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SUB-NATIONAL AUTONOMY IN BOLIVIA

Analysing the Reforms and Predicting their Consequences¹

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Abstract

Bolivia recently implemented new reforms granting autonomy to departmental, regional, municipal, and indigenous and rural governments. What effects might these have on public investment patterns, government responsiveness, government fiscal relations, the sustainability of public finances, and political accountability? I examine autonomies in light of fiscal federalism theory, and evidence on the effects of Bolivia's 1994 decentralization. By submitting new reforms to the dual rigors of theory and evidence, we can try to arrive at contingent predictions of its likely effects. These allow us to make recommendations for adjustments that may strengthen democracy and give voice to the poor.

Key words: decentralisation, autonomy, fiscal federalism, public investment, local government, Bolivia

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1. Introduction

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

One of the most radical and sincere of decentralization reformers is Bolivia, whose 1994 Popular Participation reforms devolved widespread political powers and resources to hundreds of municipal governments that were created throughout the land. This experience has been widely studied in the international literature, and cited as an example for reformers as far afield as Bangladesh and Nepal. Bolivia is currently implementing a further round of reforms that deepen and extend decentralization in significant ways. The recently promulgated Framework Law of Autonomies and Decentralization (Government of Bolivia 2010) is a wide-ranging bill that reforms public administration by granting a degree of autonomy to departmental, regional, municipal, and indigenous and rural governments.

What long-term effects might this have on public investment patterns, government responsiveness, government fiscal relations, the sustainability of public finances, and political accountability? In Bolivia the new law has been the object of heated political debate, protest, and even a cross-country march, with broad claims made both in favour and against it. This paper seeks to set aside such rhetoric and instead apply analysis to what is potentially an important reform of Bolivia's governance arrangements. Acknowledging from the outset that it is impossible to analyze the effects of a still-new law, this paper instead examines its main provisions in light of the insights provided by the international fiscal federalism literature,

and extensive evidence on the effects of Bolivia's 1994 reforms. My hope is that by submitting the law to the dual rigors of high-level theory and detailed evidence, we can arrive at contingent predictions of its likely effects which, if not precise, are at least reasonable baselines. These in turn allow us to make recommendations for amendments and adjustments, not so much to the legal text itself as to the more complicated and nuanced question of the implementation of reform.

The deeper aim of this paper is twofold: (1) to bring the new reforms to light for the much wider audience of countries currently undertaking decentralization reforms; and (2) to inform and enrich the current debate within Bolivia on how autonomies can be implemented in ways that strengthen democracy and give voice to the poor. In the interests of analytical clarity and empirical tractability, I follow Faguet (2004 & 2009) in defining decentralization henceforth as the devolution by central (that is, national) government of specific functions, with all of the administrative, political and economic attributes that these entail, to democratic local (that is, regional or municipal) governments that are independent of the centre within a legally delimited geographic and functional domain. Our second concept, autonomy, occurs much less frequently in the literature. Autonomy is defined by the Oxford English Dictionary (2009) as "*Of a state, institution, etc.*: The right of self-government, of making its own laws and administering its own affairs." Dickovick (2005) helpfully signals the three most important types of autonomies as legal, political and fiscal. The function of decentralization as defined in this study is therefore to modify a country's legal framework so as to increase the political and fiscal autonomy of its subnational (regional or municipal) governments.

The theoretical justification for such reforms is debated at great length in the decentralization literature, a debate which has converged to no common position. This study has no space for discussion of such complex, contested theoretical matters, and instead refers

readers to Treisman (2007) and Faguet (Forthcoming), which provide careful, nuanced discussions of the theoretical implications of decentralization. Instead, I limit myself here to simply stating what in my opinion are the principal arguments in favor of decentralization that theory provides. When implemented correctly and sincerely, the local autonomy that decentralization generates should increase citizen voice and participation in public decision-making, so improving the accountability, and hence responsiveness, of governments to the governed. These changes result in a practice of democracy that is deeper and stronger than the comparatively centralized government that came before.

The paper proceeds as follows: section 2 surveys the most important empirical results on the effects of decentralization found in that literature. Section 3 presents the main provisions of the autonomies law, and section 4 does the same for the 1994 decentralization reform. Section 5 uses an original database to examine the empirical effects of decentralization on the universe of Bolivian municipalities over a 21-year period, attempting to trace outcomes back to salient features of the reform. Section 6 returns to the current reform, analyzing it in light of this evidence and insights on “international best practice” from the fiscal federalism literature. Section 7 concludes.

2. The Empirical Literature

The empirical literature on decentralization spans several disciplines and, if we include the “gray literature” of official studies and agency reports, runs into literally thousands of pieces over the past 30 years. To review this huge body of work within the limits of a journal article, some sampling method is required that does not lose the diversity of disciplinary and methodological approaches, nor of research findings, that characterize this literature. The rough-and-ready approach used here relies on literature surveys conducted at different points in time to characterize the development of this literature over four decades.

First, consider Faguet and Sánchez' (2008) review of 24 articles on decentralization published in *World Development* since 1997. This survey is important because the journal in question has published the largest number of decentralization papers over the past three decades, and is widely considered the top-ranked journal in the field of Development Studies. Of 24 articles on decentralization reviewed by the authors, focusing mainly on local government and responsiveness, 11 report broadly positive results, and 13 are negative. Blair (2000), Fiszbein (1997), de Oliveira (2002), Parry (1997), Petro (2001), Rowland (2001), and Shankar and Shah (2003) are most enthusiastic, finding that decentralization improved the quality of democratic governance and public sector outputs in a variety of ways. Others such as Andersson (2004), Larson (2002), McCarthy (2004) and Nygren (2005) argue that decentralization may have positive effects, but the complex, problematic nature of reform makes it hard to tell.

Amongst skeptics, Bahiigwa, Rigby and Woodhouse (2005), Casson and Obidzinski (2002), Ellis, Kutengule and Nyasulu (2003), Ellis and Mdoe (2003), Ellis and Bahiigwa (2003), Francis and James (2003), Martinez-Vazquez and McNab (2003), de Mello (2000), Porter (2002), Sundar (2001), Thun (2004), Wiggins, Marfo and Anchirinah (2004), and Woodhouse (2003) range from cautious skeptical to strikingly negative assessments of decentralization's effects on the quality of policy-making, corruption and elite capture, the quality and distribution of public goods, and key indicators of development such as poverty, growth and economic stability.

Recent research articles in the *Journal of Latin American Studies* focusing on decentralization's effects on governance are fewer but more positive. Ward and Rodríguez (1999) find that decentralization and renewed federalist reforms in Mexico are leading to the emergence of a sort of 'co-governance'. This is driving a separation of powers and administrative modernization in Mexico, which is in turn improving that country's

participation and democratic accountability. And Eaton (2001) examines successive cycles of decentralisation and re-centralisation in Argentina, one of the region's earliest decentralisers. He finds that decentralisation is intimately connected with democratisation, and not liberalization, or at least not in the direction that much of the literature predicts. In Argentina, liberalizing reformers centralized fiscal revenues at the expense of the periphery.

Further evidence is provided by broad surveys that, at various points since the 1980s, have assessed the state of the field attempting to reach concrete conclusions about decentralization's empirical effects. One of the most influential surveys is Rondinelli, Cheema and Nellis (1983), who note that decentralization seldom, if ever, lives up to expectations. Most of the developing countries they examine experienced serious administrative problems implementing decentralization.

A decade and a half later, surveys by Manor (1999), Piriou-Sall (1998), and Smoke (2001) are somewhat more optimistic, but with caveats about the strength of evidence in favor of decentralization. Manor notes that the evidence, though extensive, is still incomplete. Smoke finds the evidence mixed and anecdotal, and asks whether there is empirical justification for pursuing decentralization at all. More recently, in a review of 56 studies published since the late-1990s, Shah, Thompson and Zou (2004) find evidence that decentralization has in some cases improved, and in others worsened, service delivery, corruption, macroeconomic stability, and growth across a large range of countries.

Litvack et al. (1998) summarize the literature this way: "It is not much of an exaggeration to say that one can prove, or disprove, almost any proposition about decentralization by throwing together some set of cases or data" (p.30). Treisman's (2007) more recent review of the literature is bleaker still. He finds results on the effects of decentralization mixed at best, and for the most part inconclusive, weak and contradictory. "To date," he says, "there are almost no solidly established, general empirical findings about

the consequences of decentralization” (p.250). “Almost nothing that is robust or general has emerged” (p.268). The lack of progress over 25 years and hundreds of studies reviewed by these authors is striking.

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

3. The Law of Autonomies and Decentralization

Continuing with its recent trend of expanding the scope of subnational government, Bolivia is currently implementing a new law that grants regional and indigenous autonomies at the subnational level (Government of Bolivia 2010). The law regulates the territorial organization of the state and integrates the new legal concept of autonomies into the pre-existing regime of municipal and departmental decentralization, with some adjustments to both of the latter levels. What exactly is this “autonomy”? The law states that autonomy is exercised when citizens freely elect subnational political authorities who have the following powers:

- create, administer and collect taxes
- enact local resolutions and regulations

- design and implement local policies, plans and programs in the judicial, administrative, technical, economic, financial, cultural and social fields, and
- use coercive powers to compel respect for the legal norms and decisions that they implement. (Article 7)

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

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

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

Bolivian decentralization has already been treated above and new reforms are modest, I henceforth focus on the new autonomies and their likely effects on government efficiency and responsiveness, the sustainability of public finances, and political mobilization and stability.

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

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

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

And lastly, *Indigenous and Rural Autonomies* (Articles 28-43) are for Bolivia's indigenous and rural nations and peoples who share a cultural identity, language, historical traditions, institutions, territory and world view, whose existence pre-dates the colony, but to include also the Afro-Bolivian people, and whose territory is presently inhabited by such nations and peoples. (Article 30(1))

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

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

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

The specific powers and attributes of the various autonomous governments are left undefined by the law. These are determined on an individual basis, after specific autonomy petitions have succeeded and normative statutes have been approved, as stipulated by the law. The law establishes a procedure for the transfer of individual powers to each of the four

levels of autonomous governments. This makes it had to generalize at this stage what their specific powers and attributes may be. In the absence of clear guidelines, one reasonable assumption is that each level of autonomous government will largely inherit the powers and attributes of the decentralized administration that preceded it. Hence autonomous departments will largely inherit the powers of prefectures, autonomous municipalities of decentralized municipalities, and both autonomous regions and indigenous and rural governments will inherit the powers of the previously independent units that make them up. This implies that the political foundations, legitimacy and accountability of each level of government would be changed far more than its specific attributes and powers, an approach that presumably responds to the underlying purpose of the law.

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

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

4. The 1994 Decentralization Program

On the eve of revolution, Bolivia was a poor, backward country with extreme levels of inequality. The nationalist revolution of 1952, which expropriated the “commanding heights” of the economy, land and mines, launched Bolivia on the road to one of the most centralized state structures in the region. The government embarked upon a state-led modernization strategy in which public corporations and regional governments initiated a concerted drive to break down provincial fiefdoms, transform existing social relations, and create a modern, industrial, more egalitarian society (Dunkerley 1984). To this end the President directly appointed Prefects, who in turn designated entire regional governments and associated dependencies, forming a national chain of cascading authority emanating from the capital.

Successive governments through the 1950s promoted the unionization of miners, laborers, peasants, public servants and professionals into a hierarchical “peak association”, whose representatives negotiated national policies directly with their similars from the private sector and government (Dunkerley 1984, 43). Together these three planned the exploitation of Bolivia’s natural resources, the development of new industries, and sectoral and regional policy in a bid to orchestrate a rapid development process from the heights of La Paz. With political power so little dispersed, there was little point in establishing the legal and political instruments of local governance. As a result beyond the nine regional capitals (including La Paz) and an additional 25-30 cities, local government existed in Bolivia at best in name, as an honorary and ceremonial institution devoid of administrative capability and starved for funds. And in most of the country it did not exist at all.

Although the 1994 reform surprised the nation, the concept of decentralization was not at all new. For over three decades a decentralization debate focused on Bolivia’s nine departments ebbed and flowed politically – at times taking central stage, other times forgotten

entirely. The issue became enmeshed in the country's centrifugal tensions, as regional elites in Tarija and Santa Cruz consciously manipulated the threat of secession to Argentina and Brazil – with which each is economically more integrated than the *altiplano* – to extract resources from La Paz. Bolivia's particular paradox of a weak but highly centralized state, and an ethnically diverse population with a weak national identity, meant that such threats were taken seriously by political elites, who blocked all moves to devolve power or authority to the departments.

The law was first made public in January of 1994, was promulgated by Congress in April, and implemented beginning July 1st. The scale of the changes in political power and resource flows that it catalyzed were huge. At the law's core are four points (Secretaría Nacional de Participación Popular, 1994):

1. *Resource Allocation.* Funds devolved from the centre to municipalities doubled to 20 per cent of all national tax revenue. Crucially, 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, and water & sanitation was given to municipalities, along with a responsibility to manage and maintain these facilities and invest in new ones. Staffing issues, including responsibility for salaries, remained central attributes.
3. *Oversight Committees (OCs; Comités de Vigilancia)* were established to provide a parallel channel of representation in the policy-making process. Composed of representatives from grass-roots groups, OCs propose projects and oversee municipal activities. They can have disbursements of central transfers suspended if they find funds are being misused or stolen, which quickly paralyzes most local governments. This gives them real power.

4. *Municipalization.* The borders of existing municipalities were expanded to include suburbs and rural catchment areas, and 198 new municipalities (out of some 311 in all, since increased to 327) were created.

These measures catalyzed an immense change in local affairs. Before reform, local government did not exist throughout most of Bolivia. The state was present at most in the form of a military garrison, schoolhouse or – less frequently – a health clinic, each reporting to its respective ministry. After reform, local governments and local politics sprouted throughout the land.

Before commencing the analysis, it is useful to review quickly the institutional framework of local government in Bolivia. The Bolivian municipal code stipulates that municipal councilmen be elected from party lists in single-constituency elections. The council then elects the mayor indirectly from amongst those of them who garnered the most votes. The third institution of local government is the oversight committee (OC), in effect a non-electoral form of representation that operates in parallel to municipal councils and mayors. These are composed of the representatives of grass-root organizations within each municipality. Municipalities are divided into four or more regions depending on size and population. Each region contains a number of grass-roots organizations (GROs); these occur spontaneously and naturally throughout Bolivia. Examples of such GROs include neighborhood councils in urban areas, pre-Columbian *ayllus* and *mallkus* for community self-government on the altiplano and in the Chaco region, and tribal structures in Bolivia's eastern lowlands, although there are many more. GROs have a wide variety of traditions and conventions of self-organization and leader selection which the Bolivian municipal code recognizes as legitimate, without intervention. In this way the traditional practices of community self-government, and their attendant social legitimacy, are explicitly incorporated into the Bolivian municipal governance system.

GRO leaders within each of a municipality's constituent regions nominate a representative to the OC, using whatever system they can agree on. OC members elect from amongst themselves a president, whose legal status is comparable to the mayor's. The OC's power lies in its natural moral authority, as well as the ability to suspend disbursements from central to local government if it judges that funds are being misused. Oversight committees thus comprise a parallel, corporatist form of social representation similar to an upper house of parliament, enforcing accountability on the mayor and municipal council.³

5. The Effects of Decentralization in Bolivia

Assessing the effects of decentralization in a country where two thirds of municipalities did not exist prior to reform presents a number of methodological challenges. Existing data prior to 1994 is organized by individual investment project, and not according to the municipalities defined subsequently. Hence a colleague and I were obliged to go through detailed investment records project-by-project to allocate central government investments to Bolivia's post-reform municipalities.

Decentralization led to large changes in resource flows across Bolivia. Figure 1 shows that before reform, 308 municipalities shared a mere 14 percent of all centrally devolved funds between them, while the three main cities received 86 percent. After decentralization the shares reversed to 73 percent and 27 percent respectively. The per capita criterion resulted in a massive shift of resources away from the richest urban centers. Many smaller, poorer rural districts saw resource increases in the tens of thousands of percent.

³ I am indebted to Teddy Brett for this apt analogy.

Figure 1: Changing Resource Flows After Decentralization

City	Central-to-Local Revenue Sharing (Bs'000)			% of National Total	
	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

Source: National Secretariat of Public Investment and External Finance.

A more important change was to the allocation of investment funds across sectors.

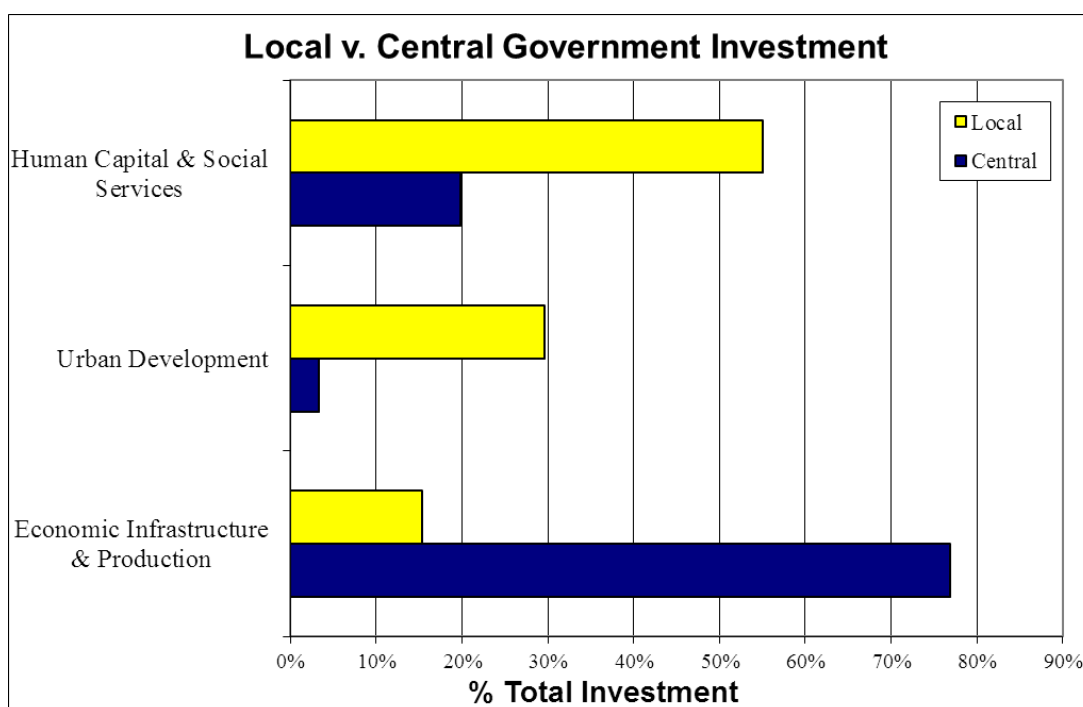
Figure 2 compares the sum of local plus national government investments during the last three years before reform (1991-93) vs. the first three years after reform (1994-96). The differences are dramatic. Total education investment surged by 547 percent after decentralization; total investment in water & sanitation increased 133 percent, water management rose 77 percent, and health rose 43 percent. By contrast, investments in communication and industry & tourism fell by almost 60 percent each, with smaller but still significant falls in energy and hydrocarbons of around 20 percent each. In sum, decentralization seems to have reoriented public investment away from economic infrastructure, towards primary services and human capital. Figure 3, which groups the previous sectors by type, confirms this trend.

Figure 2: Changes in the Distribution of Public Investment by Sector

Change in National (Central + Local) Public Investment, 1991-93 vs. 1994-96	
Sector	Change (%)
Education	547%
Water & Sanitation	133%
Water Management	77%
Transport	44%
Health	43%
Mining & Metallurgy	34%
Multisectoral	11%
Hydrocarbons	-18%
Energy	-23%
Urban Development	-27%
Agriculture	-34%
Industry & Tourism	-57%
Communication	-59%
TOTAL	16%

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

Figure 3: Changes in the Distribution of Public Investment by Type



Did decentralization change the allocation of public resources across space? Figures 4-6 show investment per capita across Bolivia, where each municipality is represented by a

‘dot’. The charts plots per capita investments summed over all sectors on the vertical axis, and a municipal identifier along the horizontal axis. Municipalities are ordered by increasing investment. These charts use a longer time span, comparing investments over the last seven years before decentralization (1987-1993 inclusive) to investments under local government during the first 14 years after.⁴ Before examining the charts, consider what would extreme patterns of investment look like? The most unequal investment pattern across space possible would be represented by a lone dot at a very high level, and all the other dots on the horizontal axis at zero. The most equal investment pattern possible would find all the dots forming a horizontal line across the chart at some intermediate level. What do the charts actually show?

⁴ Ideally we would compare equal 14 year periods. But data from before 1987 are incomplete and of extremely low quality due to the hyperinflation Bolivia suffered during 1984 and 1985.

Figure 4: Pre-Reform Investment by Central Government

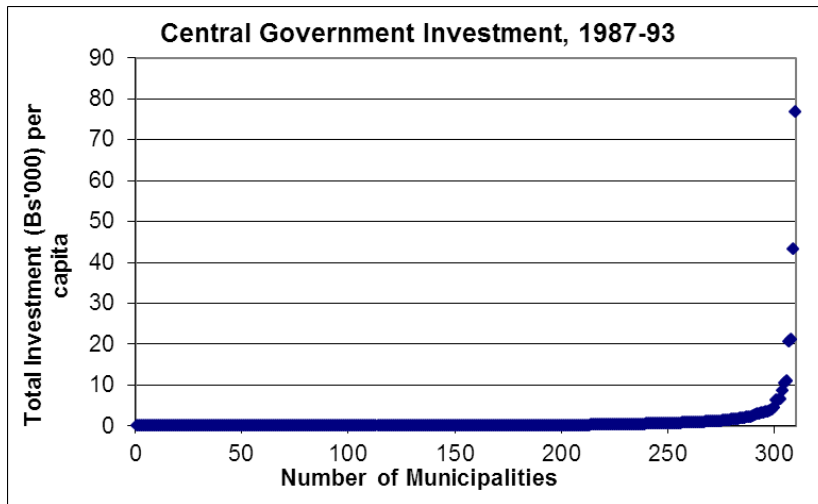


Figure 5: Pre-Reform Investment by Central Government

(Highest 6 observations dropped)

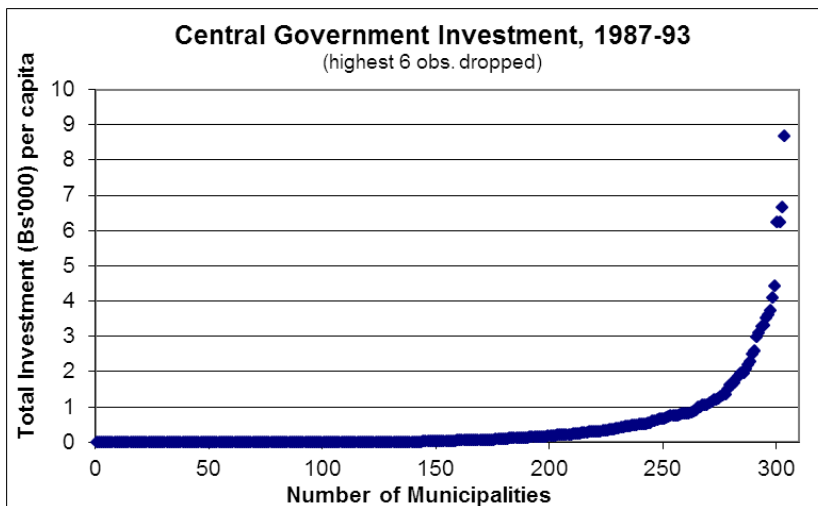
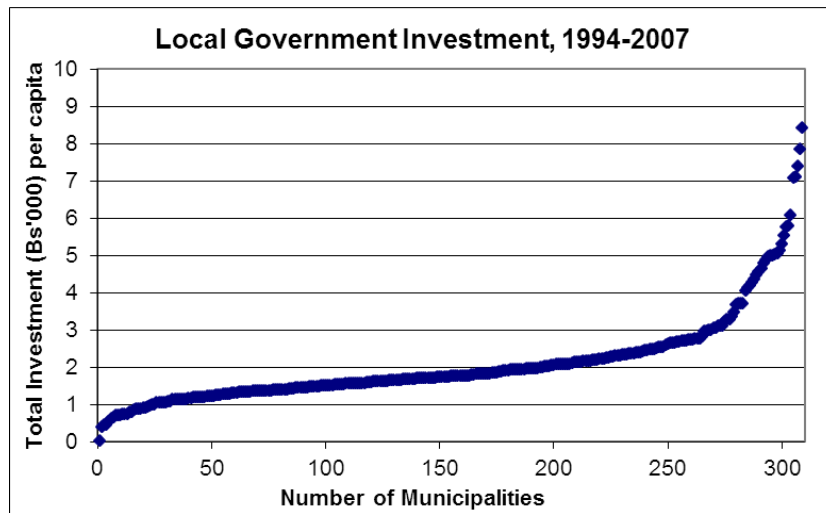


Figure 6: Post-Reform Investment by Local Governments



Under central government the spatial pattern of investment was not quite as unequal as it is technically possible to be, but it was close. Figure 4 show one lucky municipality receiving more than Bs 75,000 per capita during this period, another more than Bs 40,000 per capita, and a third more than Bs 20,000 per capita, all immense sums in the Bolivian context. But these very high observations compress the vertical axis, obscuring variation at lower levels. Hence figure 5 expands the vertical axis by dropping the highest 6 observations in order to focus on the vast majority of municipalities receiving less than Bs 10,000 per capita. While we do indeed see more dots between Bs.1-4,000 per capita, notice the thick horizontal line at zero investment. If we count these dots, we see that central government invested Bs 0.0 per capita in 40 percent of Bolivian municipalities. Increasing the threshold to Bs 0.1 per capita during this period captures 59 percent of municipalities. During the seven years preceding reform, a central government that held all national power and resources in its hands chose to invest nothing at all in 40 percent of Bolivian municipalities, and less than one-tenth of a *boliviano* per capita in a further 19 percent of municipalities, spread over seven years. This lowest 59 percent of municipalities are disproportionately Bolivia's small, poor, rural districts.

Compare with local government investments in figure 6. No municipality lies on the horizontal axis, at zero investment, and more than 83 percent occupy a band between Bs 1-4,000 per capita. Average investment is Bs 1,025 per capita, and thus the band contains the mean.⁵ While this is not the equal extreme described above, it is far closer than the pattern under central government. These simple indicators imply that decentralized government distributed public investment much more evenly than centralized government had before. Equality in per-capita terms is, of course, largely the result of the design of the reform, as noted above. The *ex-post* result is thus not as surprising as the *ex-ante* distribution, in which the center – with a much larger budget and free rein to invest as it chose, consistently opted to lavish resources on a few districts and ignore the rest.

Did these changes in the allocation of resources across sectors and space lead to deeper changes in the *quality* of public investment? Unfortunately the data required to address this question directly are not available for Bolivia (nor indeed for most countries). But we can investigate a related question: Did decentralization make government more or less responsive to local need? As noted above, improved responsiveness to local citizens is one of the central – and most disputed – arguments in favour of decentralization, and hence any evidence in this respect is of particular interest.

Figure 7 shows scatter plots of central government investment (left-hand side graphs) vs. local government investment (right-hand side graphs) in health, agriculture, and education. The graphs plot central government investment during the last seven years before decentralization vs. local government investment during the first fourteen years after

⁵ Total invested sums are lower under decentralization because they exclude continuing national government programmes such as national defense.

decentralization, against objective indicators of real local need in each municipality.⁶ Each graph includes a regression line summarizing the overall relationship.

The first comparison shows how centralized health investment varied with the percentage of households using private healthcare. This variable is an indicator of local need for health investment in that it counts the proportion of households that require healthcare but lack access to public health services, and hence must pay for private care. In a small minority of Bolivian municipalities, use of private healthcare might also signal social class or status. But extensive fieldwork plus professional knowledge of the sector indicates that this would be true in only the wealthiest, most sophisticated cities, accounting for perhaps five percent of the total. In the vast majority of municipalities, Bolivians resort to private care only when they have to. High usage implies an unmet need for public health services, and hence need increases with private provision.

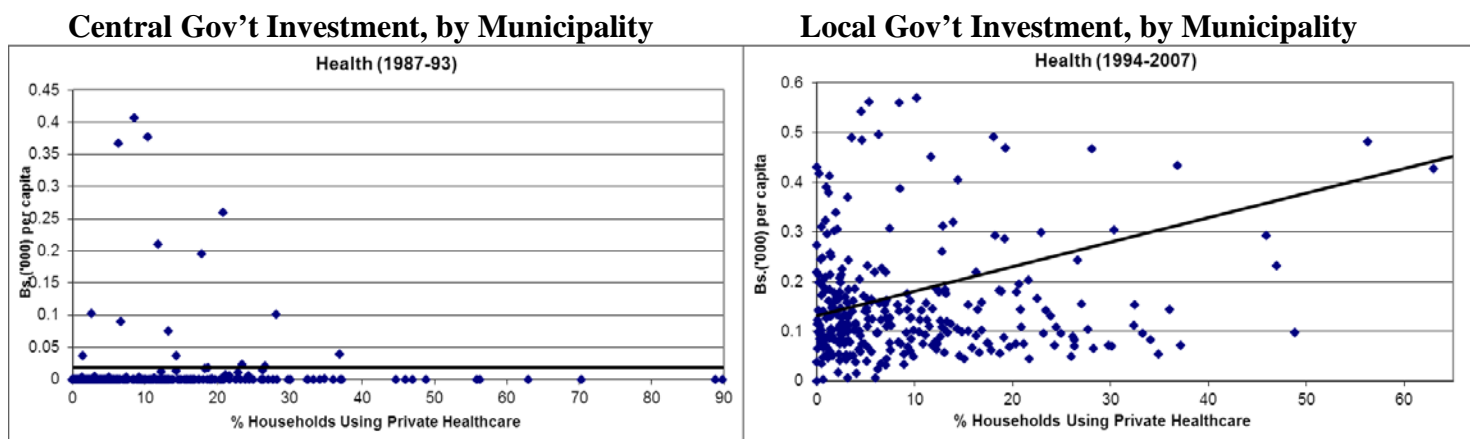
Under central government, only ten percent of municipalities received any investment in health during the seven years before reform. The regression line is horizontal, implying that central investment shows no relation to private healthcare, and hence no responsiveness to need. This is not what we would expect if central government were investing in areas of greatest need. After decentralization, by contrast, the regression line slopes sharply upwards, implying that local governments invested progressively in health where need was higher. The share of municipalities investing also rises dramatically – to 85 percent immediately after decentralization, rising further to 100 percent by the end of the period.

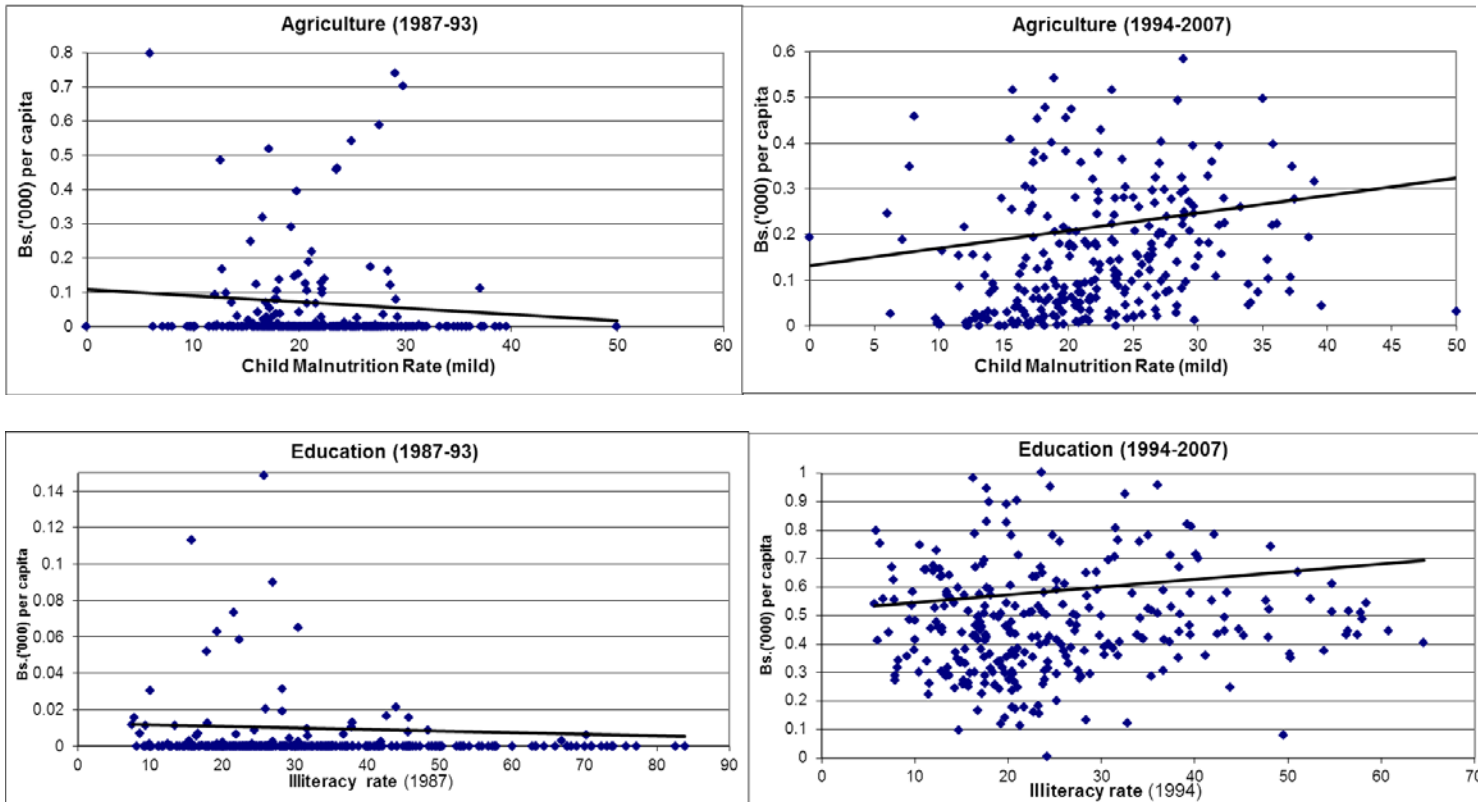
⁶ I would have preferred to present equal 14-year periods before and after, but reliable data before 1987 are not available due to the hyperinflation Bolivia suffered in 1984-85. Nonetheless, the decentralized investment trends described here are repeated for different subsets of the post-reform period, of different lengths: e.g. 1994-96, 1994-2002, 1997-2002, 2003-2007, etc. Hence I am confident that my results are not sensitive to periodization.

In agriculture the pattern is even more dramatic. Central agricultural investment fell as the malnutrition rate rose, meaning central government chose to concentrate resources where the need for greater agricultural productivity was lower, and starve those areas where need was higher. And it invested anything at all in only 24 percent of all municipalities over seven years. This is the opposite of what we would expect if central government were investing in areas of greatest need. After decentralization, by contrast, local governments invested progressively more where need was higher. And they did so in many more municipalities – 67 percent immediately following reform, rising to 100 percent by the end of the period.

This pattern repeats in education. Central investment fell as the illiteracy rate rose, meaning central government chose to concentrate education resources where literacy was higher. After decentralization, by contrast, local governments invested progressively more where illiteracy was higher, as we would expect if municipalities are responsive to local needs. Before reform central government invested in only 15 percent of all municipalities, while the other 85 percent received nothing. After reform this rate rises immediately to 97 percent of municipalities, and quickly thereafter to 100 percent, where it remains. All of these regression lines are statistically significant at the 5 per cent level or better.

Figure 7: Public Investment vs. Local Need





These graphs imply that decentralization increased government responsiveness to real local needs. After 1994, investments in health, agriculture, and education were higher where more households lacked access to public healthcare, malnutrition rates were higher, and more people were illiterate. That is to say, although median investment in these sectors increased throughout Bolivia after decentralization, the increases were even higher in those districts where the objective need for such services was greatest. These changes were driven by the actions of Bolivia's 250 smallest, poorest, mostly rural municipalities investing newly devolved public funds in their highest-priority projects.

Thus we see that decentralization in Bolivia shifted public investment from physical and economic infrastructure into primary services and human capital formation. Resources were redirected from wealthier cities to smaller, poorer, more rural districts. Decentralization also reallocated resources much more equally across space. Lastly and most impressively, decentralization made public investment significantly more responsive to communities' real local needs than centralized investment had been before. This contradicts common claims

that local government is too ignorant, corrupt, or prone to capture by local interests to improve upon the actions of central government. Bolivia's local governments did just that.

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

6. Predicting the Effects of Subnational Autonomies

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

Public Investment Patterns and the Responsiveness of Government

The theory of fiscal federalism develops a number of principals by which the relationships amongst different levels of government should be organized. The first of these

is the *encompassing principle*. This says that government responsibilities should be assigned across different levels of government such that the costs and benefits of service provision are encompassed by the unit of government that provides it. In other words, externalities should to the extent possible be internalized within governing units and not borne by other units.

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

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

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

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

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

Taxes, Transfers and Fiscal Relations

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

labor). This provides a presumption that most taxation should be carried out by higher-level governments, with taxes on property and other immobiles the preserve of local governments.

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

Intergovernmental Transfers

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

The first is *vertical imbalances*. Because taxation tends to be centralized and expenditure decentralized in a federal system, vertical imbalances ensue. Hence the system relies on downward resource transfers in order to function. But such systems effectively involve central government in local government affairs, including in issues defined as primarily local. The center is implicated in the success or failure of local service provision, both administratively and politically, by providing a convenient scapegoat for public dissatisfaction with local politicians' performance. This creates an implicit central obligation to bail out subnational governments that get into fiscal difficulties (Rodden, Eskeland and

Litvack 2003, Rodden 2006). Even when there is no legal obligation on central government, local politicians have every incentive to shift blame to the center for contributing to the initial problem and for failing to resolve it. This can generate significant pressures for bail outs that central governments often find hard to resist, leading to fiscal imbalances that can ultimately threaten macroeconomic stability (e.g. Argentina 2000).

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

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

- i. Revenue Adequacy* – Transfers should ensure that subnational governments have sufficient resources to fulfill their obligations and responsibilities.
- ii. Local tax effort and expenditure control* – The transfer system should not undermine subnational authorities' incentives to collect taxes, nor encourage profligacy, deficits nor indebtedness.
- iii. Equity* – Transfers should rise with local needs and fall with local fiscal capacity.
- iv. Transparency and stability* – Transfer formulas should be announced in advance, allowing each locality to forecast total revenues in order to prepare its budget. The formula should be stable over time to permit long-term local planning.

How does the new regime look with respect to intergovernmental transfers? The combination of large natural resource royalties and low tax capacity implies that large

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

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

capita transfers are only modestly higher – in the range of 20-40% – in resource-rich areas compared to the average municipality, and redirecting excess funds on the basis of poverty indicators.

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

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

This reversion of a positive trend is a small tragedy for Bolivia as it makes local governments ever more dependent on the largesse of the center, reducing their real independence, divorces local policymakers from the local economy, and makes local budgets

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

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

years of reform. A more technically sophisticated and “correct” transfer rule might well have impeded this sort of pressure from below, and attenuated decentralization’s success. Where the new autonomies are concerned, the best that can be said is that a good precedent for transparency and stability exists, but the final outcome is in the hands of the center.

Political Accountability

Lastly and most importantly, the decentralization literature⁷ argues strongly that subnational governments that collect local taxes should be politically accountable to the citizens who pay them (Treisman 2007). Where such accountability is absent, politicians will have strong incentives to over-tax disenfranchised groups in order to provide services for those who elect them. The resulting distribution of taxes and benefits is likely to be not only inequitable but inefficient. Public goods and services whose costs exceed their benefits will nonetheless thrive, as the costs and benefits will be perceived by different people. At the limit, this can lead to what 18th century political philosophers called “tyranny” (Madison, Hamilton and Jay 1961). By contrast, efficiency obtains when the costs of public goods and services are borne by those who benefit from them, as such individuals have no incentive to tax themselves to pay for services worth less than their cost.

For such accountability to occur, the electorate should be sufficiently well informed that it can adequately evaluate the performance of subnational governments at election time. This implies, first, that the literal meaning of accountability has been exercised, and government officials have given account of their activities and decisions in a public forum.⁸ Secondly, additional information about subnational government activities is available to the media, researchers, firms, NGOs, and the public generally. Thirdly, there is press and media

⁷ The topic of political accountability is treated in greater depth by the literature on decentralization, more firmly grounded in political economy, than that on fiscal federalism, which is more concerned with public finance.

freedom between elections, facilitating ongoing accountability via lobbying, demonstrations, petitions, personal communications, and any of the myriad other forms by which information is transmitted to politicians outside of elections.

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

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

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

These latter sections build on one of the key innovations of the Popular Participation Law of 1994, which incorporated existing civic organizations and traditions of community self-government, with all of their attendant legitimacy and power of convocation, into formal institutions of municipal government. The Autonomy Law continues in this vein, allowing indigenous and rural communities to elect representatives to departmental and regional assemblies, and municipal councils, via their own autochthonous practices. Thus whereas the LPP opened the door to such representation on the Oversight Committee, the Autonomy Law extends it to the main legislative body of subnational governments. It then goes one large step further, creating the institutional form of indigenous and rural municipality where methods of (s)election and types of legislative body are left open to the discretion of the communities that gain such autonomy.

The new regime thus clearly intends that autonomous government should be accountable to the governed, providing the latter with multiple channels for making their

⁸ This can take a variety of forms, including personal delivery, in written form in any of a variety of media, etc.

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

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

It is clear, however, that in certain municipalities accountability was comprehensively undermined by unaccountable officials who intentionally limited and distorted information so as to perpetuate their hold on power (Faguet 2009). Quantitative evidence suggests that such municipalities comprised a minority of the total; qualitative evidence documents that even in the worst such case, entrenched abuse of municipal powers and resources by a corrupt business-political alliance lasted only a few electoral cycles, and was finally drummed out of power by an irate electorate identified in Faguet (Forthcoming). In summary, the evidence from decentralization implies that, despite predictable obstructions and local failures, citizens were in the main able to inform themselves sufficiently to hold governments to account, and so were successful in demanding policies which, in the aggregate, changed national investment patterns and made service delivery far more sensitive to objective local needs.

7. Conclusions

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

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

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

Although the autonomy law is likely to exacerbate vertical imbalances in Bolivia, recent experience gives us little reason to fear the threat of bail outs and accompanying

macroeconomic instability. But the question of horizontal imbalances is considerably more fraught in Bolivia, feeding deep political tensions and strong centrifugal forces at the regional level. While nothing in the text of the law implies that horizontal imbalances will improve or worsen, recent trends in Bolivia clearly imply the latter. This study strongly recommends modifying the allocation of resources across space such that areas of natural resource exploitation benefit from the activity they host, but the scale of the benefit is modest. Excess funds should then be redirected to poor areas on the basis of objective indicators.

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

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

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

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

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