceived. Yet, they too, face some problems in their application and there are still many things to improve.

## **VI. CONCLUSION**

This discussion paper looks at the Bolivian decentralization model. Firstly, it examines the problematic of decentralization and centralization in general (Chapter Two). This chapter has shown, that in order to establish and run an effective and efficient government, it is essential to balance centralization and decentralization. Centralization and decentralization are not "either-or" conditions. Yet, for any successful decentralization, it is essential to train both national and local officials in decentralized administration. Often non – governmental organization assistance has been crucial in helping recently decentralized units with planning, financing, and management. Technical assistance from private enterprise is also required to support local governments (World Bank, 2002). In summary, decentralization does not result in permanent solutions to current challenges unless it is set in a democratic form and unless local communities are in a position to express and assert themselves.

Chapter Three looks at the historical background of the Bolivian decentralization process. In summary, one can say that the recent process of political decentralization in Bolivia is based in the Statutory Law of Municipalities of 1985 that grants political autonomy to municipal governments, whereas the process of public administration decentralization began with the promulgation of Law 1551 of Popular Participation of April 1994. The aim of the Bolivian decentralization is to consolidate the process of popular participation, and to promote regional economic development by means of a more equal distribution of the national income and a better administration of public resources for municipal order.

Chapter Four examines the legal framework of Bolivian decentralization, which is established by two principled laws; the LPP, and the LAD-adm, whereas both can be seen as the fundamental base for Bolivian decentralization. The LPP creates important links between the state and civil society. It furthers democracy in the country by increasing the participation of civil society, based on the traditional social organizations, in political decision-making. Furthermore, it combines the regular election of government authorities with the incorporation of the people in the management of matters of daily interest to their community. The LAD-adm is at least as important as the LPP. It organizes the structure of the executive power in each Department so as to

conform to administrative decentralization, therefore improving and strengthening the efficiency of public administration.

Chapter Five looks at the nature and the reality of the Bolivian decentralization process and the emergence of Municipal Associations. This chapter has shown how the LPP significantly increased financial resources allocated to municipalities. Whereas the central government share of investment has declined in the past years, municipal investments and projects increased considerably, facilitating local development and social infrastructure. One of the main challenges of the process of decentralization is to address the longstanding problems in Bolivian departmental and municipal administration, such as: uncompleted action plans, administrative weakness, an absence of clear norms and procedures, government instability.<sup>39</sup> This chapter has not only shown the poorly defined role of the prefectures, which presently have both little autonomy from the central government and a confused role, but also that municipalities, often lack economic resources, trained staff and experience in local public management. In order to enable municipalities to complete their numerous assignments, and to improve the local management of resources and activities, municipal associations have been formed. As we have seen in this chapter municipal associations play an important role in confronting the difficulties of municipalities in a cooperative way. Municipal associations, furthermore, offer the opportunity to enable municipalities to complete their numerous assignments more effectively, and to improve the local management of resources and activities.

However, as this discussion paper has clearly revealed, municipal associations cannot be seen as a universal panacea, since they too have to overcome challenges. They need to be strongly consolidated internally, in order to have the capacity to execute projects, a high degree of social participation, to ensure democracy, and proven financial and technical capacities, along with high internal motivation among participating authorities. Thus, municipal associations offer the opportunity to support the administration of the territory and can be viewed as an instrument which enhances the capacities of municipal management to improve the decentralization process.

Overall the decentralization process in Bolivia can be seen as a very promising step towards restructuring the old centralized state into a more democratic one. Bolivia's LPP is indeed revolutionary and unique to Latin America. Nevertheless, the reader should be aware that, due to the relatively recent implementation date, it is presently difficult to demonstrate specific improvements related to the decentralization process in the general living conditions of the Bolivian population.

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<sup>39</sup> Political clientism, and corruption are important issues in Latin America and in Bolivia, however their explicit consideration is outside the scope of this discussion paper. Readers interested in further reading see: Tulchin, J. & Espach, R. (2000) or Little, W. (1996).

In summary, one could argue that the Bolivian decentralization process furthers democracy in the country by increasing the participation of civil society, based on traditional social organizations, in political decision-making. Furthermore, it combines the regular election of government authorities with the incorporation of the people into the management of matters of daily interest to their community. Despite the weaknesses in the program, the LPP is a step in the right direction. The LPP appears designed to play a role not only in economic development, but in advancing democratic consolidation in Bolivia. Coupled with the LAD-adm, the LPP has the potential to modernize the Bolivian state on a municipal and provincial level, and empower and incorporate the less privileged parts of civil society in ways that would not have seemed possible a few years before.

However, as the recent situation in Bolivia demonstrates, the outcomes of the promising decentralization laws are very weak and disappointing. The reforms undertaken in the past few years neither improved the economic performance in Bolivia nor reduced the social differences within the Bolivian society. Although it is far too early to draw final conclusions, the social uprising and protests which took place in October 2003 in Bolivia suggest that the reforms were not sufficient to ensure political stability. That does not mean at all that decentralization must be an obstacle for economic and social development, but what it does mean is that decentralization by itself is not a reliable mechanism to raise the living standards of the poor and to mediate conflict among social groups.

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