

## Republic of Bolivia

(República de Bolivia)



**Capital:** La Paz

**Inhabitants:** 8.300.000 (2001)

**Area:** 1.098.579 km<sup>2</sup>

### 1. Introduction



Bolivia is a land-locked country in the heart of South America with an area of 1,098,579 sq. km. and a population of 8.3 million (2001 census). It is a unitary state with nine departments and 327 municipalities. It has an elected regional tier of government (since January 2006) and an elected municipal tier of government (since 1987). Bolivia has lost over half of its original territory since independence in 1825 - on the Pacific coast to Chile, in the Chaco to Paraguay and in Acre to Brazil. Together with concern over the regional distribution of major natural resources, this is a factor explaining the highly centralized system of governance that prevailed until recently.

The first municipal code was enacted in 1942. This replaced legislation dating from 1878 under which mayors were appointed by the President from candidates nominated by directly elected councillors. From 1949-1987 no local government elections took place, municipal councils were abolished altogether, and mayors were once again appointed by the central government. The

1952 revolution led to a rapid increase in central government intervention in urban policy but local government was not strengthened during this period. Military rule from 1964 led to a further decline in the powers of local government. In 1973 responsibility for public housing and urban planning passed from municipal control to the Ministry of Housing and Urban Affairs. By the mid-1970s five central government bodies were separately overseeing the activities of local government, itself a reflection of the lack of a national strategy for municipal development. In 1972 the military government set up regional development corporations at the departmental level (*Corporaciones de Desarrollo Departamental* - CDDs), which were financed by a mix of direct central government transfers and royalties on regionally produced minerals and petroleum. The CDDs represented the first serious move towards de-concentration of central government activities in Bolivia. The CDDs rapidly absorbed basic local service provision from municipalities, starting off in the departmental capitals and subsequently broadening their remit throughout the region. They attached minimal importance to strengthening local government.

The return to civilian rule from the early 1980s was accompanied by renewed pressure for decentralization. Three factors made this pressure particularly strong in the



case of Bolivia. First, the traditional centers of economic and political power (La Paz and the mining towns) had begun to decline in importance as a result of the emergence of Santa Cruz and the eastern agricultural frontier as a new regional growth pole. This led to the strengthening of movements for regional autonomy. Second, the centralist Bolivian state had failed to confront a severe economic crisis in 1982-84. Third, the historically powerful trade union movement and left-wing political parties, which had hitherto followed a centralist approach to development, faced a major crisis when their economic base in the tin mining industry collapsed.

A new municipal code, the *Ley Orgánica de Municipalidades* No. 696 of 10<sup>th</sup> January 1985 recognized the autonomy of local government but surprisingly it did not incorporate rural hinterlands within municipal boundaries. Municipal elections were held in December 1987 (but only in the main cities and other urban municipalities). Meanwhile, the regional movements pressed for the implementation of Art.110 of the 1967 Constitution which had made provision for an elected regional tier of government in the form of directly-elected departmental councils. A long campaign eventually bore fruit in December 2005 when the first elections were held for regional governments.

In 1994 a radical decentralization process at municipal level was introduced by the Law of Popular Participation (LPP) No. 1551 of April 1994, which had four principal elements: i) transfer of sources of revenue from central to local government; ii) transfer of responsibilities for service delivery to local government, mainly related to construction and maintenance of infrastructure; iii) a novel system of grass-roots participation in planning processes and monitoring of local government; and iv) expansion of existing municipalities to include surrounding rural areas plus creation of 198 new municipalities. The

reform was complemented with the promulgation of the Administrative Decentralization Law No. 1654 of July 1995 by which the central state de-concentrated some services delivery activities to the regional level of government (Prefectures), whilst articulating fiscal and administrative relations between central and local government. A new Municipal Law No. 2028 of October 1999 regulated the competences and organization of local government. The concepts of citizenship and participatory democracy as well as the recognition of the multiethnic and pluricultural nature of the country lie at the heart of the decentralization process and have strongly affected the structure and culture of local government since the mid-1990s. The strong emphasis on community involvement in local governance is inspirational but the actual practice is still limited, and found more in rural areas than in urban areas.

## 2. Territorial Organization

Bolivia has a democratic three-tier system of government: a directly elected President and a two-tier national legislature (Chamber of Deputies and Senate), nine elected Prefects and Departmental Councils with de-concentrated functions (to date, the arrangements for fiscal and administrative devolution have not been agreed), and 327 elected mayors and municipal councilors with semi-devolved administrative responsibilities and fiscal powers. In theory, the municipal level of government enjoys political, administrative and fiscal autonomy. However, it is subject to multiple fiscal controls from central government. Each municipality has a directly elected executive and municipal council, who are all elected for concurrent five-year terms. At the sub-municipal level, the local government can be divided into *distritos* (districts), headed by an appointed sub-mayor, or *cantones*



(cantons - the same concept as a *distrito* but without sub-mayor) or *ayllus* (highland indigenous peasant districts) and at the lowest level, the *comunidades* (communities). At the regional level, the Prefects are also directly elected for five years. The departmental council comprises one representative from each province in the department (indirectly elected by the municipal councils in that province) plus additional directly elected representatives, whose number is equivalent to half of the number of provinces. The departments also provide the basis for the election of the 68 directly elected deputies in the National Congress, distributed in proportion to the population of each department).

Major territorial reorganization has occurred in recent years. The 1994 Population Participation Law ushered in the complete 'municipalization' of the country for the first time. Until then the territorial jurisdiction of municipalities was confined to recognized urban areas only. This meant that the rural population, who are mainly of indigenous ethnic origin, had no local government representation whatsoever, a situation characterized as 'informal apartheid'. In 1995 the Law of Administrative Decentralization abolished the regional corporation system of de-concentration and recognized instead the prefectures as systems of regional government. In 2005 for the first time the nine departmental Prefects were directly

elected instead of being appointed by the President. Despite the enormous disparities in size (Table 2), all municipalities are treated equally under the law. The LPP encourages the creation of inter-municipal associations (*mancomunidades*) for general or specific purposes. There is no formal system of metropolitan government. However, in some departments, such as Santa Cruz and Cochabamba, there is a trend to create *mancomunidades* as a planning mechanism for metropolitan areas.

**Table 1: Population by department and area, 2001**

Department	Total	Urban	Rural
<b>Chuquisaca</b>	531.522	218.126	313.396
<b>La Paz</b>	2.350.466	1.552.146	798.320
<b>Cochabamba</b>	1.455.711	856.409	599.302
<b>Oruro</b>	391.870	236.110	155.760
<b>Potosi</b>	709.013	239.083	469.930
<b>Tarija</b>	391.226	247.736	143.490
<b>Santa Cruz</b>	2.029.471	1.545.648	483.823
<b>Beni</b>	362.521	249.152	113.369
<b>Pando</b>	52.525	20.820	31.705

Source: Instituto Nacional de Estadística, 2001 Census

**Table 2: Size, distribution of municipalities, 2001**

POPULATION	Number of municipalities	% of population	% of municipalities
<b>More than 100.000</b>	<b>10</b>	<b>49%</b>	<b>4%</b>
<b>20.000 -100.000</b>	<b>70</b>	<b>29%</b>	<b>21%</b>
<b>5.000 - 20.000</b>	<b>155</b>	<b>20%</b>	<b>47%</b>
<b>Less than 5.000</b>	<b>92</b>	<b>2%</b>	<b>28%</b>
<b>TOTAL</b>	<b>327</b>	<b>100%</b>	<b>100%</b>

Source: Instituto Nacional de Estadística, 2001 Census



### 3. Local Democracy

Bolivia has a system of representative democracy at all three levels of government. The local executive (mayor) and legislative (councilors) authorities are directly elected through free, direct and universal suffrage for a period of five years. Candidates for these posts must run under a political party list or, thanks to the Citizens Groups and Indigenous Peoples Law (*Ley 27771 de Agrupaciones Ciudadanas y Pueblos Indígenas*) approved in 2004, a citizens' association list. The electoral system for local government is proportional representation with closed party lists, except in the case of representation of indigenous groups. Candidates for mayors head their respective lists. If the winning candidate does not achieve a simple majority of votes in the election, the elected councilors choose among the two most voted candidates. Voter turnout at local government elections reached a high of 83.5% in 1991 and has fluctuated at around 59-63% since the 1994 reforms.

Local elections are pluralist although until recently political parties had exclusive control of the municipal arena. Article 6 of Law No. 2771/04 grants citizens group organizations electoral rights so long as they have fulfilled the conditions for registration with the Electoral Commission. In order to stand for municipal election – as for national elections – such candidates must present a list of signatures equivalent

to 2% of the valid votes cast in the last election. Some 344 citizen groups obtained legal recognition and presented candidates in the 2004 municipal elections. Article 5 of the above law also grants legal rights to Indigenous Groups so long as they present a list of their traditional authorities. In order to present candidates they must also present signatures equivalent to 2% of the valid votes in the last election. In the 2004 municipal elections, 65 indigenous groups presented candidates. The traditional parties fared badly in the 2004 municipal elections, which marked the appearance on the political scene of citizen and indigenous groups empowered by the above law. This reflected considerable discontent with the traditional party system of political representation and the belief in the possibility of change at the municipal level.

Citizen participation in municipal planning and budgeting is a legal requirement. Every five years, each municipality has to present a Municipal Development Plan containing the agreed spending priorities of their communities, established through a process of participatory planning. The municipalities also have to present an annual operational plan, agreed with the community, reflecting the budget for investments in projects and programs. This is obligatory in order to access resources from tax-sharing with central government. The practical results are varied, ranging from successful cases such as the Municipalities of Pucarani (Ardaya et al, 2001), Mizque (Gray and Campero, 2001) some municipalities in Chapare and Santa

**Table 3: Voter turnout at municipal elections, 1997 – 2004**

	1987	1989	1991	1993	1995	1999	2004
<b>Registered voters</b>	1.812.288	2.137.291	1.674.396	2.231.945	2.840.492	3.573.851	3.261.697
<b>Number of voters</b>	1.288.881	1.003.520	1.398.085	1.189.896	1.805.635	2.124.509	2.064.655
<b>Turnout</b>	71.1%	47.0%	83.5%	53.3%	63.6%	59.5%	63.3%

Source: Electoral Comisión, Corte Nacional Electoral



Cruz (Kohl, 2003; pp.7), where indigenous and 'campesino' agendas have been incorporated, to many other cases in which local elites have captured resources.

There is a long-standing practice of community participation at the sub-municipal level in rural areas, where pre-Hispanic traditions are maintained, especially in the form of agrarian unions. One of the most important results of the LPP has been the constitutional recognition of the existing social organizations, *Organizaciones Territoriales de Base* (OTB) and their traditional representatives (*curacas*, *mallcus*, *secretarios(as) generales*). In rural areas the OTBs are mainly based on peasant and indigenous communities and in urban areas around neighborhood groups, *Juntas Vecinales*. The legal status of the OTBs has served as a way to ensure citizenship in areas where people did not have these rights before. These forms of representation are crucial at the time of proposing, negotiating, and monitoring spending priorities in municipal budgets and are strengthened by the existence of the Vigilance Committees (VCs), created by the LPP. Members are elected among members of the OTBs and they monitor the expenditure of local government and can propose new investment projects. They may request suspension of financial transfers from central government to the local government if funds are being misused.

#### 4. Central - Local Relations

The National Congress alone is empowered to legislate on local government. Article 200 of the 1995 Constitution guarantees the autonomy of local government in the form of normative, executive, administrative and technical rights. But this has often been misinterpreted in order to oppose greater accountability to central government for the efficient use of central government fiscal transfers. Central

government transfers are made directly to local government, thus protecting municipalities from financial interference by regional government. Yet in spite of the positive results from the reform in terms of local investment (largely concentrated on infrastructure) that has improved access to services, the quality of service remains neglected by weak targeting.

The regional government (*prefectura*) retains significant regulatory powers and resources in each department. The municipalities often lack capacity to take a stronger roles and the *prefectura* fills in where they are weak e.g. lighting, transport management, flood prevention. As a result there is some conflict over the boundaries of responsibility between the municipalities and the *prefectura* especially in health and education and this has led to both avoidance of responsibilities and duplication of effort. Law 2150 of November 2000 (Ley de Unidades Político Administrativas) stated that the Ministry of Sustainable Development and the *Prefecturas* are the competent bodies for resolving administrative processes for territorial delimitation of municipalities. This is a common reason for conflict between municipalities, especially because it impacts on official population data, which serves as the basis for determining fiscal transfers

The oversight mechanisms upon local government are extremely weak and confined to the Auditor General's Office. Sub-national governments, as the rest of the public administration are subject to the system of governmental administration and control (*Sistema de administracion y control gubernamental* – Ley SAFCO) that establishes the responsibility of public servants. Each local government is obliged to present an annual report to the Auditor General's Office so as to enable it to carry out the ex-post control. This audit is carried out annually on a sample basis due to limitations in terms of financial and



human resources. Due to these limitations, the system of popular participation has relied (at least formally) very much on mechanisms of social control, such as the VCs or the presence of social monitors in some public bodies.

Bolivia has a 'weak mayor' system of local government. During the second, third and fourth years of the five-year municipal term of office, the mayor may be dismissed through a simple vote of censure by 60% of the councilors, who must elect another councilor to replace him/her in order to complete the term of office. The grounds for dismissal are so lax that political factors, rather than mismanagement and/or corruption, are the main reasons for such actions. The decision does not have to be endorsed by any higher body such as the National Congress. As a result the practice is common and has led to weak governance at the local level.

National organizations representing local government are strong. The most important is the *Federación de Asociaciones Municipales* (FAM). This national municipal association is made up of regional associations from the nine regions of Bolivia. The municipal authorities in each region elect a regional president who sits on the board of the national association. The association supports training of new councilors, provides a web portal for all members and produces a newsletter about municipal activities throughout the country. In addition to FAM – which is largely made up of smaller, poorer and more rural municipalities – there is an association of nine major cities in Bolivia called 'the Association of Bolivian Municipalities' (AMB).

In 2000 the government conducted a first 'national dialogue' which required municipal authorities to consult with communities about local and national priorities. The national dialogue is a direct contribution to the country's Poverty

Reduction Strategy – a requirement in order to access debt relief and donor aid through the World Bank's 'Heavily Indebted Poor Country' (HIPC) initiative. In 2005 the government conducted a second 'national dialogue' with the aim of evaluating the advances of the previous dialogue and to consult about local priorities for productive (rather than just social) investment. However, due to the turbulent political situation and the proximity of elections, the dialogue lacked legitimacy and did not produce any major result in terms of public policy.

## 5. Local Government Responsibilities

Despite the decentralization process, the actual functions of local government remain surprisingly limited. The LPP delegated responsibility to municipal government for local infrastructure related to health, education, culture, sports, minor roads and irrigation. Furthermore, they were responsible for investment in new infrastructure and local economic development. According to the 1999 Municipal Law, the mission of local government is wide-ranging – to promote sustainable human development and to enhance the well being of its citizens. In practice, however, the construction and maintenance of infrastructure – especially for basic education and primary health – are the major functions of the vast majority of smaller municipalities. The provision of social services is increasingly decentralized through aid-funded safety net programs channeled through local government. There is a long history of municipal control over urban water supply. Recent attempts at private sector participation in major cities (La Paz and Cochabamba) have failed and in both cases control has been returned to direct municipal operation. In rural areas, municipalities fund water and sanitation





projects with intergovernmental fiscal transfers and NGOs resources

The same legal instrumentations which sustain decentralization<sup>1</sup> incorporate the subject of participation, although under different definitions<sup>2</sup>.

Although there are no explicit definitions of participation in the constitution, the possibilities for civil society participation have been widened due to the amplification of political, economic, individual and collective rights, and certain reformulations of state institutionalism, in which public consultative possibilities are formulated.

## 6. Local Government Finance and Management

Local government finances in Bolivia are complex because of the multiple avenues for central – local transfers. The 1994 LPP and the 1999 Municipal Law grant local government two sources of income: i) Own-revenue resources from property tax (urban and rural), property transfer tax and a motor-vehicle tax as well as charges for services (*tasas*) and business licenses (*patentes*). Central government fixes the rates of these taxes and the levying of fees requires Senate approval; ii) Co-participation transfers by which 20% of almost all the centrally collected tax-revenues (except the taxes on hydrocarbons) are distributed on a per capita basis with a minimum of 85% of these transfers earmarked for capital expenditure. This new system of revenue-sharing represented a radical (and pro-poor) redistribution of public resources

<sup>1</sup> i.e. *Ley de Modernización del Estado, Ley del Distrito Metropolitano de Quito, Ley de Descentralización y Participación Social* and the 1998 constitution.

<sup>2</sup> i.e. *coparticipación en la gestión pública, participación de la comunidad, fomento de y ampliación de la gestión pública, and sistema por el cual se involucra activamente a todos los sectores sociales en la vida jurídica, política, cultural y económico social del país.*

under which the largest urban areas (mainly La Paz, Cochabamba and Santa Cruz) now receive only 36% of all devolved funds - in contrast to 86% received previously to the reform. Own-revenue generation is extremely limited in most municipalities because of low income levels, the disincentive effect created by the rapid growth in transfers, the lack of qualified financial staff and poor cadastral systems. By contrast, regional government has no powers of taxation at all.

In 2001 a second central government transfer was created when the National Dialogue Law stated that municipalities would be the main administrators of funds from the enhanced HIPC debt relief initiative. The resources are distributed through two mechanisms: the Municipal Solidarity Fund and the Special Account Dialogue 2000. Of the total HIPC relief, \$US 27 million per annum until 2015 will be deposited in the Municipal Solidarity Fund for public health and basic education in order to cover the current human resources deficit of the Education and Health ministries. This fund is administrated by the Education and Health ministries and is used to recruit and pay the salaries of 2,100 health professionals and 10,000 teachers. Some 90% of the remaining HIPC initiative resources are deposited in the Special Account Dialogue 2000 and transferred annually to the sub-national levels of governments.

The Ministry of Sustainable Development is in charge of calculating the distribution of these HIPC funds. Seventy percent of the HIPC resources are distributed directly to municipalities and allocated on the basis of a poverty-weighted formula that uses the level of unsatisfied basic needs as the poverty indicator. The remaining 30% is apportioned to the nine departments on an equal basis and then distributed within each region according to the above-mentioned poverty-weighted formula. The other 10% of the remaining HIPC



resources are deposited on a special account National Solidarity Fund in order to co-finance the mother-child health insurance, introduced in 2003.

The HIPC II funds channeled through municipalities are ear-marked as follows: i) 70% for productive and other investment programs, including construction and maintenance of roads and bridges, irrigation and other productive infrastructure; promotion of production and tourism and technical assistance to micro-enterprises; construction and maintenance of health and education infrastructure and basic sanitation; alternative education programs and school breakfast, ii) 20% for improving the quality of public education, including investment in school equipment and maintenance of infrastructure, iii) 10% for improving the quality of the public health service, including equipment, medicine, training and maintenance of infrastructure. Local economic development is now a priority of the Bolivian Poverty Reduction Strategy as confirmed in the 2004 National Dialogue for a Productive Bolivia. To reach this goal, 70% of HIPC resources were earmarked for productive investment. However, the vague wording of the allocation formula still enables local governments to focus almost exclusively on investment in social infrastructure at the expense of productive investment.

The 2001 National Dialogue Law also introduced a third kind of transfer, known as the National Compensation Policy. This is a conditional block grant to local government funded by resources from the national budget and mainly foreign aid for spending on poverty reduction. Funds are allocated among all municipalities according to the same poverty-weighted formula as used for HIPC II resources. The conditions are imposed by sectors and are translated into criteria of eligibility and a menu of projects that the local governments must present for the

correspondent evaluation and approval through the National Productive and Investment Fund (FPS). In October 2005, a decree (DS 28421) introduced oil and gas taxes revenue sharing, regulating the allocation of a hydrocarbon tax to departments and municipalities. A share of these taxes will be channeled through departments to municipalities, granting them an additional income. Municipalities are required to spend this money on health, education, roads, productive investment and income generating activities.

Under pressure from aid donors (who still fund half of all public investment) municipalities now play an important developmental role given the relatively large amounts of expenditure being transferred and managed by them as a key element of the national poverty reduction strategy. In 2006 37% of public investment was channeled through regional governments and a further 23% through local governments. If municipal and regional figures are combined, 60% of total public investment is channeled through sub-national government tiers, a significantly higher share than in any other Latin American country. The heavy dependence on central government transfers means that for most poor municipalities own-revenue generation typically accounts for less than 10% of total revenue.

Despite the radical strengthening of its finances, local government personnel systems remain weak and there is still no career structure at the local government level. The educational level of staff is very low, especially in rural areas where the wholesale replacement of municipal staff is still commonplace when a new municipal administration takes over. As a result there is minimal 'institutional memory'. The sharp rise in financial transfers has led to a rapid increase in local government corruption. In response, an impeachment





procedure was introduced in 1999 under which many mayors have been removed. However, impeachment has also been used by councilors to remove mayors for purely political reasons, leading to further instability in local government. There is widespread resistance to management reform in local government and attempts to promote private sector participation in service delivery have been reversed in the recent past. Strategies to improve quality and efficiency in service provision are viewed as a part of privatization and consequently have not made progress.

## 7. Conclusion

Bolivia has undergone a major process of decentralization that has made the government more responsive to the needs of the poor by redirecting public investment to areas of greatest need. Before 1994, the relatively few central government officials who were posted beyond the national and regional capitals had little incentive to concern themselves with local demands. In 1994 the LPP made local authorities accountable to local voters for the first time. Resources have been redirected to Bolivia's smallest and poorest municipalities and government investment has shifted from economic production and infrastructure to spending on social services, education and training. The amount of money spent on education, water and sanitation services has risen in those places where it is most needed – areas with the highest rates of illiteracy and lowest rates of water and sewage connection. However, increased access to infrastructure has not directly resulted in improved service delivery. Responsibilities delegated to local governments and prefectures for services delivery remain unclear and overlapped, fragmenting accountability between the different levels of government and preventing major coverage. The allocation of government

funding amongst municipalities has switched from being based on unsystematic, highly political criteria to a strict per capita basis – as a result the share allocated to the three largest cities has declined from 86 to 36 per cent. Decentralization has allowed new stakeholders – neighborhood councils, peasant communities and traditional indigenous peoples' organizations – to become more actively involved in local politics.

**Andrew Nickson, University of Birmingham, England**