

# Institutions and Development: The Role of Elites and Frontier-Type Social Regulations in Rural Colombia

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**Abstract:** This paper investigates the limitations and opportunities for endogenous development in the underdeveloped region of the rural Department of Casanare in Colombia. The region is rich in natural resources, but entrapped in its role of commodity provider for the country's central markets and is deeply affected by social and political exclusion. The paper argues that the key to sustainable local development lies in the domain of governance and institutions, where the latter represents both the background conditions and the instruments of the former. Institutional change itself requires governance mechanisms, which mediate tension, resistance and fracture arising in the local community. The institutional environment of Casanare is a peripheral space of migration and clashes of elites, where populations that are excluded from the centre compete for opportunities and resources. This permanent state of confrontation generates conflicts and frequent changes in institutional forms and rules, so that uncertainty represents a defining character of the local system. The paper comments on the historical roots of these modes of regulation, analyses the key role of elites and describes the social habits and informal rules which drive economic behaviour in the traditional farming sectors.

**Keywords:** Rural Colombia, Casanare, economic behaviour, endogenous development.

## INTRODUCTION

Historically, the Orinoquía has been a peripheral region in the Colombian context, marginal to the processes of modernisation, industrialisation and integration with international markets that characterises the economic centre of the country, generally identified with the area comprised of the cities of Bogota, Medellín and Cali.

Although the region accounts for 38 per cent of the Colombian territory, it has until recently remained a largely abandoned area, isolated from the centre of the country by the natural barrier of the Eastern Andean cordillera and the heavy tropical climate. This has affected the nature of migration and settlement already since colonial times. At the same time, however, the Orinoquía region is a highly strategic area, as it serves as the food, water, mineral and energy reserve centre for the entire country. It is as well one of the most important sources of biodiversity. Its strategic relevance also relates to its geographical positioning, as it defines Colombia's frontier with Venezuela. This explains the presence of dispersed urban centres, which are little connected with the centre of the country, but strategically distributed with the purpose of occupying and controlling the region's large territory and political frontier.

Over the last years, and after decades of neglect, the strategic value of this macro-region has once again become the centre of attention. The discovery of large deposits of exploitable oil, in the 1980s and 1990s, has transformed the

piedmont area of the region into a place with the highest rate of economic growth in Colombia. As a consequence, the provinces of the area have witnessed large migration flows and accelerated urbanisation, which have led to significant changes in the region's demographic composition, social structure and political dynamics.

However, this accelerated economic *growth*, which was reflected in a spectacular increase of nominal values (e.g. GDP per capita), has been matched by little economic *development*, understood as the articulation of economic activities and the capacity to generate, maintain and invest added value at the local level. The region instead continues to play its historical role of commodity provider for the country's central markets and remains deeply affected by social and political exclusion.

Based on this perspective this paper argues that the oil boom has contributed to the strengthening of an economic model based on extensive forms of natural resource extraction and exploitation. It has also led to rent-seeking mechanisms and stimulated the function of territorial rents as the main sources of *de facto* power.<sup>1</sup>

This paper focuses on the Department of Casanare, the area in the Orinoquía region which is mostly affected by the recent oil-driven transformation. The paper investigates the economic model of the department, while commenting on the limitations and opportunities for *endogenous development*, by which we mean the 'valorisation' of local resources and empowerment of the local community. The debate on

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<sup>1</sup>'Rents' and 'rent-seeking', refers to the pursuit of unearned income. Anne Krueger was one of the first authors to refer to this phenomenon: Krueger AO. The Political Economy of the Rent-Seeking Society. *American Economic Review* 1974; 64: 291-303.

endogenous development is, in fact, attracting an increasing amount of interest from scholars and policy makers in developing countries, particularly those in Latin America, where the emerging interest appears to reflect the dissatisfaction with recent orthodox development policies and (to some extent) with the structuralist debates of the past.

We believe that the debate on endogenous development provides key concepts and original perspectives for assessing the factors and mechanisms that have been preventing processes of sustainable development in the area. The paper considers in particular the conceptualisation of the territory as an historical entity with a socially constructed dimension or, in other words, as a space. The space is defined by actors and relationships that have developed with the creation and evolution of the modes of social regulation and the interaction between these modes and market rules. We focus our attention therefore on the domain of governance and institutions, as the key dimensions for interpreting the Casanare experience. The institutional environment of Casanare is interpreted as a 'frontier-type' model. This can be understood as a peripheral space of migration and clashes of elites, where populations excluded from the centre compete for opportunities and resources [1]. The permanent state of confrontation generates conflicts and frequent changes in institutional forms and rules, so that uncertainty is a defining character of the local system. This paper comments on the historical roots of these regulation modes, analyses the key role of the elites, and describes the social habits and informal rules which direct economic behaviour in the traditional farming sectors and constrain its articulation.

This research is based on in-depth interviews with key local informants conducted in August and September 2007. These are representatives of the local institutional infrastructure: municipality, regional government, chamber of commerce, the local university, the main local bank dedicated to the financing of rural activities, the largest non-governmental organisation in the region, the main business associations of the most relevant industries at the local level (stockbreeding, rice, African palm trees).<sup>2</sup> We also conducted in-depth interviews with entrepreneurs who are involved in associational activities (business associations but also co-operative projects promoted at the regional level) or, in one case, who are known to be significantly innovative in relation to the local business context. This project was complemented with continuous participatory observation throughout the year 2008 as well as with the analysis of secondary data. Finally, research involved the reviewing of historical documents and the monitoring of national and regional economic planning developments.

The paper is organised as follows. The next section presents a review of the ongoing debate on endogenous development and institutions. The third section investigates the economic model of the Department of Casanare and discusses the structural weakness of the main sectors of specialisation. The fourth section describes the institutional setting of the region, comments on its 'frontier' character, and discusses the role of elites and the public sector in strength-

ening the prevalent modes of social regulation. The final section presents some concluding observations that were derived from our research.

## ENDOGENOUS DEVELOPMENT AND INSTITUTIONS

The scholarly debate on endogenous development provides a broad range of insights for investigating social and economic development opportunities in underdeveloped areas. The distinctive element of the analytical perspectives lies in the attention given to the *territory* and to its institutional, productive and social structuring. Following early contributions in the second half of the 1970s, which emerged in Europe as a consequence of the ongoing pervasive transformation in the territorial organisation of production and the diffused industrialisation of peripheral areas, a large body of regional studies have placed the interaction between economy, society and territory at the centre of their analysis. Here, the territorial level is interpreted as a complex social and institutional system, a historically constructed entity and a multidimensional space of interaction between market rules and modes of social regulation. Territory is, as such, not simply perceived as a geographical space endowed with some more or less relevant wealth of resources or as a passive recipient of investments and policies. The territorial system is rather conceived and investigated as the primary actor of development that is capable of designing and implementing strategies. Territory is a strategic level that mediates between the single economic unit or social entity and the broader framework, which takes the form of the global market or of state-level public organisations or bureaucracies [2].

The path to development, in this framework, is *sustainable* when it is endogenous at the territorial level, or in other words, when there exist collective capacities at the local level to govern and drive the utilisation of local resources and to reproduce and upgrade them over time. 'Endogeneity' of the development process is thus not simply meant to refer to the exploitation of local resources, nor does it imply a dismissal of opportunities for integration with the national and global economy. The approach rather points to the key role of the territorial meso-economic level, as the sphere in which local resources can be valorised and transformed into specific drivers of 'empowerment' for the local community.

The concept of 'valorisation' implies a complex process of identification, interpretation, socialisation and expansion of opportunities that relate to specific local resources. Hirschman, in a similar fashion, speaks of 'latent' or 'hidden' resources [3]. The development and trade literature has generally understood this process in rural areas as diversification, away from the commodity trap, leading to greater value added from natural resources and increased negotiating power *vis-à-vis* external actors, be it in national or international markets [4]. The endogenous development approach emphasises that the capacity to add value or diversify requires the development of local 'collective intelligence'. Such intelligence refers to the collective capability to interpret the environment, socialise knowledge about opportunities and challenges, and promote participative processes of social and economic upgrading. The key to sustainable local development lies, in this regard, in the domain of *governance*. Here, governance is understood as the identification of

<sup>2</sup>A high level representative (director, secretary, manager, etcetera) was interviewed for each of these institutions. In the case of government entities, interviews were conducted with senior civil servants at different departments related with productive activities, design and implementation of economic development plans.

strategic opportunities for the local system and the mobilisation and co-ordination of local resources (tangibles and intangibles, economic and social) for those opportunities [2, 5].

There is a close relationship between the governance and institutional framework of a territory which, according to North, forms the set of organisations, norms, rules, codes of conduct and modes of social regulation that characterise the local area [6]. The institutions, broadly defined, thus represent both the background conditions and the instruments of the governance.

By now, there is almost general agreement in the growth and development literature that “institutions matter” [7]. Market relationships are embedded in a rich thread of non-market institutions, which affect transaction costs, shape incentives for economic actors and determine the distribution of resources in a society. The *governance* perspective, as outlined in regional studies, places particular emphasis on the role of institutions as the primary drivers of the empowerment and co-ordination of actors and resources. These functions can be performed by ‘institutions-organisations’ that identify collective needs and organise co-ordinated action. However, similarly important for *governance* is the set of ‘institutions-rules’. This term includes a normative framework, codes of conduct, incentives and sanction mechanisms that have developed in the local community over time. These institutions can be considered as social resources that can possibly transform into a powerful engine for mobilising and co-ordinating local actors towards development-related objectives. For instance, co-ordination can be promoted by institutions that reward the exchange of information and allow for the emergence of collective long-term visions. Olson observes such institutions as those favouring the creation of a logic of “including interests”, which is at the base of the legitimisation of public policies [8].

The mode of social regulation, however, can also be a force that limits, or even opposes, the diffusion of economic models that are based on stable relationships, co-ordination, collective learning and shared visions. Prats emphasises that developing countries usually have an institutional framework that impacts negatively on the quantity, type and form of knowledge at the local level. In this view, the ‘bad institutions’ are those that limit the direction taken by knowledge acquisition and competence accumulation, while instead orienting them towards content that obstructs rather than reinforces the process of economic development. As a case in point, Prats argues that the knowledge and abilities required for emerging in subsistence economies or in rent-seeking environments are very different from those required for being competitive in a modern market economy [9].

According to Stiglitz, ‘bad institutions’ are those that impede efficiency, as they seek to preserve existing inequalities and power relations [10]. Once it is recognised that institutional arrangements in a society might not be enhancing efficiency, but rather contributing to power and wealth, a new rationale for collective action arises. In these cases, the government has a role not only in correcting market failures and ensuring that the institutional infrastructure is adequate for a market economy – the traditional argument – but also,

Stiglitz maintains, in altering institutional arrangements that impede efficiency and increase inequality.

The concept of ‘institutional quality’ for endogenous development is context-specific and dynamic. Institutions are historical phenomena, which take shape over time, and are founded on daily practices, social conventions and shared values that are internalised by society [11]. They are also the heritage of a specific history of production, interaction, and distribution of wealth and power. The development process itself generates and requires institutional change, which brings about tension, resistance and fractures [12]. In this process, which itself requires a form of governance, the degree of inclusion and participation affects the level of conflict over new rules and their broad recognition and legitimisation. As Stiglitz emphasises, consensus building is not only an important part of achieving political and social stability, but it also leads to the ‘ownership’ of policies and institutions, which in turn enhances the likelihood of their success.

The present empirical investigation of Casanare, which is mainly based on participatory observation, aims at identifying the social mechanisms described above and employing them for interpreting the region’s development dynamics. This is all the more relevant as these conceptualisations are entering local development planning. In Latin America, in fact, attention by scholars is accompanied by an increasing interest from policy makers, who are ever more frequently referring to endogenous development concepts in their official development documents.<sup>3</sup>

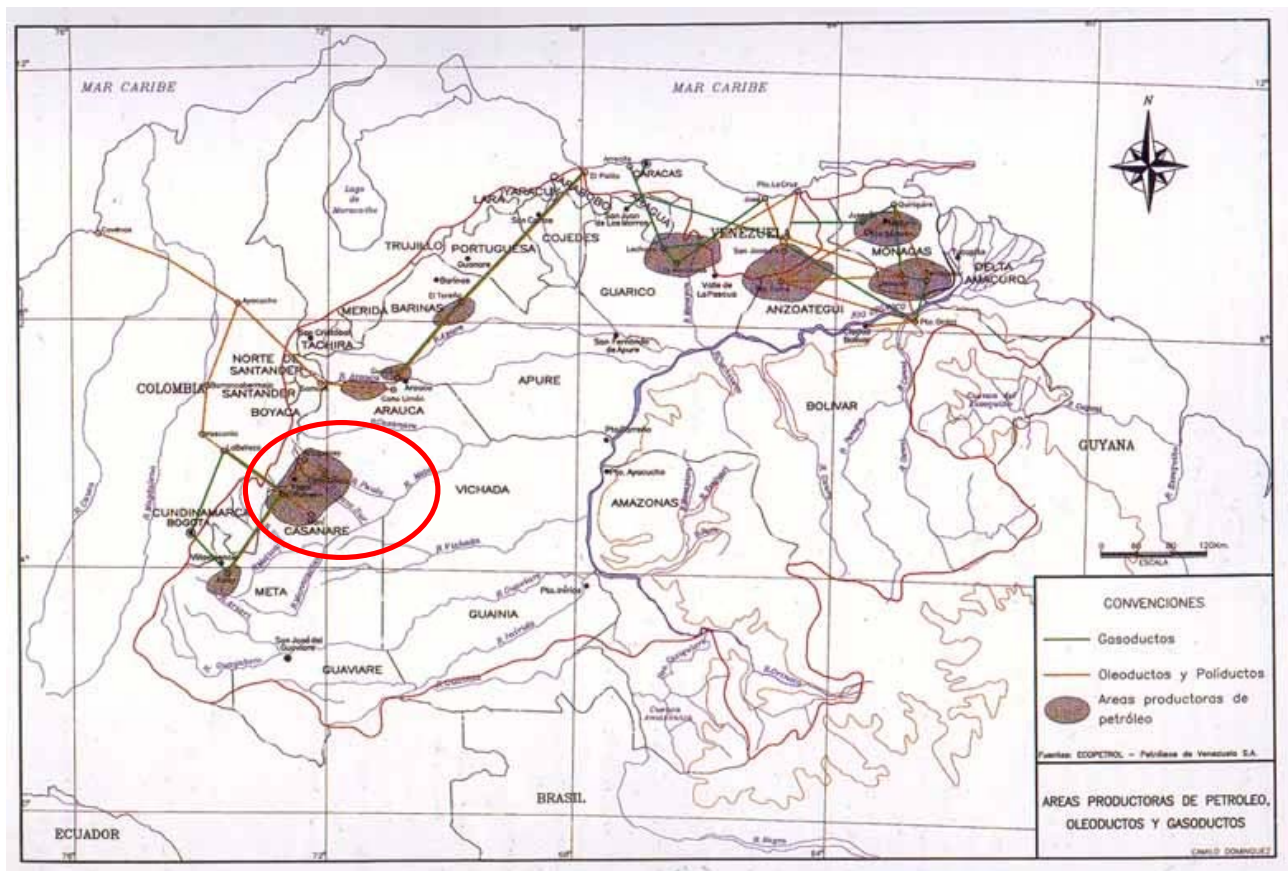
### CASANARE’S ECONOMIC PROFILE: EXTRACTIVE ECONOMY AND FUNCTIONAL DEPENDENCE

The Department of Casanare stretches from the Andean piedmont to the Colombo-Venezuelan planes (‘llanos’). Accounting for about half of its GDP, Casanare is one of the most important areas of production in the Orinoquia macro-region. Casanare has experienced a great transformation, following the exploitation of the Cusiana and Cupiaga oil fields in the 1990s, which positioned the Department among the most relevant oil areas in the entire Colombo-Venezuelan area (see Fig. 1).

In a territory characterised by low population density (300,000 inhabitants across 44,640 km<sup>2</sup>), the oil developments have led to a spectacular increase of GDP per capita. In 2007, Casanare accounted for less than 3 per cent of Colombia’s national GDP – the department, however, has a per capita GDP that is three times the national average. On the other hand, if the oil sector is excluded from this figure, the economic underdevelopment of the region becomes evident. Table 1 illustrates this point by analysing the local GDP per capita, which would be below the national average if oil were excluded.<sup>4</sup>

<sup>3</sup>In Colombia, explicit reference to endogenous development concepts can be found, for example, in regional economic planning documents of the departments of Antioquia (Uraba region, Medellín and Oriente antioqueño), Nariño, Santander (provinces of Soto and Vélez), Valle del Cauca (Cali, Yumbo and Centro del Valle), Cundinamarca (Sabana Centro and Valle de Ubaté), Boyacá (province of Ricaute) and Norte de Santander (province of Cúcuta) and the department of Cesar, Bogotá D.C. and the tourist district of Cartagena.

<sup>4</sup>Because of oil price fluctuations, using current or constant prices provides rather different outcomes of national and regional comparisons.



Source: ECOPEPETROL

**Fig. (1).** Oil reserves in the Colombo-Venezuelan Orinoquia.

Source: ECOPEPETROL.

**Table 1.** Colombia and Casanare, Macroeconomic Comparison

	Surface (Km <sup>2</sup> )	Population (2005)	Country GDP Share (2007)	GDP per capita (2006) (Colombian Pesos)	
				Constant prices (Base 2000)	Current prices
Colombia	1,141,748	42,888,592	100 %	5,863,456	8,831,228
<i>Excl. Oil</i>				5,674,875	8,445,277
Casanare	44,640	295,353	2.4 %	21,157,907	40,460,418
<i>Excl. Oil</i>				5,343,173	8,268,621

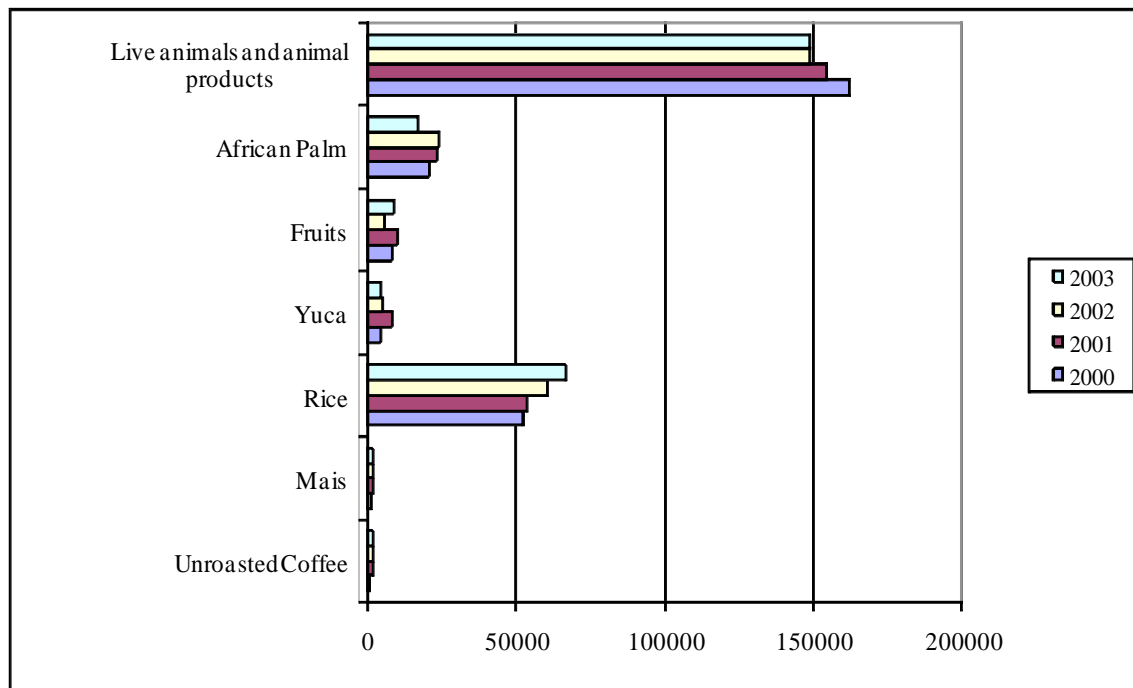
Source: DANE, Cuentas Nacionales Departamentales 2007.

The oil sector has become the leading industry in the department’s economy. It represents the main source of public revenue, accounting for 75.6 per cent of the regional GDP in 2006 and for nearly the total value of Casanare’s exports in the form of material and equipment for drilling and exploiting oil fields.

The development of the oil industry has overtaken the traditional agricultural and stockbreeding sectors. The area’s manufacturing activities, moreover, play only a marginal role, while the service sector has only recently started to expand rapidly. In 2006, the latter accounted for 11.8 per cent of the department’s GDP, whereas the agricultural and industrial sectors generated respectively 5.6 and 2.1 per cent of the regional income. The farming sector is characterised by

extensive forms of natural resource exploitation and limited capacity to aggregate value at the local level. These characteristics resemble the oil industry, albeit on a very different scale.

There have been large investments in infrastructure and improvements of basic services that were funded by the public sector from the oil revenues, as well as enhancement of access to technologies and training services that were promoted by producers associations. Yet, no significant changes have occurred. Production, in fact, has stagnated or even declined (see Fig. 2). Where significant increases of value added did occur, as was the case in the rice farming industry, they were the result of artificial non-market incentives. The growth of the rice farming sector is to be understood as the



**Fig. (2).** Value added in the main economic activities, Casanare, 2000-2003 (Million pesos).  
 Source: Departamento Administrativo de Planeación de Casanare, 2006.

effect of new market entrants who were motivated by the access to public funding. This has led, in a relatively short time span, to price falls and a crisis for traditional producers.

There has, in short, been little change in terms of the division of labour, the specialisation pattern and the backward and forward linkages of the different value chains. Casanare is still mainly a provider of agricultural commodities, with little or no transformative development, for the main market of the country (i.e. Bogota).

The limited spread of value chains at the territorial level is, firstly, the result of the small size of the local market which, in a *Smithian* sense, provides little opportunity for a division of labour and specialisation among the local small and medium-size producers. The size of the market is mainly limited by the low household incomes and by the population's specific consumption habits. Besides the population's own modes of subsistence (i.e. self-production and informal exchanges), the consumption of 'fresh' products is in fact largely diffused, which thus generates little incentive to specialise or invest in processing capacity and seasoning. The cultural value given to the consumption of 'fresh' food is partly related with the recent history of infrastructural underdevelopment, since the area was connected to the national energy grid only in 1989. Before the area was connected, the urban areas received energy from local power generators only a few days per week. Many people still consider the uninterrupted supply of energy as an unaffordable luxury. The result is that it still happens frequently that local shop owners disconnect their refrigerator during the night. These habits represent a real limitation for the development of, for instance, the dairy industry, since the local population is not used to buying processed milk.

The sectors that are more integrated with the regional and national markets (stockbreeding, rice, palm trees), and can therefore overcome the limitations of the local ones, still exhibit little productive articulation. In other words, there have been only limited developments in the expansion of backward and forward linkages along the different value chains and the advancement of the complementary sectors has been sparse. The inability to aggregate value from the local rich natural resources is what defines Casanare as a 'price-taking' territory. The area also suffers from its strongly limited negotiation power vis-à-vis national markets, networks of intermediaries and external investors.

There is, in fact, evidence of *functional dependence* on the centre, which takes the form of extraction of 'surplus'. This is evident in the main sectors of specialisation of the area, i.e. stockbreeding and rice farming, and even in the emerging farming sectors that are characterised by fragmentation or extensive modes of production. The following description of these sectors also introduces several institutional elements into the analysis.

**Stockbreeding**

Stockbreeding is the economic activity with the longest tradition in the region, having constituted the main source of living and social organisation until the start of oil exploitation and the accelerated growth in services following the recent urbanisation. Casanare accounts for 7.3 per cent of the national farm stock, ranking third among all Colombian departments after Cordoba and Antioquia.

The local activity is characterised by little technical advancement and extensive production modes. In the extensive model of production, breeding and the process of reproduction of animals still take place under natural condition in the

fields, without much control or direction. This can be explained partly by the hydrogeological conditions of the breeding planes, which are often the victim of flooding. Without much technological advancement, even minimum profitability can only be achieved through extensive usage of the soil [13]. The characteristics of the piedmont and the mountains seem nevertheless favourable for intensive forms of breeding and agriculture.

The organisation of stockbreeding has not changed much since its inception in the territory, in the 17th century, at the time of Jesuit settlements, when the large availability of land and low skilled indigenous labour allowed for the required production to satisfy market needs. Moreover, already since colonial times, stockbreeding has been used for keeping large areas of land under control. The expansion of breeding activities has similarly served the function of land colonisation. Administrative methods for delegation of tasks in the breeding process have been diffused since the middle of the 18th century, when distant landowners started to delegate all productive and administrative functions to local administrators (*encargados*). It was only in the second half of the 20th century that investments started to be used to improve breeding productivity. This happened, for example, through the introduction of new animal species and the experiments with the animals' foodstuffs. Even today 75 per cent of the animals are still being bred with traditional extensive farming modes. The cattle constantly move around, while feeding randomly across the grasslands, and only 5 per cent of animals serve a double function (of providing meat and milk).

The meat processing industry similarly enjoys little value in the territory, since the key infrastructural instruments to maintain an effective 'chain of cold' (i.e. a temperature-controlled supply chain) are missing. Hence, not even the first stages of processing take place in the territory, at least not to a significant degree.<sup>5</sup> Instead 90 per cent of the cattle are estimated to be transported, while still alive, to Bogota where butchering takes place. Live animals are sold to intermediaries, who travel to the *haciendas* (farming estates), or through local breeding markets. In spite of the grouping of producers into associations,<sup>6</sup> the relationship with intermediaries is generally rather asymmetric. The network of intermediaries is, in fact, well structured and linked to both producers and distributors, and has a significant capacity to affect market prices.

On the other hand, however, the breeders' capacity to negotiate is limited by: their scarce knowledge of markets; the difficulties and high costs of mobilising cattle for sales at organised markets; and the limitations for obtaining credit. In addition to these constraints, the activities conducted by the association of stockbreeders hardly ever materialise into a single force for stronger bargaining power in negotiations. This association's activity is instead very much influenced by national federations and is mainly focused at promoting better access to inputs and technical services. In the final markets, producers interact directly and individually with intermediaries and industrial producers.

The great bargaining power of intermediaries has even led to a dismissal of projects aimed at improving sanitary conditions and at further developing the local butchering and refrigerating infrastructure. The former could have enabled local farmers to add greater value to their products, while the latter would have allowed farmers to keep a larger share of their surplus in stock and to gain better access to the central market of Bogota.

The problems suffered at the vertical dimension of the value chain are also found at the horizontal level, which suffers from limited product diversification. These two dimensions are closely related. The lack of an efficient local infrastructure and the technical capacity to process animals restricts value creation and frustrates the possibility of profit extraction from side products in the region.

## Rice

Rice farming developed in Casanare after producers immigrated from the departments of Tolima and Santander. The practice spread extensively and gradually became the second source of income for stock farmers. The industry was further strengthened by seasonal migration and technological transfer from the original departments. Rice farming became the most important agricultural activity of the region and constituted 78 per cent of Casanare's agricultural production in 2004. These were developments which led it to become one of the most important sectoral industries of the country.

Three main kinds of actors are active in the regional territory: the suppliers of inputs; the farmers; and the industrial mills, which transform and trade rice in the national market. Most employment is found in the farming stage, in which about 20,000 families have found work. The farming stage is highly vulnerable, as the production of rice suffers from a great dependence on climate conditions. Moreover, rice farmers must invest – sometimes heavily – in response to specific rice diseases. Farmers also face high input costs, especially for the necessary harvesting machinery, which demands large investments that are left idle for long periods of time.<sup>7</sup>

As in the case of breeding, the main weakness of producers lies in the relationship they have with their direct market counterparts, i.e. the industrial mills. The industrial rice farming sector is, in fact, highly concentrated. The industrial mills that are active in the Department of Casanare are part of large national corporations, which form a 'cartel' that controls the price of harvested rice. The bargaining power of farmers is limited by their fragmented organisation, but also by the specific characteristics of the production cycle. The latter include the concentration of harvesting in a few months, the perishable nature of the goods in an environment characterised by a dearth of storage instruments and capacity, and the liquidity needs for paying suppliers and workers. The asymmetric relationship between farmers and industrial mills has also been working against co-operation and the transfer of technology and knowledge.<sup>8</sup>

<sup>5</sup>The principal butchering and refrigerating infrastructures are the *mataderos* of Yopal and Tauramena. However, they supply very much below their capacity and generally function only for serving the local market. There are several informal structures, which however do not comply with sanitary and quality market requirements.

<sup>6</sup>Stock farmers are organised in local and regional committees, which are affiliated to the national association Fedegan (Federacion Nacional de Ganaderos).

<sup>7</sup>Farmers usually rent machinery during harvesting periods. The high demand during those seasons and the limited supply, however, generate uncertainty.

<sup>8</sup>A co-operative attempt undertaken by local farmers for entering the transformation and commercialisation stages failed, mainly for the lack of managerial and commercial capacities.

Farmers have become even more vulnerable over the last years, as a consequence of the significant increase in farming areas (doubled between 2004 and 2005) and black market trading with Venezuela and Ecuador. A crisis of over-production, caused by the entry of new actors that are drawn by public incentives and the regional plan for micro-credit to small farmers, has badly hit traditional rice producers. In other words, the entry of inexperienced producers, the lack of infrastructure and machinery, and the fall in rice prices have all contributed to the immediate exit of new producers, but also of a significant share of old farmers.

The Casanare rice industry now faces the challenge of the transition to a mode of 'clean' production, which is environmentally sustainable, and responsive to standard market signals. This, however, demands investments to gain access to technological and organisational knowledge for small producers. The sector is at the same time also affected by national policies in preparation of a Free Trade Agreement with the US, which has a much more competitive rice industry. Active policies and incentives have been proposed for substituting rice with other products, such as maize, or even alternative industries, such as African palms and forestry.

The agricultural offer of the department has therefore been diversifying in recent years, even though alternative production is still mainly oriented to regional markets. The diversification follows specific programs of the regional government or the investment strategies of external actors. This is the case, for instance, of the African palm tree, whose cultivation was recently introduced in the south of the department. The extraction of palm oil and its use for biodiesel fuel has attracted big investors. This is, in fact, a type of production that strengthens the prevailing model of large scale, extensive use and exploitation without too many necessary social or agricultural alterations in the region.

#### **CASANARE INSTITUTIONAL PROFILE: FRONTIER-TYPE MODES OF SOCIAL REGULATION**

Throughout the economic and social history of Casanare, institutions have played a critical role in shaping the regional development trajectory. We argue that they indeed have formed a hindering factor for starting a trajectory of endogenous development, based on the valorisation of local resources, animation and an effective co-ordination of local actors towards shared development objectives.

The economic structure of the region, as outlined above, combines the modes of social regulation that define Casanare and the broader Orinoquia as a 'permanent frontier'. Following Rausch, this is understood as a peripheral space of migration and occupation, where populations driven out of the centre by economic and political exclusion compete for opportunities and resources [1, 14]. The Orinoquia has in fact been receiving increasing migration flows over the last decades. These are related to migration pressures from the Andean region, which are affected by a pervasive agrarian conflict and waves of political violence. The attraction of oil-related rents and economic opportunities, which came with oil exploitation, furthermore resulted in a large demand for low-skilled labour and an increasing demand for services following accelerated urbanisation.

The term 'frontier' is applied as a social and political construction, rather than a geographical boundary [15]. It is a territory of invasion and conquest, of overlapping and clashing of elites, whose continuous confrontation determines the permanent state of conflict over rules and institutional forms, and generates multiple identities within the same area. In other terms, the frontier is a highly dynamic social setting, characterised by continuous changes and the lack of a shared vision over institutional elements, which generate uncertainty about the rules of the game for the access to resources.

In the context of a country characterised by economic and social polarisation, and which is highly centralised in its political and administrative functions and enjoys a state of relative stability, the history of the *llanos* is one of sedimentation of particular modes of social interaction that have perpetuated its frontier character [16]. The population embodies peculiar perceptions about state-related dimensions, such as those of sovereignty and citizenship, which have been affected by the modes of production and the territorial occupation of central authorities.

In pre-Colombian times, the nomadic or semi-nomadic local populations did not have proprietary rights over natural resources. They moved across the *llanos* on the basis of seasonal cycles, land flooding and/or the access to natural resources. They lived from hunting and fishery. During colonial times, the power over resources became highly centralised and land proprietary rights were distributed among the Spanish aristocracy. However, contrary to the Andean region, where the Spanish aristocracy and Catholic Church founded their urban settlements and structured their colonial power, the deadly tropical climate of this area did not encourage direct colonisation or even exploration. The presence of a central authority has been mediated since that time. The colonisation function was left to Jesuits, who organised their settlements around the *Hato* or *hacienda*, which were the prevailing institutions in the *llanos* from the 17th century to recent times. *El Hato* was the territorial space where the local society, with its cultural and economic expressions, was organised. Its establishment represented a sort of legitimised foundation of villages, since it functioned at its outset as the seat of the representative of the central authority, during both colonial and republican times. This represented a "para-state" situation at the agricultural frontier, in which the state's presence and responsibilities were weakened or at times even disappeared. Its wealth and status were not, however, related to its spatial expansion. It was rather linked to the herds and cattle that the owner could mark. This was naturally related to the main economic activities, the defining activities of *llaneros*, i.e. hunting and taming of wild animals. It was then, with the capturing and marking, that animals were attributed economic value and would therefore contribute to the wealth and social prestige of the *Hato* owner. Land ownership was crucial for obtaining political power, but land itself had only value to the extent to which it was populated by cattle. Furthermore, during the early colonisation and Bolivarian ruling, land ownership itself was defined in accordance with the presence of marked animals.<sup>9</sup> This contributed to diffusing a rather particular perception of

<sup>9</sup>The *ley de los llanos*, promulgated by Simon Bolivar, who formed his army in the region for moving against the Spaniards, formalised this common rule. Proprietary rights on land were defined in accordance with occupation by marked cattle.

property rights and to increasing the level of conflict and the difficulties of legal enforcement.

This model of production and land distribution has over time structured a pastoral and rural system which is characterised by limited time and space horizons, with weak definitions of property rights, and the prevalence of subsistence economic activities (*pancoger*). These elements have come to define the local population, both in its public and private behaviour, which is influenced by a pre-modern logic of occupation and marking of space, rather than by models of mediation and integration [17]. In this sense, the region represents a highly peculiar space of institutional evolution, exhibiting dynamics that differ from those of the centre. It is in fact characterised by high levels of confrontation and conflicts among new elites, within a framework of social regulation which has been continuously redefined, leading to a relevant degree of economic and social uncertainty.

We argue that this frontier-type mode of social regulation, defined by logics of occupation and marking, conflict and uncertainty over rules and resource access, supports and is concurrently strengthened by the persistence of an extractive and subsistence economic model. That model is characterised by low saving rates and accumulation, a weak association capacity and a limited division of labour. The little common knowledge and investigation about local resources can furthermore be related to the frontier character of the region, which has an implicit historical, blurred identity, beyond basic cultural, geographical and naturalistic traits. It should be noticed, in this regard, that recent oil-led migration has produced a cultural shock and a loss of the sense of basic identity that formerly revolved around cattle raising and local folklore [18]. The lack of shared human, juridical and cultural values, from which a sense and a perspective of social collectivity could emerge, represents an institutional obstacle to territorial governance. Territorial governance is here used as a participative diagnosis and as an identification and socialisation of opportunities for giving value to specific local resources and responding to collective needs, mobilisation and coordination of local actors towards shared strategic objectives. A process of territorial governance, as above defined, demands shared values and norms. This may, of course, be a necessary condition, but it is not a sufficient one, particularly not in those highly hierarchical societies, in which common values can also lead to the preservation of social inequalities.

### THE EMERGENCE AND THE ROLE OF ELITES

The weak perception of central state authority and bureaucracy and the emergence of local elites – through the conflictual appropriation of resources and their frequent turnover – are persistent features throughout the region's history. In pre-Colombian times, invaders from nearby regions used to suppress local populations (the *Guahivos* over the *Achaguas* and the *Salivas*) while later on, Spanish colonisation overturned indigenous powers and delegated direct territorial control to the *encargados* or Jesuit settlers. Up to recent times, administrative functions and positions of authority were assigned by central elites to local leaders (mainly landowners), who were co-opted into the national power structure. Local leaders were in their role allowed to

exploit resources at the frontier and increase individual wealth and power in exchange for their loyalty.

From colonisation onwards, the emergence of institutions, which concentrated formal powers at the central level, strengthened the hierarchical and paternalistic power structure that also characterised indigenous society [19]. The 'personalisation' of institutions during the colonial time represented, in this sense, an element of continuity with the pre-Colombian period. For the indigenous populations, the *cacique* embodied the 'state' or institutional authority, empowered by deities and attributed with superhuman qualities. This trait favoured the suppression of local populations by Spaniards, the identification of state authority with the people in power and the idea that access to resources and the exercise of rights demanded personal relationships with power holders.

When the Jesuits were expelled from the Spanish realm, in 1767, the rights over these lands were distributed to the *criollos* (people born in the colony but of a Spanish lineage), who lived in the Andean centre. This meant, in fact, that most of the land was abandoned. Their value was added to the nominal wealth of the central elites, but these were not interested in direct colonisation or productive exploitation. The lack of interest was shared by the state authorities. To formal state institutions, the *llanos* were visible mainly in the land ownership titles of the Andean elites.

In the context of a highly centralised state, the institutional vacuum at the periphery is normally filled by local administrators, who act as direct representatives of the state. In this case, however, the territorial organisation of administrative and economic activities was little structured compared to the experience of the Jesuit haciendas. Rather, the *encargados* or migrating populations in search for land and resources were (sparsely) populating the territory. This happened in accordance with a subsistence logic of occupation and appropriation of resources. This was mainly the case for the indigenous populations who were barely familiar with the idea of property, and who used land resources and cattle instead in a collective manner.

Since the 18th century, power relationships have evolved on the basis of identities, which were defined by the highly stratified social structure of the colony and the later Republic [20]. As in most Spanish colonies, the power structure was based on classes defined in relation to Spanish ancestry: mainland Spaniards (*peninsulares*) led a social pyramid formed by *criollos*, down to *mestizos*, *indios* and black slaves. Economic power was in the hand of the largest landowners, *criollos*, who had occupied vast lands at the frontier and had been provided legitimisation by the ruling republican *criollian* class. These landowners were, as mentioned earlier, co-opted into a power structure in exchange for their loyalty. Economic status, acquired through resource appropriation and racial associations with the central elites, lay thus at the foundation of the emergence of local elites.

In recent times however, this mechanism of resource appropriation and legitimisation has resulted in significant instability for the local elites themselves, since new sources of rents have emerged and historical power groups, related to land ownership, have been displaced by new rent-seeking groups. The latter have often migrated from other areas of



the country and are better endowed in terms of the financial and relational capital that is required for taking advantage of the emergent resources (i.e. land, quinine, rubber, minerals, oil and recently even plantations for biodiesel production). The centres of power and rent-seeking elites have in other words been changing, as sources of rent have also evolved, determining a new governance structure that is driven by a short-term logic of conquest, occupation and resource extraction.

The central elites of the country have been able to maintain their influence on local processes, mainly through mechanisms of resource distribution and formal administrative control. Nevertheless, since the reforms that introduced the direct election of local representatives in 1986 and the 1991 constitutional reform, the degree of autonomy of local power groups has significantly increased. They can now directly access political power on the basis of local support. The increased bargaining power of local elites has been partially counterbalanced by tighter mechanisms for formal control by the central state. This is an attempt by the central elites to maintain and reproduce convergence of interest with local ones.

The main changes in the mechanisms for accessing resources, and consequentially in the local structure of power, occurred in the second half of the 20th century. The first time was in the 1950s, when *la violencia*<sup>10</sup> caused the largest migration flow from the Andean region to the periphery and reshaped the concentration of the population, economic activities and power in the piedmont. The second time was in the 1980s, when illegal armed groups penetrated the territory, entered the rent circuits and seized *de facto* power.<sup>11</sup>

This last change coincided with the early stage of the oil boom and the process of political and administrative decentralisation. These have caused a relevant change in the sources of rent and in the mechanisms for accessing *de facto* power. The enormous flow of oil revenues, mainly in the form of royalties transferred to the local government, has changed the role and relevance of the public sector, which has become the main local source of employment and services, as well as of contracts. 'Contracting' with the local governments, largely built on personal relationships between administrators and contractors, has become the activity with the highest returns. The practice attracted new migrants, including armed groups, but also forced a re-orientation of interests of the local social groups that were initially linked to the traditional sectors of specialisation, such as agriculture and stockbreeding.

These dynamics have had an important impact on elites. The traditional elites, which built their power and prestige on

land ownership, or agricultural and breeding activity, have in fact been displaced by politicians, contractors, and leaders of illegal armed groups. This has had largely negative effects on local society, as the historical traits of conquest and appropriation of local resources as the source of power and leadership have been strengthened, while being increasingly detached from their value adding economic contents. Furthermore, in the context of a fragmented society and institutional weakness, the penetration of armed groups has had negative implications for the development of collective values and the diffusion of democratic principles.

Democratic participation is largely perceived by the local population as a mechanism for taking sides in political contests and, in exchange for support and loyalty to a side, as a way to receive direct access to the channels of rent distribution. As Verba has noted, substantive democratic processes not only require institutional guarantees and the right to take part in elections, but they also demand equality of opportunity to own resources [21]. In the case of Casanare, the unequal access to resources turns the democratic process into a practice of campaigning and voting in exchange for the merely temporary access to rents. In this short-term game, the identification of strategic opportunities – a basic ingredient of the governance process when meant in a collective sense [22] is an individual choice for the 'right side'. If the side chosen turns out to be the 'wrong one', subsistence logics drive social and economic behaviour to the next contest or opportunity to access rents. As Migdal and Brinkerhoff and Goldsmith underline, clientelism tends to flourish in insecure political and economic environments and represents a pragmatic means to find solutions to everyday concerns for members of society who are lacking adequate access to resources, material as well as immaterial, including education, social assistance and welfare services [23]. The observed successful experiences of 'winning parts' and the weakness of sanction mechanisms in the appropriation of public resources by winning groups represent 'best practices' to be imitated and powerful mechanisms for behavioural consolidation.

There is, however, also a powerful stream of bottom-up feedback from the local rural culture to the emerging elites, even when these are formed by newcomers from the Andean urban centres, who are equipped with capital, knowledge and relations for exploiting the new sources of rent, as is the case with the late oil boom and related royalties. Although the source of *de facto* power lies, in fact, mainly in contracting activities, at the local level prestige recognition is still perceived to be associated with land ownership and traditional activities. A consequence of this persistent rural logic is that a large share of the capital accumulated from rent extraction by newcomers is invested in land and farming activities. However, the short-term logic of exploitation and the limited knowledge and competencies in these productive areas often produce speculation or 'adventurous' investments, which lack an economic rationale or whose profitability depends on uncertain public policies. This has been the case of the rush entry into the rice sector, which led to a crisis of over-production, and of investments in industrial plants without much evaluation of upstream and downstream markets. The latter resulted in large excess of capacity or even an inability to start operations because of the lack of inputs, whose provision the public administration was supposed to support.

<sup>10</sup>*La violencia* refers to the civil conflict that took place in Colombia from the end of the 1940s to the end of the 1950s. The conflict was between supporters of the Liberal and Conservative parties. The conflict was particularly harsh in the rural areas and displaced a large part of the population. The waves of violence that have followed since then have increased the number of displaced people to a few millions. In 2009, the number of refugees amounted to 3,303,979, according to official Colombian sources (Accion Social - Presidencia de la Republica).

<sup>11</sup>The violent occupation of land has been led by different armed groups in the second half of the 20th century: liberal guerrillas in the 1950s, the communist guerrilla in the 1980s and 1990s, right-wing paramilitary groups and drug cartels in the most recent decades. Land occupation has been instrumental to territorial expansion and influence, as well as to the appropriation of resources, through legal or illegal means. The rents have been used to feed clientelism and patronage, and finance private armies, which have further strengthened the capacity of these groups to influence and penetrate the economic and political activities of the region.

Environmental damage has furthermore increased after the inflow of these late rent-seekers or populations that were attracted by oil-related employment and urbanisation [24]. The particularly fragile environment of the *llanos* demands specific knowledge that is largely ignored by the newcomers, who appropriate land and are mainly interested in short term gains.

### **The Role of the Public Sector**

The exploration of oil fields occurred at the moment when the constitutional reforms were being implemented, leading to a process of political and administrative decentralisation.<sup>12</sup> Casanare became a department; hence, its administration acquired significantly greater powers and discretion in its use of resources. The spectacular increase in revenues coincided with the transfer of powers to the local administration, which, rather abruptly, gained access to very large financial resources. These unexpected opportunities were matched with equally great responsibilities with respect to the exploitation of oil. Environmental problems became rampant and were accompanied by migration flows, urbanisation, wage salary inflation, crime and violence by armed groups.<sup>13</sup> The public sector became the main economic player in the regional economy and, following the decentralisation of power, has played a pivotal role in local economic development. However, the opportunities and burdens that came with the oil exploitation met an incipient local administrative culture, which was not very responsive to economic incentives and, above all, was barely familiar with the design of long-run development objectives that were built on participation and dialogue in society at large.

Local administration, which is endowed with large economic power, is faced at present with weak capacity of the local business sector and civil society, which are fragmented and attracted by contract-related rents. The administration tends to follow a dirigist approach, rather than an approach that is centred on building up a participatory form of 'governance' that could result in the mobilisation and strategic coordination of local resources and players. Economic analysis and the design of development policies result mostly from processes internal to local administration. There is thus little involvement of local actors (e.g. producer associations, financial institutions and universities) that could contribute expertise in research and support to development policies. Their participation in government debates and actual planning is, in fact, generally limited and influenced by contingent political relationships.

Development policies and, in general, public planning are deeply affected by the changes in government. Discontinuities are intensified by the 'personalisation' of public policies, which implies that public plans and projects tend to be identified with the governors rather than perceived as a collective asset. This is consistent with the historical traits of patronage and power structure that were described above. The 'de-institutionalisation' of policies brings about discontinuities and paradoxes in public intervention – one can frequently observe how new governors roll back or sometimes even

dismiss entire projects that were promoted by their predecessors. This discontinuity also illustrates the limitations which are imposed upon the process of collective learning and the accumulation of institutional knowledge.

Furthermore, the overwhelming role of the local government reduces the space for private initiatives and influences their orientation. The rationale of politics, in fact, imposes its conditions, which penetrate civil society and find fertile ground in the prevailing 'frontier' social regulation model, in rent-seeking and the individualistic culture. The private sector is highly sensitive and vulnerable when faced by the prospect of good profit, which distracts actors from other more 'bottom-up' initiatives. This explains, for instance, the weak negotiation capacity of business associations with local administration. Their unity is constantly threatened by self-seeking gains, which are further stimulated in the grey area of individual contracts with the government.

Paternalistic public policies of incentives and subsidies appear to have raised expectations for assistance, further reducing the risk propensity of private actors, which is the basic ingredient of capitalist economies. The access to large funds at low costs somehow resembles the easy access to abundant natural resources and seems to have further reduced the incentive of planning and accounting in local communities which are characterised by a low propensity to save in the form of storage of goods and financial accumulation. This feature originates from a culture of rural subsistence that is influenced by the rich natural environment, but defined also by great economic uncertainty, something which makes long-term planning difficult.

In this scenario, however, there is evidence of entrepreneurial energy, innovation and long-run associative ventures. The local community exhibits a diffused pattern of social capital and communitarian solidarity. These elements certainly could be translated into valuable social and economic assets for development, but at the moment are hardly expressed in formal experiences and defend the collective interest only to a limited degree.

In the sectors of specialisation, associations are common, but are mainly oriented to access information and technical support provided by national federations. They have limited capacity to counterbalance the public sector, since the dynamics for the construction of the collective interest are under threat as soon as the activities of the associations enter into the sphere of the interest of political-public actors.

In the areas in which the interest of public players is reduced, development dynamics seem to have emerged on the basis of the valorisation of local resources and entrepreneurial risk. In spite of the prominence of the articulation of value chains on the agenda of national, regional and local governments, the first relevant experiences of innovation and diversification of production can be found in small spaces of private initiative. Such private agencies are located outside the area of direct public influence and exist beyond the logic of political support, that is, they are entirely financed with private resources.

As far as the non-profit sector is concerned, a large number of non-governmental organisations have been created over the last decade, mainly from resources provided by public contracts. These initiatives, however, suffer from their

<sup>12</sup>The Colombian Constitutional Reform Act was passed in 1991.

<sup>13</sup>After the 'oil bonanza', Casanare experienced a surge of armed conflict, which was further stimulated by the environment provided by the accelerated changes, the wealth of resources, the limited presence of the state and institutional weakness.

embeddedness in the prevailing regulation model. The perhaps most interesting and stable experience appears to have emerged in a space that is not directly accessible to local public administrators. The organisation, which promotes training and development projects in different sectors, is entirely supported, both in institutional and in financial terms, by oil companies. The latter fact allows the organisation to escape from the area of public contracting and its rules.

Increasing the visibility of these experiences could raise perception in the local community about different economic opportunities and the viability of alternative models of social interaction. A socialisation model of this type is currently limited, however, by the power of attraction and persuasion of the above-mentioned prevailing models of resource allocation and distribution of power. The mechanisms of power and prestige recognition (elite formation) do, in other words, not differ greatly from those of the pre-oil times.

This discussion points at the need to strengthen civil society, on the basis of objectives and projects that are beyond the influence of the current powers and their rent-distributing mechanisms. There appears to be an urgent need for the creation of autonomous spaces of social expression, in which collective experiences with alternative models of relationship, participation and wealth generation can be shared. Institutions tend to change only gradually. The degree of inclusion and participation affects the depth and speed of change, the level of conflict and the legitimisation of emerging rules. For this reason, we believe an important role in promoting bottom-up changes could be played by 'intermediate' institutions, that is, organisations providing public goods tailored to specific local needs, emerging at the meso-economic level, expressing civil society's common interests and objectives, and creating a space for meetings and discussions beyond the traditional logic of public-private interactions, based on a practice of 'give and take'. In short, there seems to be a need for institutions that build on the existing sense of communitarian identity and solidarity and adopt an agenda of setting and sharing long-term objectives of local resource mobilisation and collective action. Apart from their formal objectives, their activities can have a positive impact on collective learning, experimentation and socialisation of different relational modes.

## CONCLUSIONS

The development trajectory of the Casanare region, in the Colombian Orinoquia, is one of historical rural underdevelopment and recent growth acceleration with little social and structural transformation. Casanare is a case in point as a social and economic 'frontier': rich in natural resources but poor in institutions and participative processes. This paper argues that the interaction among economy, society and territory represents a key dimension for understanding the opportunities and limitations of the region in pursuing autonomous and sustainable development.

The Casanare economy is based on the exploitation of local resources, with little transformation and value aggregation at the local level, which has produced weak bargaining power in national and international markets. The territory is therefore unable to keep and invest the surplus that is produced along the value chain involving its rich natural re-

sources. That is, the wealth generated from its resources is appropriated to a large degree by external actors.

Local development policies give priority to the articulation of productive chains in the territory, following the policies for competitiveness that are defined at the national level. The possibility to effectively implement these policies appears at present, however, to be limited as a result of the process of policy design, which is consistent with the prevailing regulation model. In fact, the process of investigation, evaluation and planning has been lacking substantial discussion and participation from local economic actors. In other words, economic policies reflect a form of technopolitical dirigism and personalisation of the governing (and unstable) elites, rather than a process of 'governance'.

In general terms, the local institutions, which are intended to function as the modes of social regulation and the forms of expression of political and economic power, appear to limit the diffusion of more 'inclusive' development models based on the participation of a wider field of actors, the broad mobilisation of entrepreneurial forces, the accumulation of specific competencies and the socialisation of innovative experiences. In other words, the prevailing regulation model does not favour the emergence of 'collective economic intelligence' in the area. It is instead a frontier-type model of social regulation and institution building, whose particular traits have been strengthened over time.

Historically, the region has been a peripheral space dominated by migration and clashes among rent-seeking elites. The persistent pre-modern logics of conquest and marking of space drive social and economic behaviour. The frontier character of the region is also defined in relation to the attitude of the central state authority and the elites. Since colonial times, the presence of the state has been mediated by either local individuals or groups, which are racially related with the central elites and thus were able to acquire economic and social status through the appropriation of resources. As the sources of local rent have been changing over time, historical power groups have been displaced by newcomers, who were better endowed with the financial and relational capital required for exploiting the emergent resources.

The turnover of power groups has been reinforcing the short-term attitude of exploitation by temporary 'winners'. The permanent chance of confrontation generates uncertainty over institutional forms and rules. In this sense, one can understand the "frontier" as a social and political construction or a highly dynamic social setting, which is characterised by a limited time and space horizon. This makes mediation, bottom-up participation and mobilisation of local actors particularly difficult.

In this sense, the Casanare case study provides elements for a broader discussion about the problems of modernisation in peripheral areas that are rich in natural resources and whose sustainable development is to a large degree constrained by the prevailing forms of social regulation. According to the endogenous development literature, the economic and social sustainability of a development path correlates with its degree of 'endogeneity' at the territorial level [22, 25]. This relates to the capability of local actors to drive the dynamics of accumulation and innovation, in accordance

with shared strategic objectives. Endogenous development is therefore dependent on the collective capability of a socio-economic community to identify, interpret and socialise the opportunities and challenges related to specific local resources. This implies a territorial mode of 'governance' that is able to produce a participative process with the purpose of identifying strategic opportunities, and aid in the mobilisation and coordination of the necessary local abilities to help exploit these opportunities.

However, the viability and effectiveness of such territorial governance depend on the local institutional setting, the power structure, administrative forms, organisations, as well as rules, codes of conducts, incentives and sanction mechanisms that have developed in the local community over time [6]. These broadly defined institutions represent both the background conditions and the instruments of governance. Endogenous development demands, in this concept, the emergence of institutions that favour a logic of 'including interests' [8, 9].

We argue that, in the context under study, endogeneity is paradoxically a need more than an option for economic development. In fact, development initiatives imposed from above are likely to be absorbed by the existing regulation model and shaped in accordance with it. From this perspective, institutional reforms aimed at promoting alternative development models cannot be imposed by decree or through top-down planning mechanisms. Institutional dynamics that are favourable to endogenous development can only result from incremental changes, promoted through social interaction and broad socialisation. The mobilisation of civil society, the bottom-up creation of spaces for discussion and the expression and freedom of association, appear for this reason to be essential for promoting long-term private economic initiatives and, more broadly, for the economic and social empowerment of local communities.

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