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DECENTRALIZATION AND LOCAL GOVERNMENT IN BOLIVIA: AN OVERVIEW FROM THE BOTTOM UP

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Crisis States Programme

The aim of the Crisis States Programme (CSP) at DESTIN's Development Research Centre is to provide new understanding of the causes of crisis and breakdown in the developing world and the processes of avoiding or overcoming them. We want to know why some political systems and communities, in what can be called the "fragile states" found in many of the poor and middle income countries, have broken down even to the point of violent conflict while others have not. Our work asks whether processes of globalisation have precipitated or helped to avoid crisis and social breakdown.

Research Objectives

1. We will assess how constellations of power at local, national and global levels drive processes of institutional change, collapse and reconstruction and in doing so will challenge simplistic paradigms about the beneficial effects of economic and political liberalisation.
2. We will examine the effects of international interventions promoting democratic reform, human rights and market competition on the 'conflict management capacity' and production and distributional systems of existing polities.
3. We will analyse how communities have responded to crisis, and the incentives and moral frameworks that have led either toward violent or non-violent outcomes.
4. We will examine what kinds of formal and informal institutional arrangements poor communities have constructed to deal with economic survival and local order.

About the DRC Crisis States Programme

The Development Research Centre at DESTIN, LSE, was established in 2001 with the support of the Department for International Development (DFID) of the UK government, initially to undertake research "Crisis and Breakdown in the Developing World". The DRC was established in collaboration with:

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In South Africa: Witwatersrand Institute of Social and Economic Research (WISER), Sociology of Work Workshop (SWOP) and Department of Sociology all at the University of Witwatersrand, Johannesburg, South Africa

In Colombia: Universidad de los Andes, Universidad del Rosario, Instituto de Estudios Políticos y Relaciones Internacionales (IEPRI) at the Universidad Nacional

We are located within the Development Studies Institute of the LSE. The DRC is committed to research excellence and we hope to expand the CSP's work through attracting new research funding, establishing contacts and collaborative projects with other academic organisations and attracting visiting researchers whose funded projects could contribute to the overall CSP.

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Crisis States Programme

Decentralization and Local Government in Bolivia: an overview from the bottom up¹

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Abstract

Hundreds of studies have failed to establish the effects of decentralization on a number of important policy goals. This paper examines the remarkable case of Bolivia to explore decentralization's effects on government responsiveness and poverty-orientation. I first summarize econometric results on the effects of decentralization nationally, and then turn to qualitative research – the focus of the paper – that digs deep into local government processes to understand how decentralization did this. In Bolivia, decentralization made government more responsive by re-directing public investment to areas of greatest need. Investment shifted from economic production and infrastructure to social services and human capital formation, and resources were rebalanced in favour of poorer districts. I explain these results as the aggregate of discrete local institutional and political dynamics. I develop a conceptual model which construes local government as the nexus of two political markets and one organizational dynamic, where votes, money, influence and information are freely exchanged. In order for local government to be effective, these three relationships must counterbalance each other and none dominate the other. Such a stable tension leads to a self-limiting dynamic where pressures from various interest groups are contained within the bounds of political competition. Breaking this tension can hobble government, leaving it undemocratic, insensitive to economic conditions, or uninformed and unaccountable.

1. Introduction

Over the past few decades decentralization has become one of the most debated policy issues throughout both developing and developed worlds. It is seen as central to the development efforts of countries as far afield as Chile, China, Guatemala and Nepal. And in the multiple guises of subsidiarity, devolution and federalism it is also squarely in the foreground of policy discourse in the US, UK and EU. But surprisingly, there is little agreement concerning the effects of decentralization in the empirical literature. Advocates² argue that decentralization can

¹ Paper prepared for the conference *The Rise of Local Governments in Developing Countries*, London School of Economics, May 2003. This summarizes several chapters of my PhD dissertation. This research was financed by a grant from the World Bank Research Committee, and lays the foundations for the work I am now undertaking within the Development Research Centre's Crisis States Programme at LSE. An ORS award and additional financial support were kindly provided by the ESRC. I am very grateful to my advisers Tim Besley and Teddy Brett for invaluable criticism, advice and encouragement throughout. I also wish to thank Pranab Bardhan, Shanta Devarajan, James Dunkerley, Armando Godínez, Peter Kenen, Dilip Mookherjee, François Ortalo-Magné, Nick Stern and seminar participants at the LACEA99, CEP, DESTIN, World Bank and the 2001 Initiative for Policy Dialogue meetings for their thoughtful comments and suggestions. All remaining errors are my own.

² See, for example: E. Ostrom, L. Schroeder & S. Wynne, *Institutional Incentives and Sustainable Development: Infrastructure Policies in Perspective*,. Boulder: Westview Press, 1993; R. D. Putnam, *Making Democracy Work*:

make government more responsive to the governed by “tailoring levels of consumption to the preferences of smaller, more homogeneous groups”.³ Opponents dispute this, arguing that local governments are too susceptible to elite capture, and too lacking in technical, human and financial resources, to produce a heterogeneous range of public services that are both reasonably efficient and responsive to local demand.⁴ But neither side is able to substantiate its arguments convincingly with empirical evidence.

Consider the broadest surveys of decentralization experiences. In their wide-ranging 1983 survey, Rondinelli, Cheema and Nellis note that decentralization has seldom, if ever, lived up to expectations. Most developing countries implementing decentralization experienced serious administrative problems. Although few comprehensive evaluations of the benefits and costs of decentralization efforts have been conducted, those that were attempted indicate limited success in some countries but not others.⁵ A decade and a half later, surveys by Piriou-Sall, Manor and Smoke come to cautiously positive conclusions, but with caveats about the strength of the evidence in decentralization’s favour. Manor ends his study with the judgment that “while decentralization ... is no panacea, it has many virtues and is worth pursuing”, after noting that the evidence, though extensive, is still incomplete. Smoke asks whether there is empirical justification for pursuing decentralization and finds the evidence is mixed and anecdotal. The lack of progress is striking.⁶

The inconclusiveness of this literature is less surprising when we examine it more carefully. Empirical work on decentralization can be divided into two broad groups: qualitative (small sample) work, and quantitative (large sample) work. The former focus usually on a single country, or develop comparisons between a small set of countries, relying primarily on descriptive and qualitative evidence. Although the level of analysis is often careful, nuanced and deep, such studies tend to suffer from a low level of generality, an excess of variables over observations – which in turn leads to a failure to control adequately for external factors, and in the worst case a conflation of causes and effects.⁷ Quantitative studies, on the other hand, tend to

Civic Traditions in Modern Italy, Princeton: Princeton University Press, 1993; World Bank, *World Development Report: Infrastructure for Development*, New York: Oxford University Press, 1994; United Nations Development Program (UNDP), *Informe Sobre Desarrollo Humano (1993)*, Madrid: CIDEAL, 1993.

³ J. J. Wallis & W. E. Oates, ‘Decentralization in the Public Sector: An Empirical Study of State and Local Government’, in H.S. Rosen (ed.), *Fiscal Federalism: Quantitative Studies*, Chicago: University of Chicago Press, 1988, p.5.

⁴ See, for example: R. C. Crook & A.S. Sverrisson, ‘To What Extent Can Decentralized Forms of Government Enhance the Development of Pro-Poor Policies and Improve Poverty-Alleviation Outcomes?’, unpublished manuscript, 1999; J. Samoff, J., ‘Decentralization: The Politics of Interventionism’, *Development and Change*, 21 (1990), pp.513-530; B. C. Smith, *Decentralization: The Territorial Dimension of the State*, London: George Allen & Unwin, 1985.

⁵ D. A. Rondinelli, G. S. Cheema & J. Nellis, ‘Decentralization in Developing Countries: A Review of Recent Experience’, World Bank Staff Working Paper No.581, Washington, DC: World Bank, 1983.

⁶ S. Piriou-Sall, ‘Decentralization and Rural Development: A Review of Evidence’, unpublished manuscript, 1988; J. Manor, *The Political Economy of Democratic Decentralization*, Washington, DC: The World Bank, 1999; P. Smoke, ‘Fiscal Decentralization in Developing Countries: A Review of Current Concepts and Practice’, Democracy, Governance and Human Rights Programme Paper No. 2, Geneva: UNRISD, 2001.

⁷ Examples of small sample studies include: O. Blanchard & A. Shleifer, ‘Federalism with and without Political Centralization: China versus Russia’, NBER Working Paper 7616, Cambridge, MA: National Bureau of Economic Research, 2000; A. Parker, ‘Decentralization: The Way Forward for Rural Development?’ Policy Research

benefit from the high degree of generality, consistency and empirical transparency that statistical approaches provide. But they also suffer significant problems with the measurement of often abstract concepts, data comparability across diverse countries (or regions), and the possibility of omitted variables.⁸ The combination of such methodological difficulties with poor or incomplete implementation of decentralization in many countries goes a long way toward explaining why empirical studies have been unable to pin down its effects clearly.

This paper seeks to shine a light on some of the key questions about decentralization by examining the remarkable case of Bolivia through a blend of econometric analysis at the national level, and detailed qualitative research into local political and institutional processes. I argue that the ‘outputs’ of decentralization are simply the aggregate of local-level political and institutional dynamics, and so to understand decentralization we must first understand how local government works. Hence this paper examines what decentralization did at the national level, and then digs down into local government processes to understand how it did it. Employing a blended qualitative-quantitative approach allows us to benefit from econometric rigour and generality as well as the deep insight of qualitative approaches, which in the best circumstances allow a researcher to choose amongst competing theories and pin down causality. Focusing on one country avoids problems of data comparability and controls for external shocks, political regime, institutions, and other exogenous factors. Bolivia is particularly deserving of study because reform there consisted of a large change in policy at a discrete point in time. The data available are of surprising scope and quality for a country of its socio-economic characteristics, and include information on the political, social and civic, economic, institutional, and administrative characteristics of all of Bolivia’s municipalities. They beg to be exploited.

I define decentralization as the devolution by central (i.e. national) government of specific functions, with all of the administrative, political and economic attributes that these entail, to democratic local (i.e. municipal) governments which are independent of the centre within a legally delimited geographic and functional domain. The rest of the paper is organized as follows. Section 2 reviews Bolivia’s decentralization program, focusing on its legal and

Working Paper 1475, Washington, DC: World Bank, 1995; D. Slater, ‘Territorial Power and the Peripheral State: The Issue of Decentralization’, *Development and Change*, 20 (1989), pp.501-531; D. Treisman, ‘Political Decentralization and Economic Reform: A Game-Theoretic Analysis’, *American Journal of Political Science*, 43 (1995), pp.488-517; B. R. Weingast, ‘The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development’, *Journal of Law, Economics, & Organization*, 11 (1995), pp.1-31; and World Bank, ‘Colombia Local Government Capacity: Beyond Technical Assistance’, World Bank Report 14085-C, Washington, DC: World Bank, 1995.

⁸ Examples of large sample studies include: L. de Mello, ‘Can Fiscal Decentralization Strengthen Social Capital?’ IMF Working Paper WP/00/129, Washington, DC: International Monetary Fund, 2000; A. Estache & S. Sinha, ‘Does Decentralization Increase Spending on Public Infrastructure?’ Policy Research Working Paper 1457, Washington, DC: World Bank, 1995; R. Fisman & R. Gatti, ‘Decentralization and Corruption: Evidence across Countries’, Working Paper No. 2290, Washington, DC: World Bank, 2000; E. Galasso & M. Ravallion, ‘Distributional Outcomes of a Decentralized Welfare Program’, unpublished manuscript, 2000; F. Humplick & A. Moini-Araghi, ‘Decentralized Structures for Providing Roads: A Cross-Country Comparison’, Policy Research Working Paper 1658, Washington, DC: World Bank, 1996; J. Huther & A. Shah, ‘Applying a Simple Measure of Good Governance to the Debate on Fiscal Decentralization’, Policy Research Working Paper 1894, Washington, DC: World Bank, 1998; and J. S. Zax, ‘Initiatives and Government Expenditures’, *Public Choice*, 63 (1989), pp.267-277.

budgetary aspects, and then provides summarized analysis of the economic outcomes of decentralization. The latter are presented as the four ‘stylised facts’ of Bolivian decentralization, and revolve around the responsiveness of central vs. local government to local needs. Section 3 introduces the second, qualitative half of the paper, which examines local government up close and in detail in Viacha (section 4) and Charagua (section 5). Section 6 analyses why government differed so much in these extreme cases, and provides a conceptual model of local government. Section 7 concludes.

2. The Bolivian Decentralization Program

2.1 Popular Participation and the Decentralization Reform

On the eve of revolution, Bolivia was a poor, backward country with extreme levels of inequality, presided over by a “typical racist state in which the non-Spanish speaking indigenous peasantry was controlled by a small, Spanish speaking white elite, [their power] based ultimately on violence more than consensus or any social pact.”⁹ The nationalist revolution of 1952, which expropriated the ‘commanding heights’ of the economy, land and mines, launched Bolivia on the road to one of the most centralized state structures in the region. The government embarked upon a state-led modernization strategy in which public corporations and regional governments initiated a concerted drive to break down provincial fiefdoms, transform existing social relations, and create a modern, industrial, more egalitarian society.¹⁰ To this end the President directly appointed Prefects, who in turn designated entire regional governments and associated dependencies, forming a national chain of cascading authority emanating from the capital.

Successive governments through the 1950s promoted the unionisation of miners, labourers, peasants, public servants and professionals into a hierarchical ‘peak association’, whose representatives negotiated national policies directly with their counterparts from the private sector and government.¹¹ Together these three planned the exploitation of Bolivia’s natural resources, the development of new industries, and sectoral and regional policy in a bid to orchestrate a rapid development process from the heights of La Paz. The intellectual trends of the 1950s-1970s – *Dependencia* theory, Import Substitution Industrialization, and Developmentalism – only contributed to this tendency, as did the military governments which overthrew elected administrations with increasing frequency from the 1960s on.¹² With political power so little dispersed, there was little point in establishing the legal and political instruments of local governance. As a result, beyond the nine regional capitals (including La Paz) and an additional 25-30 cities, local government existed in Bolivia at best in name, as an honorary and ceremonial institution devoid of administrative capability and starved of funds. And in most of the country it did not exist at all.

⁹ H. Klein, *Historia de Bolivia*, La Paz: Libreria-Editorial Juventud, 1993, p.237 (my translation).

¹⁰ J. Dunkerley, *Rebellion in the Veins: Political Struggle in Bolivia 1952-82*, London: Verso, 1984.

¹¹ Dunkerley (1984), p.43.

¹² Klein (1993).

Against this background, the Bolivian decentralization reform was announced in 1994. The Law of Popular Participation, developed almost in secret by a small number of technocrats,¹³ was announced to the nation to general surprise, followed by ridicule and determined opposition by large sections of society.¹⁴ First made public in January of that year, the law was promulgated by Congress in April and implemented from July. The scale of the change in resource flows and political power that it brought about were enormous. The core of the law consists of four points:

1. **Resource Allocation.** Funds devolved to municipalities doubled to 20 percent of all national tax revenue. More importantly, allocation amongst municipalities switched from unsystematic, highly political criteria to a strict per capita basis.
2. **Responsibility for Public Services.** Ownership of local infrastructure in education, health, irrigation, roads, sports and culture was given to municipalities, with the concomitant responsibility to maintain, equip and administer these facilities, and invest in new ones.
3. **Oversight Committees** (*Comités de Vigilancia*) were established to provide an alternative channel for representing popular demand in the policy-making process. Composed of representatives from local, grass-roots groups, these bodies propose projects and oversee municipal expenditure. Their ability to have disbursements of Popular Participation funds suspended if they find funds are being misused or stolen can paralyse local government, and gives them real power.
4. **Municipalization.** Existing municipalities were expanded to include suburbs and surrounding rural areas, and 198 new municipalities (out of 311 in all) were created.¹⁵

The change in local affairs that these measures catalysed was immense. Before the reform, local government was absent throughout the vast majority of Bolivian territory, with a State presence limited to at most to a military garrison, schoolhouse or health post, each reporting to its respective ministry. After reform, elected local governments accountable to local voters sprang into being throughout the land.

2.2 The Economic Effects of Decentralization

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

¹³ D. Tuchsneider, D, 'Una Visión desde la Planificación Participativa Municipal', in Grupo DRU, UIA-SNPP, *Participación Popular: Avances y Obstáculos*, G. Rojas. (ed.), La Paz: CID, 1996.

¹⁴ 'Injertos Tramposos en "Participación Popular"', *Hoy*, 19 January 1994; 'La Declaratoria de Guerra del Primer Mandatario', *La Razon*, 27 January 1994; and 'Arrogancia Insultante', *Presencia*, 27 February 1994 are only three of the many articles which appeared in the Bolivian press documenting popular reaction to the "Damned Law". These are documented in Unidad de Comunicación, Secretaría Nacional de Participación Popular, *Debate Nacional sobre la Ley de Participación Popular*, La Paz: Secretaría Nacional de Participación Popular, 1995.

¹⁵ Secretaría Nacional de Participación Popular, Ministerio de Desarrollo Sostenible y Medio Ambiente, *Ley de Participación Popular, Reglamento de las Organizaciones Territoriales de Base*, La Paz, 1994.

Figure 1¹⁶ - The Changing Allocation of Public Funds

City	Central to Local Revenue Sharing (Bs '000) ¹⁷			% of National Total	
	1993	1995	% Change	1993	1995
La Paz	114,292	61,976	-46%	51%	10%
Santa Cruz	51,278	63,076	23%	23%	10%
Cochabamba	25,856	38,442	49%	12%	6%
3 Cities Sub-total	191,427	163,494	-15%	86%	27%
Rest of Bolivia	32,099	444,786	1286%	14%	73%
Total	223,525	608,280	172%	100%	100%

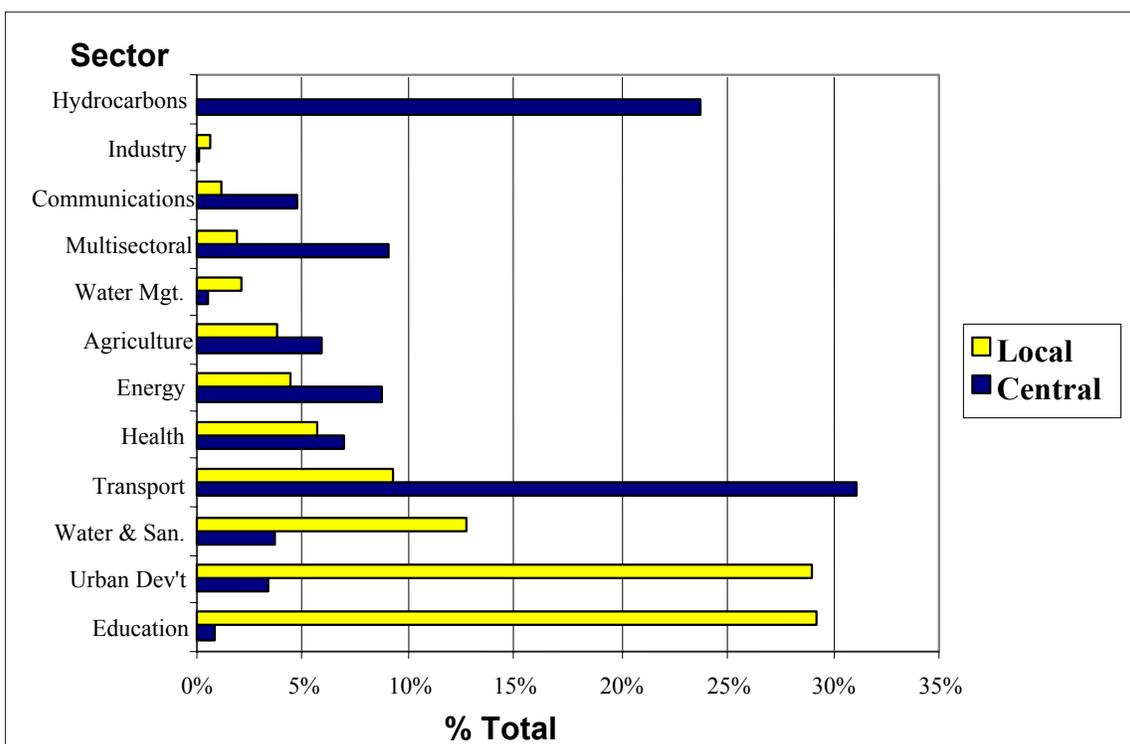
A more important and telling change was to the composition of investment. Figure 2 shows central and local government investment by sector for the periods 1991-3 and 1994-6. The differences are large. In the years leading up to reform, central government invested most in transport, hydrocarbons, multisectoral¹⁸ and energy, which together accounted for 73% of public investment during 1991-3. After decentralization local governments invested most heavily in education, urban development, and water and sanitation, together accounting for 79% of municipal investment. Of the sectors accounting for roughly three-quarters of total investment in both cases, central and local government did not have even one in common. The evidence implies that local and central government have very different investment priorities. Call this Bolivia's 'Decentralization Stylised Fact no.1'.

¹⁶ Figures 1 to 5 are based on the author's own dataset, from information provided by the Bolivian Comptroller General, Economic Policy Analysis Unit (UDAPE), National Electoral Court, National Statistics Institute, Secretariat of Popular Participation, Secretariat of Public Investment and External Finance (Ministry of Finance), Secretariat of Rural Development and the Social Policy Analysis Unit (UDAPSO)

¹⁷ Average exchange rate: US\$1 = Bs 5.

¹⁸ A hodgepodge, including feasibility studies, technical assistance and emergency relief, that is difficult to categorize.

Figure 2 - Local v. Central Government Investment



It is also instructive to examine how investment was distributed geographically among Bolivia’s municipalities before and after decentralization. Figures 3 to 5 below give us a rough sense of this by placing Bolivia’s municipalities along the horizontal axis and measuring investment per capita as vertical displacement. A highly skewed allocation would appear as a few points strewn across the top of the graph, with most lying on the bottom; an equitable distribution would appear as a band of points at some intermediate level. How does Bolivia compare? Figure 3 shows that per capita investment before decentralization was indeed highly unequal, with large investments in three districts and the vast majority at or near zero. Figure 4 corrects for the skewing effect of the highest observations by excluding the upper twelve and showing only those with less than Bs.2000 per capita. Though the distribution now appears less unequal, there is still a monotonically increasing density as we move downwards, with fully one-half of all observations on or near the horizontal axis. Investment under centralized government was thus hugely skewed in favour of a few municipalities which received enormous sums, a second group where investment was significant, and the unfortunate half of districts which received nothing. Compare this with figure 5, which shows municipal investment after decentralization. This chart shows no district over Bs.700/capita, a broad band with greatest density between Bs.100-200/capita, and only a few points touching the axis. Average municipal investment for this period is Bs.208 per capita, and thus the band contains the mean.¹⁹ These crude indicators imply that central government, with a much larger budget and free rein over all of Bolivia’s municipalities, chose a very unequal distribution of investment across space, while decentralized

¹⁹ Investment sums here are much lower because they exclude central government funds.

government distributes public investment much more evenly throughout the country. This is 'Decentralization Stylised Fact no.2'.

Figure 3 - Investment per capita, 1991-93

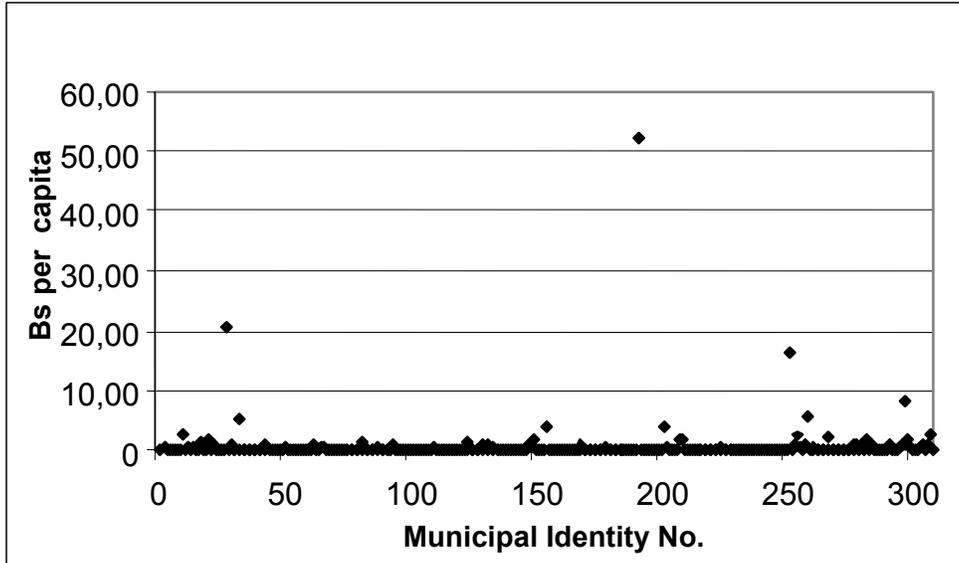


Figure 4 - Investment per capita, 1991-93

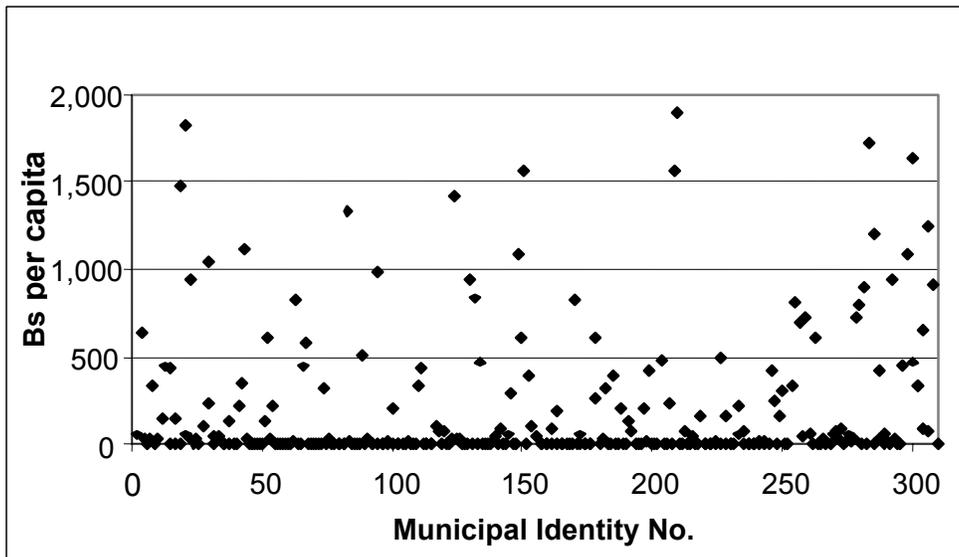
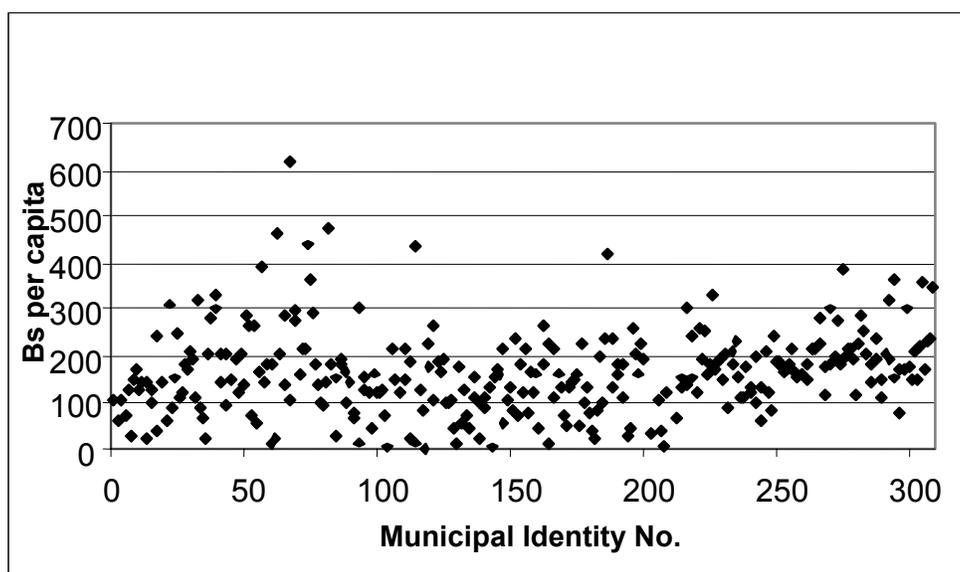


Figure 5 - Local investment per capita, 1994-96



A third stylised fact uses econometric models of public investment to show that decentralization increased government responsiveness to real local needs.²⁰ After 1994, investment in education, water and sanitation, water management, and agriculture was a positive function of illiteracy rates, water and sewerage non-connection rates, and malnutrition rates respectively. That is to say, although investment in these sectors increased throughout Bolivia after decentralization, the increases were disproportionate in those districts where the objective need for such services was greatest. I argue that these changes were driven by the actions of Bolivia's 250 smallest, poorest, mostly rural municipalities investing newly devolved public funds in their highest-priority projects. Detailed econometric models showing these results for education, water and sanitation and watershed management are provided in Appendix 1.

The fourth stylised fact uses a similar technique to show that centralized investment was economically regressive, concentrating public investment in richer municipalities and ignoring poorer ones.²¹ Decentralization, by contrast, shifted resources towards poorer districts; after 1994, public investment rose in municipalities where indicators of wealth and income are lower. The four stylised facts are summarized in Figure 6.

²⁰ J. P. Faguet, 'Does Decentralization Increase Responsiveness to Local Needs? Evidence from Bolivia', *Journal of Public Economics*, forthcoming.

²¹ J. P. Faguet, 'The Determinants of Central vs. Local Government Investment: Institutions and Politics Matter', DESTIN Working Paper No. 02-38, London School of Economics, 2002.

Figure 6 - Bolivian Stylised Facts

<i>Decentralization:</i>	
1	Shifted public investment into social and human capital formation, at the expense of economic production and infrastructure
2	Distributed investment more equally across space
3	Made investment more responsive to local needs
4	Shifted investment towards poorer districts

3. Understanding Decentralization in Bolivia

The results of decentralization in Bolivia appear to be clear-cut. Decentralization was associated with increased government responsiveness to real local needs, which in turn shifted national investment patterns away from large infrastructure projects toward social investment. By favouring poorer districts, investment became more equitable across space than it had been under central government. The importance of the decentralized decisions of Bolivia's poor, rural districts in driving these results is worth stressing.

But to say that decentralization drove these results is only to relocate the fundamental question. How and why did decentralization achieve this? Why was central government unable or unwilling to do the same when all the resources were in its largely unfettered hands? In order to answer these questions we must examine how local government works, as the effects of decentralization are inseparable from those of the local governments it empowers. Hence the remainder of this paper comprises a detailed examination of local government in the best and worst municipalities I was able to find in Bolivia – Viacha and Charagua. I focus on the extremes of municipal performance in order to better highlight the systematic differences in decision-making that characterize each, leading to their very different outcomes.

I rely on qualitative information gathered during six months of field work in Bolivia, in a number of municipalities selected to control for size, region, economic base, rural vs. urban setting, and cultural and ethnic characteristics. In each of these I conducted extensive semi-structured and unstructured interviews of local government and community leaders, key informants, and citizens at the grass-roots level. I spoke to over 300 people in more than 200 interviews, following a systematic program in which I put standard questionnaires to: the mayor and other important officials, government and opposition local councilmen, oversight committee members, grass-roots organization heads and members, local health and education authorities, heads of major businesses and economic interests, union leaders, parish priest or other religious leaders, local military commanders, and local NGOs.

To this standard list were added informants of particular local import in each municipality. Interviews were carried out in the main city/town and throughout the rural catchment area in each district. I also collected each district's investment budget, and a detailed map of the communities that comprise it. In each district I was careful to visit a significant number of rural communities. The research was conducted in two rounds, March-May and September-November 1997, on either side of a general (but not municipal) election. During the intervening period I analysed initial results and designed the second round of interviews and questionnaires to pursue promising lines of inquiry and test early theories. The length of the above list notwithstanding, the majority of the interviews by number (and duration) were with members and spokesmen of grass-roots organizations. What follows is a highly summarized account of the findings of this research.²²

But before commencing the analysis, it is useful to review quickly the institutional framework of local government in Bolivia. The Law of Popular Participation (LPP) stipulates that municipal councilmen be elected from party lists in single-constituency elections. The council then elects the mayor indirectly from amongst those of them who garnered the most votes. Bolivia's European-style, fragmented political culture, grafted onto an American-style presidential system, ensures that most municipal (and national) governments are coalitions. Hereafter, this paper uses 'mayor' to refer to the mayor and executive branch of local government, including all appointed administrative and technical officials – by far the largest and most important of the three. The third institution of local government is the oversight committee (OC), which is composed of the representatives of grass-root organizations within each municipality. A municipality will typically be divided into four or more regions, each of which nominates one member to the OC from amongst its local grass-roots leaders. OC members elect from amongst themselves a president, whose legal status is comparable to the mayor's. The OC's power lies in its natural moral authority, as well as the ability to suspend disbursements from central to local government if it judges that funds are being misused. Oversight committees thus comprise a parallel, corporatist form of social representation similar to an upper house of parliament, enforcing accountability on the mayor and municipal council.²³

4. Viacha

4.1 *The District*

Wilting under the afternoon sun, Viacha squats on the altiplano like a dusty *cholita*,²⁴ tired after a long day at market. From the north, the outer edges of El Alto lap at Viacha like wavelets, and one may be forgiven for considering Viacha a suburb of the La Paz-El Alto metropolis. Urban *viacheños* would take exception. They regard their home as a city, and their surrounding countryside – when they think of it at all – as a catchment area of little importance. But to believe this is a mistake, as Viacha is in fact a large rural municipality with a medium-sized city in one corner. Of the seven districts that comprise it, four are rural. Of its 54,761 inhabitants,

²² Although I omit their direct words here for brevity, full account is given in J. P. Faguet, 'Decentralizing the Provision of Public Services in Bolivia: Institutions, Political Competition and the Effectiveness of Local Government', PhD Dissertation, London School of Economics, 2002.

²³ I am indebted to Dr. Teddy Brett for this apt analogy.

²⁴ An indigenous woman in traditional dress.

two-thirds are dispersed amongst 300 rural communities that reach out to the border with Peru, with the remainder living in the city.²⁵

By Bolivian standards Viacha is a wealthy industrial town. It is home to Bolivia's largest cement company, as well as a large bottling plant belonging to the *Cervecería Boliviana Nacional* (CBN), Bolivia's largest brewery. Both companies contribute significantly to Viacha's municipal coffers through property tax, business licenses, electricity bills, and – in the case of the CBN – generous in-kind lending of trucks and other heavy machinery, and large donations of beer, all placed at the mayor's disposal. Strung along the main road out of Viacha are numerous medium-sized and small textile, brick and tile, and other construction-related businesses, all of which contribute to local incomes and tax receipts. Municipal income includes receipts from property and vehicle taxes, licenses and place-rents for businesses and street commerce, planning and zoning approval fees, and a number of other items – more than most cities in Bolivia. But the city is curiously free of the signs of wealth, and hence of inequality, with neighbourhoods ranging in appearance from poor peri-urban to middle class, but no higher. This is probably because the most successful Viachans take up residence in La Paz, underlining the city's status as a dormitory town. Viacha's index of Unsatisfied Basic Needs²⁶ (0.852 on a scale where 0 is best and 1 worst) places it in the best-off 25% of Bolivian municipalities; its proximity to the cities of La Paz and El Alto ensures a higher level of economic activity than in other cities of comparable size.

Yet by the middle of 1997 Viacha was a troubled town. After three consecutive electoral victories, the populist *Unión Cívica de Solidaridad* (UCS) party had lost its sheen in a hail of corruption charges, and was increasingly seen as ineffective. Investment funds worth Bs.2 million went unspent from the 1996 budget despite the mayor's pleas that he lacked resources to satisfy community requests. A rival oversight committee (OC2) was established demanding the mayor's resignation and disbandment of the official oversight committee (OC1 – sanctioned by the municipal government). With two competing OCs (and two sets of neighbourhood councils), the participative planning process broke down as the city became polarized between groups supporting the mayor and those demanding his resignation. In the midst of this poisonous climate, thieves broke into the municipal garage, killed the elderly guard and stole two vehicles. This gave rise to numerous accusations and counter-accusations. For some, the crime was the work of the opposition seeking to sully the mayor's reputation. Others saw the hand of the mayor himself, ordering a robbery to blame on the opposition before upcoming elections. In interviews in March of that year, however, municipal councilmen seemed not to appreciate the severity of their problems, telling me “not everything is going badly, nor is all well – we have our imperfections,” and then blaming the crisis on the opposition's “exaggerations”.²⁷

The eruptions of Viachan politics occur within a broader tide of urban migration which flows around and through the city, giving Viacha its character. Perched on the edge of the La Paz-El

²⁵ Instituto Nacional de Estadística, *Censo Nacional de Población y Vivienda*, La Paz: INE, 1992. Viacha is the fourteenth most populous municipality in Bolivia

²⁶ This is a Bolivian government index calculated from a variety of demographic and poverty indicators from the 1992 census.

²⁷ Huber Quintela and Esteban Ticona, municipal councilmen (MNR & Condepa respectively), interview, Viacha, 18 March 1997.

Alto metropolis, Viacha is the first stop for many peasants fleeing the hardships of subsistence agriculture on the altiplano. Some move directly on to El Alto, but others stay and complete the transition to urban life in Viacha. Supporting themselves at first through menial labour or selling in the markets, and then through better-paid jobs in La Paz-El Alto to which they make the daily hour-long commute, they push the residential neighbourhoods of the city further and further outwards. They take little pride in the history of a city which has traditionally defined itself in opposition to the countryside; they stay, having found jobs in the capital, because the living is cheap.²⁸ The battle against prejudice to improve their livelihoods gives many Viachans a disconcerting blend of aggressive opportunism and rural tastes. “*Viacheños* are the New Yorkers of the region – they have vices that others don’t. There’s too much alcohol about and everyone shows off their money drinking,” according to Carlos Núñez, financial director of SOBOCE.²⁹

4.2 How Government Works in Viacha

Primary evidence from personal testimony, municipal accounts, and the results the municipality had achieved point overwhelmingly to the conclusion that local government in Viacha was of very poor quality. The institutions of government varied from merely ineffective to fully corrupt, and the interplay amongst them produced service and policy outputs which were insensitive to local needs and unsatisfying to local voters. There is substantial evidence that Mayor Callisaya was inadequate as a manager: he expanded his payroll by over 100% without significantly increasing the administrative ability or technical skills of the local executive branch; and he squandered huge sums of money on pet urban development projects, like a municipal coliseum, the toboggan, and municipal sewerage, which suffered significant cost overruns and were badly conceived and executed. These white elephants stood unfinished or broken, in ugly testimony to his administration’s penchant for gesture over judgment. Unfortunately, the charges against Callisaya did not end there. Numerous sources, including public officials, municipal councilmen, and even the mayor’s political boss at the CBN, testified to Callisaya’s corruption, and a national audit of municipal accounts charged him with malfeasance. The example the mayor set spread throughout his administration, until it formed a chain of corruption in which everyone from municipal truck drivers to experienced technicians demanded paybacks before they would unload supplies, draw up technical studies, and otherwise provide the services funded by city hall.

Across the hall from the mayor’s office, the municipal council were a good-natured and ineffective bunch. The councilmen themselves readily admitted that they had little knowledge of the workings of their municipality, and displayed no interest in informing themselves. Regardless of party, the councilmen were oblivious to the powers and privileges inherent in their post as municipal legislators, and were content to react to the requests they received from time to time from the mayor’s office, or occasionally from a community organization. Authoritative observers in Viacha called the municipal council “ignorant and imperceptive”, unsophisticated and easily manipulable. One could only expect uninformed councilmen who showed so little initiative to be uncritical agents of the parties that got them elected. Respondents from both the city and countryside testified that the council was indeed insensitive to local needs, unresponsive to community requests and beholden to their parties, and increasingly their loyalties belonged to just one party. When opposition representatives began to question municipal policy, the

²⁸ Luis González, departmental director, Social Investment Fund, interview, Viacha, 17 March 1997.

²⁹ Interview, Viacha, 19 March 1997.

CBN/UCS hired them and members of their families, and the councilmen were thereafter quiet. The Viachan municipal council was thus the residual in the local political equation, unable to act as an independent deliberative and policy-setting body. It offered no institutional or political counterweight to the power of the mayor, and effectively short-circuited the first layer of checks and balances designed to protect local government against executive abuses of power.

The next layer of checks and balances was based on the oversight committee, and its interactions with the mayor and municipal council. But in Viacha this tier was broken, and Viacha suffered from two OCs. OC1, the 'official' OC recognized by both city hall and national government, was completely uninformed and operationally inert. Its president was unaware of the financial details of the projects initiated during his tenure, and professed no knowledge of such basic information as how many people the municipality employed, what their salary levels were, and whether or not any information or accounting systems had been implemented recently. An examiner recently arrived in Viacha, he did not even know the results of the previous elections. Rural community leaders testified that OC1 was ignorant of their needs and ignored their requests, and prominent urban observers did not even know of its existence. Uninterested in municipal affairs and insensitive to public opinion, he not only failed to counterbalance the mayor's power, but actively endorsed his demagogic manipulations, including notably the beer-soaked planning exercise that led to theft and manslaughter. In this way he earned the illegal salary that the mayor paid him. The opposition OC, by contrast, was considerably more active, intent on providing local oversight; and despite the mayor's attempts to sideline them, they were surprisingly well-informed, brandishing the municipal budget and readily quoting project details. Unrecognised by the national and local state, however, and thus excluded from the processes of local government, OC2 was ultimately powerless to intervene in the formulation of municipal policy.

The institutional mechanism for the production of local government in Viacha was thus doubly short-circuited. Having freed himself from political oversight, the mayor was able to block social oversight of his activities by dividing civil society against itself, neutralizing its mechanism for accountability, and hiring his own. The stress placed on Callisaya's role is intentional. These events were neither coincidental nor casual, but rather engineered deliberately by a canny political strategist in order to free his hand. The corruption of the entire municipal apparatus subsequently, and naturally, ensued; and the policies and investments that local government carried out in Viacha were grossly inefficient, largely ineffective, and more importantly bore little relation to public need.

This story begs the deeper question of how such a situation came about. What incentives were there for such behaviour? What social and economic factors sustained a municipal government which should have collapsed under the weight of its own ineptitude and corruption? The dominant actors in Viachan society were potent industrial-political groups which had stormed into the vacuum left by the withdrawal of the church and military from public life. The most powerful of these were the CBN-UCS and SOBOCE-MIR complexes. In order to understand their role it is important to consider first how Viacha fits into the larger context of Bolivian national politics. Viacha's proximity and ease of travel to La Paz, and the increasing migration of the owners of its factories and businesses to that city, made its politics the by-product of the

political strategies and dynamics of the capital. Viachan local parties were mere franchises of their national organizations. They were not mechanisms for aggregating individual preferences and transmitting them to the institutions of local government, nor did they champion local causes. They were, rather, the tools by which the consequences of national struggles for power and influence were played out locally. Local party leaderships were made and unmade on the whim of national and departmental leaders based on loyalty, electoral success, and subservience. The MIR, for example, was not permitted to hold a meeting without explicit approval from La Paz. The only exception was the UCS, which was run out of the CBN bottling plant.

National party bosses expected their local operatives to conduct electoral campaigns while doing nothing to constrain the party's strategies in La Paz. They were uninterested in the problems of government in Viacha, and provided local leaders with minimal resources with which to do their jobs. Of the two imperatives, the latter was by far the more important – silent electoral ineptitude was preferable to winning elections and causing a stir. The leaders of the MIR, for example, essentially closed down the local party after losing a heated political battle against a UCS mayor, among others, over the cement factory's pollution. The battle had been politically costly for a leftist party with environmentalist pretensions, and the owner of SOBOCE wanted no surprises to upset his vice-presidential ambitions.³⁰ The retirement from politics of the only force capable of acting as a counterweight to the CBN-UCS freed it to pursue its interests without external constraint. In Viacha the party's interests were identical to those of Juan Carlos Blanco, its paramount leader. His goal was to improve his standing within the party by delivering large majorities in Viacha, and he exploited the considerable resources of the bottling plant, as well as the municipality, to win over voters.³¹ In the CBN, Blanco had a business, with its large labour force, its wide distribution network, and the enticement of beer, that was particularly suited to proselytism. With such a narrow objective and a time horizon never more than an election away, the UCS proved as uninterested in Viacha's collective welfare as it was in its long-range development needs. That local government proved a disaster is thus not surprising.

By 1997 Viachan civil society seemed absent from the government process, cowed by the tight grip of party, government and brewery on local affairs. Callisaya had skilfully manipulated the hostilities between city and countryside and set them fighting against each other, and there was, it seemed, no remedy to UCS misrule. Then, to the surprise of many, the grass roots flexed their muscle and proved that they were not powerless after all. Rural communities might be too distant and poor to confront their government, but urban society was not. Following a series of town meetings that aired their grievances, the people of Viacha rose up against their mayor on the 22nd of March and marched on city hall demanding his resignation.³² A crowd of several hundred people paraded through town and then massed in the central square opposite Callisaya's office loudly and angrily demanding his departure.³³ A few days later he announced that he was stepping down to run for a congressional seat; and then, in the June general election, Viacha recorded a huge swing from the UCS to Condepa. It added insult to injury and, coming after an expensive and frenetic electoral season, was a slap in the face to a party which had, literally,

³⁰ Samuel Doria Medina was the MIR's vice-presidential candidate in the 1997 general election.

³¹ Juan Carlos Blanco, CBN bottling plant director, interview, Viacha, 16 October 1997.

³² 'Los vecinos viacheños marchan hoy para que se vaya su Alcalde', *Presencia*, 22 March 1997.

³³ Estimates of crowd size vary from 150-200 according to UCS spokesmen, to 500 according to OC2.

given away so much. The experience suggested that in the new context of local government in Bolivia no local government, no matter how rich or powerful the interests that supported it, could govern against its people for long. The UCS had taken voters for fools, and the voters had had their revenge.

5. Charagua

5.1 The District

The road to Charagua is an orange ribbon of earth that carries travellers away from the tropical exuberance of Santa Cruz, deep into the scrub grass and low twisted bushes of the arid Chaco. Located in the south-eastern corner of the country, Charagua is the second municipal district of the Cordillera province and shares a long border with Paraguay. It boasts the biggest municipal area in Bolivia – its 60,000 km² make it larger than Holland, Costa Rica or Denmark, and about twice the size of Belgium. Only 13% of its 18,769 inhabitants live in the town of Charagua, with the rest scattered across 80 indigenous and rural communities, a handful of newer Mennonite communities, and the smaller town of Charagua Station. The economy is accordingly rural, with agriculture, cattle-ranching, education in the form of a teacher-training college, and commerce the main sources of income. Of these only cattle-ranching achieves a respectable scale, with a few families raising thousands of heads of cattle on tens of thousands of hectares. Most of Charagua's agricultural sector is planted firmly in antiquity, with Guaraní peasants farming communal lands without the benefit of the plough, let alone tractors or irrigation, relying on their traditional stick method to break the earth.

The population of Charagua is overwhelmingly Guaraní, with Ava-Guaraníes in the northern foothills and Tupi-Guaraníes in the southern Izozo region. Although official business is conducted mostly in Spanish, the principal language of the region is Guaraní. Quechua, a distant third, is heard primarily in the urban market. The town of Charagua lacks industry and has little commercial activity. Its importance comes rather from the fact that it is the seat of power of the landowning cattle families who traditionally dominated the region and its inhabitants. Charaguan townsfolk think of themselves as either white or mestizo, in strict opposition to the Guaraní hinterlands, a division which is clear in the minds of townspeople and Guaraníes alike.

Despite the huge landholdings of some Charaguans, the town itself retains a curiously classless, colourless air, its low one and two-story buildings fronted by shaded porches often in need of a coat of paint. There are no conspicuous displays of wealth, and no abject poverty is visible. This is partly because its richest inhabitants maintain only secondary homes in town, but is also indicative of a chronic rural crisis to which we return below. Despite its unprepossessing appearance, however, the town benefits from a significantly higher level of public service provision than do its surrounding communities. Charagua town's index of Unsatisfied Basic Needs is 0.453, tenth best for Bolivia as a whole and very similar to the scores of Bolivia's three main cities. By contrast, the value for rural areas is 0.926, ranking Charagua 100th amongst Bolivia's 311 municipalities.

Despite this lack of resources, by the middle of 1997 Charagua had acquired a reputation within

the department of Santa Cruz, and increasingly nationally, of being well run by a competent and enthusiastic mayor. The mayor came out top in a ranking of all of the mayors in the department. "He is a very good administrator," said the departmental head of the Social Investment Fund, "and a very active person. ...He has a very good image – even people from rival parties recognize this."³⁴ Decentralization had increased municipal resources by some 6500% year-on-year, and yet the funds appeared to be well-spent. Local government had resisted the temptation to inflate and had managed to keep operating costs to just 4% of total budget. A series of municipal audits carried out by the national government on medium-sized municipalities supported this view.³⁵

The foundation of good local government in Charagua was a strong social consensus which upheld a political coalition between the centre-left *Movimiento Bolivia Libre* (MBL) party and the centre-right *Acción Democrática Nacionalista* (ADN) party. This consensus consisted of two closely-related components: (i) a political covenant between the MBL and the Guaraní People's Association (APG), whereby the former allowed the latter to choose candidates for its local electoral list in exchange for Guaraní votes in municipal elections; and (ii) the animosity felt by rural inhabitants of Charagua towards the MNR party and its previous mayor, who was widely accused by Guaraníes of racism and brutality towards rural villagers.³⁶ To this second point was added a more general, if less acute, rejection of the local MNR by townspeople who associated it with an increasingly unpopular national government. The nature of this social and political consensus is central to understanding the success of local government in Charagua. Its immediate results were to allow the MBL, which had never done well in Charagua, to win almost as many votes as the first-place MNR, and then to propel the ADN and MBL into coalition government behind an MBL mayor.

The deeper background to Charagua's municipal dynamics is a Guaraní cultural renaissance which began in the early 1980s and gathered pace in the 1990s. The Guaraníes, who as a people had managed to survive Spanish colonialism successfully for over three centuries, succumbed throughout the 19th century to the *criollo* republic's potent mix of Christian conversion, government territorial annexations, and cattle ranchers' land purchases and confiscations, all backed by repression of the Bolivian army.³⁷ With their spears and arrows the Guaraníes were no match for the firearms of the state, and at Kurujuky in 1892 an indigenous uprising led to a massacre which almost destroyed the Guaraní culture.³⁸ Coming as it did after a long string of setbacks, Kurujuky cast the Guaraníes onto the margins of society, where they survived as the perpetually indebted slaves of large landowners or as subsistence farmers in isolated rural communities. The Guaraníes spent the better part of a hundred years in material and spiritual

³⁴ Dr. Fernando Muñoz Franco, interview, Santa Cruz, 31 March, 1997.

³⁵ Secretaría Nacional de Participación Popular, *Matriz Resumen de las Auditorías SAYCO Practicadas en Gobiernos Municipales Categoría "C" (Pob. Mayor a 15,000 y Menor a 50,000 Hab.): Informe SCAE/IEA*, 1997.

³⁶ Eulogio Núñez, CIPCA director (NGO) and municipal adviser, interview, Charagua, 2 April 1997.

³⁷ Xavier Albó, *Los Guaraní-Chiriguano: La Comunidad de Hoy*, CIPCA:La Paz, 1990, pp.19-22. Albó is acknowledged to be one of the premier authorities on Guaraní culture in Bolivia.

³⁸ Fr. Gabriel Sequier (Tianou Pirou), parish priest, interview, Izozo, 3 April 1997. Sequier is another Spanish priest who has dedicated his life to understanding and working with the Guaraní people.

deprivation, a proud and bellicose people beaten into docility, lost in a sort of collective amnesia triggered by their defeat.³⁹

After the chaos of successive *coups d'état* and hyperinflation, the 1980s witnessed a re-birth of Guaraní consciousness and Guaraní pride. The *Asamblea del Pueblo Guaraní* (APG) was formed in 1986-7 to coordinate Guaraní affairs, foment cooperation amongst communities, and articulate Guaraní interests. The moment was evidently ripe for such an organization, and the APG flourished and very quickly established a central role throughout the Guaraní world from the most mundane community tasks to the international arena via its representation of Guaraníes across Bolivia and Paraguay. Thus when the MBL sought to mount an electoral coup in Charagua by capturing the hitherto ignored Guaraní vote, it found in the APG an interlocutor which not only spoke with authority but possessed the legitimacy and organization to mobilize a highly dispersed population. When the Guaraníes voted for the MBL, they also voted for the Guaraní candidates that the APG had chosen. The party's vote increased by over 360% in the 1995 local election.⁴⁰ Rural voters and community leaders I spoke to reported satisfaction with their electoral success and the subsequent government's performance. With the presence of Guaraníes on the municipal council for the first time, they felt not only that their voices were heard but that they had assumed control of the municipality. "Councilmen are sent to represent *us*. They pay attention to us and not to the parties – they do what *we* want."⁴¹ Quietly, tenuously, but with evident pride, the Guaraníes were emerging from obscurity to take their place at the center of Charagua's political life.

5.2 How Government Works in Charagua

Primary evidence abounds that local government in Charagua was of high quality. Through dozens of hours of interviews with authorities and citizens from all walks of Charaguan life not a single accusation of official corruption surfaced. This is surprising given the state of public disaffection with elected authorities in Bolivia, as well as Charagua's inexperience managing large financial flows. Respondents from communities scattered throughout the municipal area reported satisfaction with their local government, and felt that their concerns were being addressed by municipal policy. The mayor, working in concert with the oversight committee, had implemented an investment planning system which the authorities and grass-roots alike agreed was transparent, equitable, and highly participative. The projects which resulted from this process pleased citizens both because they responded to real needs, and because of the importance given to local opinions in their conception and design. Informed observers with a variety of political and organizational affiliations agreed that municipal authorities were well-meaning and effective, and that the quality of the investments and services they provided was correspondingly high.

Good government resulted from the interplay of the institutions of local government – the mayor, municipal council and oversight committee – operating in a political context dominated by the

³⁹ Javier Medina (Ed.), *Arakuarenda: Un Centro Intercultural de Capacitación Para el Desarrollo Guaraní*, Arakuarenda/FIS:La Paz, 1994, pp.19-30.

⁴⁰ Corte Nacional Electoral (Dirección de Informática), *Estadística de Votación Absoluta, Elecciones Municipales de 1993 y 1995*. [Database]

⁴¹ Pablo Diego Vaca and David Segundo, community leader and adviser, interview, Yapiroa, 3 April 1997. Local leaders held similar views in rural communities throughout Charagua, including Kapiwasuti, Taputamí, Acae and El Espino, among others.

principle actors in Charaguan society – cattle-ranchers and the APG. The mayor's office, the executive branch of local government, was institutionally weak in Charagua, suffering, as Saucedo admitted, from poor human resources and relatively low administrative capacity. This was largely compensated by the virtues of the mayor himself, who was widely admired as energetic, honest, and ambitious for his municipality. The strength of his electoral mandate was an additional advantage. Hand-picked by the APG leadership, Saucedo was the white face of Guaraní political power in Charagua. His nomination by an organization which embraced the majority of the population and reached deep down into its community structure conferred upon his office immense legitimacy. At the lowest, grass-roots level, the people trusted their mayor. This proved instrumental in eliciting the ideas and preferences for municipal investment of communities more used to the violence of the state; their subsequent cooperation during project implementation was similarly forthcoming. As a result, the mayor was able to integrate the demand from dozens of rural communities into an investment strategy that reflected their needs: human development, productive projects, and road maintenance. And he was also able to make demands of them – to donate labour and materials, but more importantly to exploit public investment to their benefit. If a school would be built, they had to get educated. The fact that the municipality now spoke with the voice of the poor illustrates the degree to which power had shifted in Charagua. Town hall was no longer the domain of the *ganaderos*.

Like the mayor, the council worked closely with community leaders and listened carefully to grass-roots demand. Like the mayor, councilmen were held in high esteem in their constituencies as hard-working, honest and able. Villagers judged them effective, and were pleased with the outcome of their work. But in institutional terms the municipal council was perhaps more remarkable than the mayor, as the APG's influence crossed party boundaries and overcame well-established political and ideological rivalries. The two MBL and one MNR Guaraní councilmen essentially ignored their parties once elected, admitting enthusiastically that they reported to their superiors in the APG and to no one else. They formed a majority on the council of five and worked, along with the ADN representative, to advance the interests of their rural communities. The presence of the Guaraníes, and the way in which they operated, was clearly the key to the municipal council's effectiveness. Once again, the foundation of its electoral mandate in the APG, and the legitimacy that this bestowed upon its efforts, allowed it to work closely with village authorities to detect and prioritise needs throughout a large municipal area. This led to a process of feedback in which municipal plans were constantly reviewed and revised to better respond to changing community conditions.

If the Guaraníes controlled the municipal council, they completely dominated the oversight committee. With seven Guaraníes out of eight members, the OC was essentially an arm of the APG cast in the guise of a municipal institution. Its authorities were APG authorities, and its president, Florencio Antuni, spent the first part of his term as president of the APG as well. Whereas the mayor and municipal council represented the APG's positions in local government, the oversight committee essentially was the APG. Whereas Guaraní interests were able to transcend party politics in the municipal council, the OC was overtly apolitical. The grass-roots perceived the OC as they did the APG – representative, honest and as practically an extension of their own will. Antuni could exploit the APG's organization directly to ascertain village opinion, and to mobilize Guaraníes from the grass-roots upwards. This placed him in a strong

position vis-à-vis the mayor and municipal council, and he knew it.

But ironically, the electoral underpinnings of power in Charagua were such that the OC did not find it necessary to assert itself. Bolivian local government is designed around checks and balances, where the different institutions of government represent competing interests. The role of the OC is as a veto-wielding upper house of parliament where rural populations are over-represented; it is able to paralyse municipal business if government proves corrupt or insensitive to its constituents' needs. But in a municipality where both municipal council and mayor sprang out of the APG, the interests of the rural majority were already well represented. There was little role left for an OC which also spoke for the countryside. Its mere existence probably gave rural communities greater weight in the competition for public resources. But its efficacy was ultimately of second-order importance to the question of government effectiveness. With their complementary roles in policy planning and execution, it was the mayor and municipal council that jointly determined local government's success in Charagua. Of these the mayor, the protagonist who helped to plan investment and then carried it out, was probably more important. To the extent that the council provided oversight for a mayor already watched over by the APG, it was somewhat redundant. But the common political roots of the two institutions render such distinctions both difficult and ultimately futile. The strength of the mayor was based on the social consensus represented by the governing majority in the municipal council. Both institutions were ultimately founded in the social network of the APG.

The Guaraní assault on local politics began only in 1995. Their history over the previous hundred years was a long, sad tale of official oppression and abandonment. What changed? What underlying economic and social conditions allowed the Guaraní people to successfully occupy the central spaces of local power? The story most obviously begins with the foundation of the APG, discussed in detail above. Built on the pre-existing social structure of Guaraní communities, the APG quickly gained a legitimacy and organizational strength which belied its youth. The consensual basis of its decision-making, along with the natural level of solidarity amongst Guaraníes, greatly facilitated the APG's ability to coordinate their aspirations and actions over a sparsely inhabited area larger than some European countries.

But this is clearly insufficient as an explanation of political change. The urban elite in Charagua town had dominated local life for decades, through wars and revolution, and the rise of a network of rural communities did not represent a serious challenge to their supremacy. In previous times the Cattle Ranchers' Association (AGACOR) might have squashed the APG, or easily excluded it from power. That it made no such attempts in 1995 is indicative of the depths that the cattle economy, and cattlemen's morale, had plumbed. Marked by low commodity and land prices, and an exodus of the ranchers' most talented children to the city, the rural crisis was over a decade old and getting worse. Once the rulers of the southern plains, with vast landholdings and herds that numbered in the tens of thousands, Charagua's *ganaderos* were by 1995 the dispirited victims of years of low food prices that had slashed incomes, property prices, and borrowing ability. As wealth passed from the countryside to the cities, the children of the ranchers left the farm in search of education and careers in the city. For many, farming would become a hobby. As the value drained from the land, the *ganaderos* found that they had much less invested in their farms, and thus much less interest in controlling local politics. And thus when a conciliatory

APG emerged to claim the municipality for itself, they found that they had no strong reason to oppose it.

6. Theorizing Local Government at the Extremes

At this stage we must abstract away from the particulars of actors and institutions in order to offer a theoretical explanation of why each government worked as it did. This section contrasts the social and institutional characteristics of Viacha and Charagua under three headings – the local economy, politics, and civil society – in a search for underlying patterns that explain municipal performance. The contrast inspires a conceptual model useful for understanding local government, which can explain divergent performance in our two districts.

6.1 The Local Economy

The economic differences between Viacha and Charagua are huge. The former district is dominated by an industrial city, home to two of Bolivia's largest businesses and a well developed and vibrant private sector. The latter is a rural district dominated by cattle ranching and subsistence farming, centred on a rural town that boasts little commerce and no industry. With respect to local government, the fundamental difference between the two is in the economic interest that dominates each and its role in the local political system. The vast majority of Charagua's wealth is held by the large landowning cattle-ranchers who traditionally ran the region. But by 1997, after years of economic hardship, the *ganaderos* were impoverished and dispirited. Their power was at a nadir and both they and the Guaraníes knew it. Viacha, by contrast, had in the CBN a firm which was in clear economic and political ascendancy, which dominated the city's political life like few others in Bolivia.

Even though the brewery's assets and income were a considerably smaller share of the local economy than those of the cattle-ranchers in Charagua, its single-minded exploitation of its human and financial resources, combined with skilful political tactics, allowed it a degree of influence over local politics and government far in excess of what Charagua's ranchers managed. With fiercely partisan aggression, the CBN went to great lengths to undermine or discredit opposition political parties, including bribing their councilmen and attacking their financiers. There was no pretence of even-handedness or objectivity. All of its public actions formed part of a simple strategy designed to capture votes and promote the UCS-CBN brand. Through these stratagems the CBN won for itself a dominant position as the near-monopsonistic provider of political funds to the local party system, a role that the brewery was only too happy to exploit. Thus what was in political terms an economic monoculture became, at least for a time, a political monopoly as well, as the CBN-UCS stifled competition and steadily raised the price of opposition and dissent.

By contrast, Charagua's ranchers eschewed monolithic political action in favour of a gentler and more diverse approach better suited to a pluralistic group of businessmen. Unlike the CBN, they were not, after all, a firm, but rather a collection of independent businessmen who did not face identical business conditions, and accordingly did not act politically or commercially with a single will. AGACOR members could be found in all of Charagua's political parties. By

supporting a variety of parties, ranchers contributed to opening the political regime in Charagua and encouraging competition. In business also, AGACOR helped Guaraní farming communities to drill rural wells and gave non-members technical and veterinary assistance. And when their rivals won power, far from attempting to undermine them the ranchers found an accommodation and were able to work with the new municipal authorities.

This analysis suggests a political analogue of the neoclassical argument in favour of the efficient allocation of resources via open and competitive markets. Parties – especially those in opposition – are not self-financing entities, and require resources in order to mount campaigns and generally carry out party functions. Where a municipality's economic landscape is dominated by an economic hegemon, that hegemon will tend to reduce political competition by financing a favoured party, and may well abuse its position in other ways in order to hinder its political rivals. Thus monopsony in the provision of political funds will tend to lead to monopoly in the party system. Such a reduction in political competition will reduce the level of oversight that local government institutions are subjected to as a by-product of political competition, and may well leave sectors of the population unrepresented and effectively disenfranchised. An open and competitive local economy, by contrast, promotes competition in politics, leading to an increased diversity of ideas and policy proposals that compete for public favour, as well as improved public accountability for government officials. Where an economic hegemon and a dominant political party actively collude, the effects can be multiplicative – together they can distort the local party system, capture the institutions of government, and deform the governance process to their own ends, as happened in Viacha in the mid-1990s. Charagua was also run on such a basis for much of the twentieth century, with comparably deleterious effects on local policy-making, until long-term economic changes paired with political reforms to end the cattlemen's dominance.

6.2 Local Politics

The analysis of local politics can be usefully divided into systemic issues and the party system *per se*. The former refer to the ground rules of electoral competition, and its fairness and openness to both parties and voters, while the latter refers to the nature of local party organizations and how they compete. Bolivia enacted a number of systemic reforms in the 1980s and 90s which affected municipalities nationwide. These included reforms to electoral laws to increase transparency in the vote count, ensure voting secrecy, provide for independent oversight of the voting process, and increase the number of polling stations in rural areas. But they also included non-electoral reforms, such as a new, efficient citizen registration process (which in turn permitted voter registration), and the extension of rural literacy programs (especially amongst women). Their collective effects were a broad increase in voter registration and improved voter participation. But the secret to the success of these reforms lay in large part with the design of the decentralization program itself. The LPP brought rural areas into the municipal system, and then devolved significant authority and political responsibility to them. Whereas before rural dwellers voted, if at all, for cantonal officials who had neither resources nor political power, now fully-fledged municipal governments with real resources and legislative authority were at stake. The prospect of gaining control over these drove political parties into the countryside in search of rural votes. The prospect of benefiting from them pushed villagers and farmers into municipal politics and into the voting booth. In this way the concerns and opinions

of the rural 50% of Bolivians were brought into the political mainstream as electoral politics penetrated deeper and deeper into the hinterland.

Charagua provides a case study of this process. Registered voters increased by 72% between the 1993 and 1995 elections, the great majority of whom participated, with an increase in suffrage of 139% and absenteeism falling by one-third.⁴² The reforms which opened politics to a new electorate simultaneously established the conditions for fair and open competition. The old methods of bribery and intimidation no longer worked in Charagua; the MNR's attempt to bribe Councilman Vargas failed because, given electoral transparency, the transaction would have been apparent and would have exposed Vargas to the voters' wrath.⁴³ Therefore the Guaraní majority was able to overturn the cosy duopoly which had run the town for so long. In this political aperture, the parties that underwent comparable openings benefited most, and those which attempted to carry on as before suffered. Thus the MBL, previously irrelevant in Charagua, struck a deal with the APG and captured the majority of new votes, while the MNR lost its local pre-eminence and was thrown out of government. But the MBL was more than tactically clever – it had deep roots in rural life through its affiliated NGOs, which had earned the trust of Guaraníes after years of patient work. The presence of such a party not only facilitated the alliance between the APG and the political establishment, but was instrumental in raising the quality of government after the election. NGOs like CIPCA and *Teko-Guaraní* specialized in planning and carrying out rural projects. The skills they had developed, and their relationships with rural communities, were instrumental to the transformation of Charagua into an effective municipality that served its rural majority.

Decentralization, by contrast, contributed to a very different process in Viacha. Although voter registration did increase, Viacha's gain of 22% was an order of magnitude lower than Charagua's, while absenteeism remained roughly static.⁴⁴ This reflected the fact that Viacha's politics remained a closed affair, inured to the concerns and priorities of the rural majority. This, in turn, was largely due to Viacha's status as a comparatively small city dominated politically by the imperatives and dynamics of the La Paz-El Alto conurbation. Viacha was sufficiently close to the capital, and transport links sufficiently good, that national political leaders could intervene in local affairs at relatively low cost. Because it offered a fairly easy way to score political points without the public scrutiny that they were subjected to at home, party leaders essentially ran their Viachan affiliates from La Paz. They allowed their subordinates in Viacha very little room for initiative, reducing them to spokesmen and messengers; and with cavalier disregard for the popular will, their directives were based on strategies that responded to events in the capital or nationwide, and not on the needs and circumstances of Viacha. In this way, more powerful actors invaded the local political stage, trampling on local concerns in the thrust and parry of a drama that was as threatening as it was foreign.

A particularly lamentable consequence of this intervention was that the legal-electoral reforms detailed above were insufficient to counter the CBN-UCS's capture of local government. Under normal conditions, political competition and openness could be expected to catalyse a cleansing of the political system. But a substantive political choice is required for this mechanism to

⁴² Corte Nacional Electoral (1993/95).

⁴³ Abelardo Vargas Portales, municipal council president (ADN), interview, Charagua, 1 April 1997.

⁴⁴ Corte Nacional Electoral (1993/95).

operate; and in Viacha the choices on offer were wan simulacra of political options, marionettes whose strings jerked across the horizon. The fact that the Viachan party system was dominated from beyond implied that local party leaders did not innovate in search of new voters. They did not have the operational independence to strike a deal along the lines of the MBL's in Charagua, and any such agreement that might occur was likely to be rejected by a national leadership more concerned with avoiding embarrassment than policy experimentation. The generally poor quality of Viachan political leaders – another by-product of political dependence – made the leadership even less likely to tolerate local originality. Thus, while decentralization created many opportunities to make political gains and win votes in Viacha by reaching out to newly incorporated communities and addressing their concerns, the local establishment's efforts were limited to mundane extensions of campaign rallies and sloganeering to the countryside. Voters offered a false choice between options devoid of local content eschewed politics altogether and dropped out of the system; and so Callisaya was able to perpetuate his misrule until popular revulsion spilled into the streets and forced him from power.

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

But a competitive party system must be in place if the full beneficial effects of systemic opening are to occur. Political entrepreneurship which attempts to offer dissatisfied voters a political alternative will be thwarted by a party regime which is monopolized by one actor. Viacha provides a compelling example of how competition in a political environment which is formally open can be subverted through the systematic use of bribery and intimidation by a dominant faction to undermine substantive opposition. In a way which is, again, closely analogous to the working of competitive markets, a competitive political environment will encourage policy entrepreneurs to innovate in the hopes of capturing electoral share from their rivals. Party systems characterized by multiple participants and free entry, featuring political agents who succeed or fail based on their ability to attract votes, will tend to serve the welfare of their constituents better than those dominated by a single actor, and hence a narrower range of policy options; while a competitive local economy, as discussed above, will tend to promote a competitive political system.

If the first two conditions refer to complementary aspects of competition in the local political

economy, the third consideration can be characterized as a deepening of the logic of decentralization from the administrative to the political realm. This is the seemingly obvious point that a district's local political dynamic must be driven by local concerns and local incentives if it is to benefit local inhabitants. A policy discourse which is carried out in terms natural to a different city or larger political unit will result in a political debate essentially foreign to the priorities of local people. When carried out on a small scale, this will work to the detriment of offending parties, as the MNR discovered when it attempted to micromanage its Charaguan affiliate from Santa Cruz after decentralization. But where such behaviour is widespread in a municipality's political establishment the damage can be considerably larger. As Viacha vividly illustrates, the beneficial effects of systemic opening can be undermined as local politics becomes a sterile and corrupting battle-by-proxy. In such circumstances, the process described above by which competitive politics leads to effective and responsive local government will be short-circuited, as politicians ignore the voters and voters lose faith in their leaders. Moreover, such a predicament may constitute a stable equilibrium, as parties oblivious to local discontent fail to capitalize on the electoral opportunity it represents. The question is why parties would err in such an obvious way in the first place. A compelling answer lies in their own organizations and internal power structures. Political parties are by nature national organizations, and the devolution of authority required for municipal politics to take on its own, self-sustaining dynamic requires an internal decentralization which many party leaders will resist as an unacceptable erosion of their power. But this is, of course, precisely the point, and confirms a much larger truth about decentralization: in order to work it requires people who hold resources and power to let go, and they will always have strong reasons not to.

A final consideration is the common counterclaim that the fundamental variable explaining government performance is the quality of local political leadership. This line of reasoning focuses primarily on the character of the individuals concerned. Hence, the principal difference between Viacha and Charagua is that the former suffered a corrupt mayor whereas the latter benefited from an honest and able one. A simple exchange of mayors (and other institutions of government) between the two would thus have restored probity to Viachan public life and plunged Charagua into the abyss. I reject such a position as simplistic and short-sighted, and prefer to treat political leadership as an endogenous variable determined by the economic, political and social processes analysed above. In this view, politicians can be regarded as mobile agents who are exogenously determined as "good" or "bad". The question then becomes, what are the characteristics of municipalities where bad politicians gain control of public institutions? and where and why do good politicians prevail? In addition to being more interesting, this question permits a deeper, multidimensional analysis of local government which exploits the empirical insights developed above. Building on the previous analysis, the answer can be stated simply: corrupt political agents will have far more opportunities to enrich themselves in municipalities where government oversight and accountability are crippled by economic monopoly, distorted political competition or deep-set social antagonisms (see below). In districts where competition and transparency naturally lead politicians to concentrate on satisfying voters' needs, bad political agents will dedicate themselves to other pursuits or leave. I return to this point below.

6.3 Civil Society

The conspicuous economic and political differences between Viacha and Charagua are matched by the disparate characteristics of local society in each. In Charagua the Guaraní majority formed a territorially vast network of rural villages with similar social characteristics and similar self-governing community structures. These villages had autonomously organized themselves in the 1980s into the APG, an independent civic organization which acted as ethnic advocate and regional self-government. The APG's roots in the spontaneous village traditions of the Guaraníes gave it both tremendous legitimacy and a high capacity for mobilizing the opinions and efforts of its constituents, qualities which were to prove invaluable after decentralization. Townspeople formed the other important local group, with their own organizational structures based on neighbourhood councils. They were less uniform socially than the Guaraníes, and less united in their goals and policy preferences. But they proved pragmatic in the end, willing to work with the new majority when the Guaraníes took over local government.

Viachan civil society, by contrast, is a heterogeneous mix, including two groups with strong and divergent identities and a long history of mutual antagonism marked by episodic outbreaks of civil violence. The city of Viacha is dominated by an urban elite which defines itself in opposition to the indigenous countryside, and which suddenly found itself miscegenated with a large rural hinterland which greatly outnumbered it. Like Charagua, urban organization is centred on neighbourhood councils, which are quick to confirm their legitimacy in national federations headquartered in La Paz. Rural Viacha is itself divided between the Machaqas in the west and the remainder, closer to the city. The former is a distinct region where the Aymará language predominates and communities are organized into traditional, pre-Columbian *Ayllus* and *Mallkus*. The latter see themselves as more modern, speak a mixture of Spanish and Aymará, and base their social organization on the peasant union's general secretariats. Of these three, the Machaqas region – the furthest from the city – is the most homogeneous and boasts the most robust social organization. The other two regions are strongly affected by the status of Viacha as an urban transition zone, an important threshold in the slow urbanization process that characterized Bolivia during the latter half of the twentieth century. The difficult journey from rural *campesino* on the altiplano to urban *vecino* in La Paz-El Alto can take several generations, and for many thousands their path takes them through Viacha. The two worlds collide in the city's markets and peri-urban areas, and in adjacent rural communities, and the resulting frictions lead inevitably to social tensions.

That these differences proved crucial to the quality of governance achieved in the two municipalities should not be surprising. Even without a theory of how society relates to government, the Law of Popular Participation marked the formal incorporation of civil society into the governance process as a governing institution, via the oversight committee. The OC is charged with overseeing all municipal activities on behalf of grass-roots organizations, and can effectively paralyse the administration if it objects. But the law did not specify the norms or procedures by which the social groups which give rise to the OC should operate, preferring to trust in their autonomous dynamics. The innate characteristics and internal workings of civil society are thus vital to the quality of government that municipalities can achieve, as both Viacha and Charagua illustrate.

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

The third trait is a minimum level of human capital amongst civic leaders such that those at the municipal level are able to interact productively with local government. This involves both cooperating with elected officials to advance policy goals, and opposing their decisions in such a way as to modify their actions. The last trait, and often the most difficult in Bolivia, is a minimum level of resources required to carry out these activities. Even if civic officials are unpaid, there remain unavoidable and non-trivial transaction costs associated with their activities. Communities in Bolivia have for the most part long-standing traditions of reciprocal generosity which cover the transactions costs of community self-government.⁴⁵ But the extension of these social institutions to the municipal level has in many places strained such finances beyond the breaking-point, making it impossible for OC presidents in districts as diverse as Viacha, Porongo, Baures and Atocha to operate effectively.⁴⁶

In these terms it is easy to see why civil society was a significant benefit to local government in Charagua, and a significant liability in Viacha. Charagua benefited from a highly structured and coherent civil organization dating from before decentralization, in which communication was fluid and norms of trust and responsibility were strong. Through it, civic and municipal authorities found it easy to stay in touch with local demand at the village level, as well as mobilize support for collective efforts. By promoting local authorities up through its hierarchy, the APG developed its own leaders internally; and the covenants it signed with NGOs provided it with the modest resources necessary to conduct its activities. In Viacha, however, civil society was functionally broken. Its constituent parts did not trust each other, and in many cases could not even speak to each other. Government travesties in the countryside went unreported in the city, where civil authorities of all extractions ignored village requests. Civic leaders with proven

⁴⁵ See Albó (1990), Chapters 3 and 8, and X. Albó, A. Godínez, K. Libermann & F. Pifarré, *Para Comprender Las Culturas Rurales en Bolivia*, 2d ed., La Paz: MEC/CIPCA/UNICEF, 1990, Part I, Chapters 2 and 3, and Part III, Chapter 4.

⁴⁶ Faguet (2002) provides details for these and other municipalities.

effectiveness at the village level were overwhelmed by the pressures and scale of municipal government. With no budget of their own, and depending on official generosity for their sustenance in the city, they were easily neutralized as independent actors by government authorities. In Charagua, a civil society which functioned organically essentially took over local government and made it work. In Viacha society was a bubbling cauldron of resentment and discontent, composed of people so mutually suspicious of each other as to make social oversight virtually impossible.

It is instructive to remember that Charagua, while in some ways more homogeneous than Viacha, is itself a heterogeneous society, with its minority *criollo*, Mennonite, Quechua and Aymara populations. Even with a well-functioning APG, it would have been feasible for Guaraní politicians to assume authority and ignore or exploit rival ethnic groups. That they did not must in part be due to enlightened leadership. But it is also due to the value of fairness in such a district. The fact that Guaraníes are not only the largest population group but form a majority of the population implies that the question of how to allocate public investment is essentially a problem of how to share out municipal resources amongst themselves. An arbitrary investment scheme such as Viacha's that produced unequal distributions would lead to strife amongst the Guaraníes, an outcome which Guaraní government would seek to avoid. Allocations that were fair amongst Guaraní communities but systematically lower for minority groups might be feasible, if administratively problematic, but would come up against a different barrier. Most of the wealth in Charagua is held by the *criollo* townspeople. Policies which discriminated systematically against them would alienate them from local government, thus depriving the latter of the technical expertise and financial resources they controlled. In addition, the moral case made by Guaraníes for decades was for an end to discrimination and fair treatment at the hands of the Bolivian state. The fact that they identified themselves for years with a given moral position (fairness) gave them a strong incentive once in power to defend it; and, coincidentally, the party which carried the APG to power – the MBL – preached fairness and transparency during the years that it was effectively shut out of power. Taken together, these considerations provided Guaraní-dominated government with strong incentives to fairness in government, and to the transparency with which that fairness might be announced to the electorate.

In Olson's terms, there existed in Charagua an "encompassing interest" – i.e. one whose incentives were consistent with the growth of the collectivity.⁴⁷ Viacha, on the other hand, had no encompassing interest, only narrow interests which sought to exploit power for the short-term gain of narrowly-defined groups. This explains why the role of history varies so much between the two districts. For centuries both had suffered from state oppression, extremes of inequality, and periodic outbursts of civil violence. But Charagua's history was if anything more repressive and more cruel than Viacha's, leaving a potentially deeper reservoir of resentment. Yet it is in Charagua that the victims of oppression were able to overcome their past sufficiently to reach an accommodation with the urban elite, whereas in Viacha lingering social tensions contributed to government breakdown. In Charagua the group that stood to benefit most from government formed the majority, and therefore had an encompassing interest in its success. In Viacha, groups that lacked such interest fought for and abused municipal power to the point of disaster.

⁴⁷ M. Olson, *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships*, New York: Basic Books, 2000, Chapter 1.

6.4 A Conceptual Framework

Local government is a hybrid. Its function is to produce local services and policies at the intersection of two market relationships and one organizational dynamic. Hence local government occurs at the confluence of two distinct forms of social interaction. Political parties and politicians are at the centre of both market relationships. The first of these occurs between parties and individual voters. This can be thought of as the primary, or retail, political market in which parties exchange ideas and declarations of principle for votes;⁴⁸ parties compete with promises and ideas to attract voters, who vote for the party or candidate that inspires the most confidence. The second market connects parties to private firms, producer associations, and other economic and issue-oriented interest groups.⁴⁹ This can be thought of as a secondary, or wholesale, political market in which specific policies or entire policy bundles, as well as broader influence over legislators and the policy-making process, are sold to interest groups in exchange for money.⁵⁰ For simplicity, I assume from here onwards that civic organizations do not engage in this market; the assumption is supported by evidence from all of my case studies. The first of these relationships is intrinsic to the process of representative democracy. The second is derivative but compelling, arising from political parties' need to fund election campaigns and sustain party operations.

It is important to emphasize the distinction between politicians/parties and government institutions: it is politicians and not governments who compete for votes in elections; likewise, it is not governments who sell influence in exchange for campaign and political funds, but the parties and politicians who control them. I follow Downs in defining party as “a team seeking to control the governing apparatus by gaining office in a duly constituted election.”⁵¹ This raises a wealth of complex ethical issues concerning the mechanics of political finance and the limits of official responsibility. For purposes of the analysis that follows, I sidestep these issues by assuming that elected politicians engage in this secondary market as politicians, and not as governing officials, observing the organizational and behavioural constraints necessary to ensure this is so. The fact that such constraints are regularly violated in practice does not contradict the logic of the argument, nor its generality.

The second form of social interaction in local government involves civil society conceived as a collectivity or set of collectivities – as opposed to atomised individuals – and their relationship with the institutions of government. Where governance is concerned local civil society operates like a complex of organizations, aggregating preferences and representing communities' needs, mediating community participation in the production of certain services, facilitating social

⁴⁸ J. A. Schlesinger, 'On the Theory of Party Organization', *The Journal of Politics*, 46 (1984), pp.369-400, describes a political market which is similar but not identical.

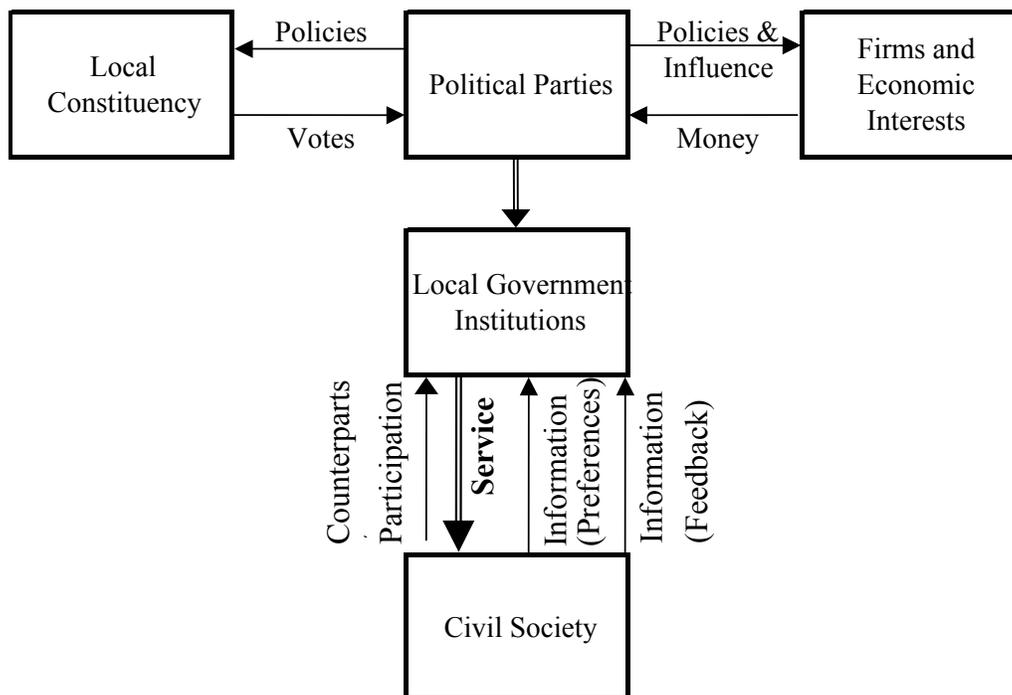
⁴⁹ Interest groups form around specific issues as well, although this is more common in richer countries.

⁵⁰ Schlesinger (1984) explicitly rejects the possibility of such a market, on apparently moral grounds. I assert that the party system does operate in this fashion, as even casual observation of US politics illustrates. The relationship between campaign contributions and policy-making has been tested empirically, with positive results, by U. Ben-Zion & Z. Eytan, 'On Money, Votes, and Policy in a Democratic Society,' *Public Choice*, 17 (1974), pp.1-10; K. F. Palda & K. S. Palda, 'Ceilings on Campaign Spending: Hypothesis and Partial Test With Canadian Data', *Public Choice*, 45 (1985), pp.313-331; K. T. Poole & T. Romer, 'Patterns of Political Action Committee Contributions to the 1980 Campaigns for the United States House of Representatives', *Public Choice*, 47 (1985), pp.63-111; amongst many others.

⁵¹ A. Downs, *An Economic Theory of Democracy*. New York: Harper and Row, 1957, p.25.

expression and the assertion of local identity, and enforcing political accountability on the institutions of government. It is not useful to conceive of it as a quasi-market, either internally or in its dealings with government, as its dynamics are not founded on buying and selling. It is rather a set of social organizations that develop their own norms of behaviour and responsibility organically, and over time may develop stores of trust and credibility that enhance capacity, or may not. Local government depends on the relationships that collectively comprise civil society to elicit information necessary to the policy-making process, judge the efficacy of previous interventions, and plan for the future. Politicians also depend on these relationships to gauge public satisfaction with their performance between elections.⁵² The organizational dynamic of civil society is thus intrinsic to the process of local governance. Figure 7 illustrates how civil society combines with the political markets described above to give rise to local government. In this diagram, the political parties which are most successful in competing for votes and resources win control of government institutions. These institutions then enter into a separate, more complex interaction with civic organizations that features varying degrees of feedback and social participation.

Figure 7 - A Model of Local Government



In order for local government to be effective it is important that the market relationships and logic of social representation described above counterbalance each other, and none dominate the

⁵² P. Bardhan, 'The Economics of Decentralisation', Berkeley: Manuscript, 1996 makes the similar point that for decentralization to work, local government must be sensitive to the need for drawing on localities' local trust relationships.

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

Under usual circumstances, as discussed above, civil society is at a comparative disadvantage. Despite having the most pervasive network of the three, the instruments which civic leaders can deploy to influence policy define the extremes of costs and consequences. They carry in one hand the relatively inexpensive lever of public complaint and admonishment, including encouraging the grass-roots to vote in a particular way. But experience indicates that this tool is weak against well-financed politicians with strong incentives to continue along a particular course. In its other hand society carries the threat of demonstrations and civil disobedience, culminating in civil revolt. This instrument is powerful indeed, but also very costly to deploy, and is only an effective threat when levels of social discontent have passed a given, relatively high threshold. The genius of Bolivian decentralization was to include civil society directly in the local governance process via oversight committees, thus making accountability an explicit and continuous process. Bolivian society now has a third instrument at its disposal: the ability to freeze all central disbursements to municipalities – and thus effectively cripple the vast majority of the country's districts – if it is dissatisfied with local policy. This, along with the direct insertion of the OC into the policy-making process, gives it a permanent voice and continuous participation in how it is governed. It allows public problems to be identified at an incipient stage, before discontent rises dangerously.⁵³ It also levels the playing field between the competing logics of market and representation that are intrinsic to local government.⁵⁴ But in doing so it increases the premium on social trust and responsibility and the coherence of social organizations, which enable civil organizations to effectively represent their interests before government.

6.5 Applying the Model: Viacha vs. Charagua

It is instructive to apply this conceptual framework to our two districts, to see how much it can explain. In Charagua the rural Guaraní population was strongest in the market for votes, which they distributed between two parties, while economic power was overwhelmingly concentrated in the hands of its cattle-ranchers. But Charagua's civic organizations were also in essence run by Guaraníes through the APG, an organization as structured and disciplined as it is legitimate in

⁵³ The counter-example of Viacha, with its neutralized OC, highlights this point.

⁵⁴ Indeed, the timing of events in Charagua suggest this. The APG existed from the mid-1980s, but it was not until the first election after decentralization that everything changed.

the eyes of most residents. There was thus a tension between competing sources of power in Charagua which resulted in balanced government with substantial social participation. In Viacha the panorama was utterly different. There, both the market for influence and that for votes were dominated by the brewery and its political offshoot, the UCS; while civil society was divided along ethnic and historical lines, riven with hostilities and mistrust, which rendered its organizations incapable of cooperation and unable to work with government institutions in any substantive way. Local government was thus completely unbalanced. Having mastered the market dynamics out of which government arises, the UCS was able to perpetuate its corrupt and ineffective rule in the absence of any countervailing economic, political or social forces which might have moderated it or demanded accountability. The framework thus appears to explain the quality of local government in the two districts adequately.

7. Conclusion

We must now weave together the strands of our various conclusions and consider what Bolivia teaches us. The 1994 decentralization reform made government more responsive by re-directing public investment to areas of greatest need – e.g. investment in education and water & sanitation rose after 1994 where illiteracy rates were higher and water and sewerage connection rates lower, respectively. By shifting resources towards poorer districts, decentralization made investment much more equitable across space. Uses of public monies also shifted from economic production and infrastructure to social services and human capital formation. It is an impressive fact that these shifts in national investment aggregates were driven by Bolivia's smallest, poorest municipalities investing newly-devolved resources in their highest-priority projects. But how precisely did decentralization achieve such effects? What social or political mechanisms link needs to policy? Many contributions to the literature invoke the idea that local government is 'closer' to demand, and responsiveness follows in some unspecified way. This account, though not unattractive, is insufficient as an explanation of broad behavioural change as it simply re-locates the question: Why does closeness matter? How does it operate? Why does local government behave so differently?

The second part of the paper addressed these questions through qualitative analysis of the best and worst municipalities, based on extensive interviews and detailed observation. In Viacha government was unresponsive, violent and corrupt. This was largely due to the mayor's successful efforts to short-circuit public accountability by sabotaging the institutions of government, leaving them unable to carry out their role in the governance system, and him free to deform local policy in his own and his party's interests. In Charagua, by contrast, governance was participative and responsive, led by strong institutions of government which produced high-quality policy outputs. Careful consideration of how policy is made, from the perspectives of all the major and intermediate players in each district, showed that the performance of public institutions was firmly grounded in the local economy, political system, civil society, and the interactions amongst them.

Based on this evidence, I developed a conceptual model of local government which construes local government as the nexus of two political markets and one organizational dynamic, where

votes, money, influence and information are freely exchanged. In order for local government to be effective, these three relationships must counterbalance each other and none dominate the other. Such a stable tension leads to a self-limiting dynamic where pressures from various interest groups are contained within the bounds of political competition. Breaking this tension can hobble government, leaving it undemocratic when the primary political market is impaired, insensitive to economic conditions when the secondary political market is distorted, and unaccountable and uninformed when the insertion of civil society is blocked. Because of the organizational heterogeneity of civic groups, and because the currency of their influence is often hard to measure – unlike the votes or money of other actors – this last element is the most complex and difficult to observe of the three. But as both Viacha and Charagua illustrate, it lies at the heart of the government process, playing an important role in the transmission of information and enforcement of accountability.

Now, reconstruct Bolivia's decentralization story from the ground up: decentralization created from hundreds of local governments throughout the country. These proved more sensitive to local conditions, and more accessible to lobbying and grass-roots pressure, than a central administration that simply abandoned large expanses of territory as convenience dictated. The superior responsiveness of local government is a product of the structure of local governance, in which power and influence are nurtured and ultimately channelled by voting and information. Indeed, the effectiveness of decentralization as policy reform is largely the result of enabling such local government dynamics throughout the country, where previously no policy-making took place. In so doing, decentralization engaged thousands of neighbourhood councils, peasant communities, *ayllus* and *mallkus*, as well as interest groups and business associations which previously had no voice in how their communities were run. By locating real resources and political power in municipal institutions it reached out to rich and poor strata alike offering them the means to improve their lives, and a concrete incentive to participate.

This changed not only the form of government in Bolivia, but also its substance. The relatively few central officials stationed beyond national and regional capitals before 1994 had almost no incentive to concern themselves with local demands. Career success was determined by ministerial fiat unrelated to local outcomes in distant districts. Business interests and the rich might eventually hope to gain some favours from the centre, but throughout most of the country ordinary citizens' ordinary concerns were effectively shut out. Decentralization changed this by creating local authorities beholden to local voters. Throughout the national territory it put real power over public resources in the hands of ordinary citizens, and it changed the way the country was run.

This study has ultimately been about the possibility of change, and its message is hopeful. The reform of institutions and their associated incentives can bring about significant, nationwide changes in social and political behaviour in the space of a few years. The Bolivian experiment argues against Putnamite assertions that policy performance is determined by thousand-year historical conditioning. When reform creates the opportunity to establish social organizations that improve group welfare, people can rise to the challenge and succeed. This includes the very poor and oppressed. The conditions necessary for reform to prosper are a complex of economic, political and social characteristics, and may well be lacking as often as they are present. But

under the right circumstances, decentralizing resources and political authority can generate real accountability where none existed before and improve the quality of government a society achieves.

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Interview List

Charagua

Florencio Antuni Sánchez (a), oversight committee president, interview, Charagua, 1 April 1997.

Florencio Antuni Sánchez (b), oversight committee president, interview, Charagua, 30 October 1997.

Wilfredo Anzoátegui Vaca, hospital director, interview, Charagua, 30 October 1997.

Oscar Hugo Aramayo Caballero, district director of education, interview, Charagua, 4 April 1997.

José Durán, Social Investment Fund finance director, interview, 3 October 1997.

Nelson Egüez Gutiérrez, MNR chief, interview, Charagua, 30 October 1997.

Edgar Gutiérrez Hurtado (a), ADN chief, interview, Charagua, 28 October 1997.

Edgar Gutiérrez Hurtado (b), district officer, interview, Charagua, 28 October 1997.

Juan Carlos Gutiérrez, Cattle Ranchers' Association of the Cordillera president, interview, Charagua, 1 April 1997.

Rolando Gutiérrez, municipal councilman (MNR), interview, Charagua, 2 April 1997.

Dante Hurtado Salse, oversight committee secretary, interview, Charagua, 30 October 1997.

Fernando Muñoz Franco, Social Investment Fund departmental director, interview, Santa Cruz, 31 March 1997.

Eulogio Núñez, CIPCA director (NGO) and municipal adviser, interview, Charagua, 2 April 1997.

Rosario Pantoja de Cuéllar, education center director, interview, Charagua, 4 April 1997.

Pedro Fidel Ribera Caballero, member of the directorate of AGACOR, interview, Charagua, 30 October 1997.

Fr. Luis Roma, parish priest, interview, Charagua, 29 October 1997.

Fr. Gabriel Sequier (Tianou Pirou), parish priest, interview, Izozo, 3 April 1997.

Luis Saucedo Tapia (a), mayor, interview, Santa Cruz, 31 March 1997.

Luis Saucedo Tapia (b), mayor, interview, Charagua, 1 April 1997.

Luis Saucedo Tapia (c), mayor, interview, Charagua, 27 October 1997.

Julián Segundo Chipipi, municipal councilman (MNR), interview, Charagua, 2 April 1997.

Crispín Solano Menacho, municipal councilman (MBL) and ex-oversight committee president, interview, Charagua, 28 October 1997.

Abelardo Vargas Portales, municipal council president (ADN), interview, Charagua, 1 April 1997.

Abelardo Vargas Portales and Abilio Vaca, municipal council president and councilman (ADN and MBL) respectively, interview, Charagua, 28 October 1997.

Roberto Vargas, chief financial officer, interview, Charagua, 30 October 1997.

Lt.Col. Fair Eduardo Villaroel, army garrison commander, interview, Charagua, 2 April 1997.

Community and Grass-Roots Organizations (Charagua)

Acaé: Israel Romero Macuendí and Florencio Altamirano, community leader and community member, interview, Acaé, 2 April 1997.

La Brecha: Francisco Chávez Flores, Delcio Moreno Candia, Mario Arreaga, Andrés Chávez Flores, Vicente Moreno, and Licelio Cuéllar Martínez, community leader, aid to the *capitanía*, hospital administrator, nursing assistant, school association president and Alto Izozo district deputy, interview, La Brecha, 3 April 1997.

La Brecha: Francisco Chávez, Alberto Rodríguez and Ignacio Álvarez, community leader, adviser to the *capitanía grande*, and community member, interview, La Brecha, 28 October 1997.

Charagua: Walter García Juárez and Jorge Cortez Romero, community association president and community member, interview, Charagua, 3 April 1997.

Charagua: Omar Quiroga Antelo, neighborhood council president, interview, Charagua, 30 October 1997.

Charagua Station: Abelino Sánchez Ramírez, neighborhood council vice-president, interview, Charagua Station, 30 October 1997.

Copere Brecha: Leoncio Pabaroa and Javier Yupico, interim community leader and ex-leader, interview, Copere Brecha, 29 October 1997.

El Espino: Pablo Carrillo and Marcial Arumbari, community leader and officer, interview, El Espino, 4 April 1997.

El Espino: Paul Carrillo, Ricardo Melgar and Marcial Arumbari, community leader, community member, and community officer, interview, El Espino, 31 October 1997.

Isiporenda: Hilda Ibáñez vda. de Castro and Vidal Durán Sala, community leader and adviser, interview, Isiporenda, 29 October 1997.

Kapiwasuti: Demetrio Caurey and Florencio Altamirano, president of the community irrigation committee and infrastructure officer, interview, Kapiwasuti, 2 April 1997.

Rancho Nuevo: Luis García and Hipólito Sirari Ena, community founder/adviser to the

capitanía, and community leader, interview, Rancho Nuevo, 28 October 1997.

Taputamí: Josué Aiduare and Florencio Aiduare, community leaders, interview, Taputamí, 2 April 1997.

Yapiroa: Pablo Diego Vaca and David Segundo, community leader and adviser, interview, Yapiroa, 3 April 1997.

Viacha

Reynaldo Aguilar, district director of health, interview, Viacha, 10 October 1997.

Celestino Arauz, sub-prefecture general secretary (disputed), interview, Viacha, 9 October 1997.

Juan Carlos Blanco, CBN bottling plant director, interview, Viacha, 16 October 1997.

Edwin Callisaya, mayor, interview, Viacha, 18 March 1997.

José Luis Claros, CBN production supervisor, interview, Viacha, 21 March 1997.

Donato Cuéllar Cusi, Agapito Yujra, Manuel Colque and Carmelo Quispe, municipal councilmen (all UCS), interview, Viacha, 15 October 1997.

Lt.Col. Adolfo Dávila Chacón, 1st Division, GADA 231 commander (local army garrison), interview, Viacha, 19 March 1997.

Luis González, Social Investment Fund departmental director, interview and site visits, Viacha, 17 March 1997.

Fr. Justino Limachi, parish priest, interview, Viacha, 16 October 1997.

Gladys Lozano, sub-prefect, interview, Viacha, 17 March 1997.

Maria Luisa Lucuy, district director of education, interview, Viacha, 15 October 1997.

Oscar Alfonso Magnani Meyta and Franklin Carlo Megillanes, district director of education and education technician, interview, Viacha, 21 March 1997.

Rolando Marín Ibáñez, chief financial officer, interview, Viacha, 17 March 1997.

Max Mercado Mozo, federation of neighborhood councils (2) president, interview, Viacha, 11 October 1997.

Carlos Núñez, *Sociedad Boliviana de Cementos* (SOBOCE) financial director, interview, Viacha, 19 March 1997.

Tomás Palacios Rodríguez, Condepa chief, interview, Viacha, 15 October 1997.

Luis Paz, Incerpaz CEO, interview, Viacha, 15 October 1997.

Huber Quintela Alarcón (a), municipal council president, interview, Viacha, 10 October 1997.

Huber Quintela Alarcón (b), MNR chief, interview, Viacha, 16 October 1997.

Huber Quintela Alarcón and Esteban Ticona, municipal councilmen (MNR and Condepa), interview, Viacha, 18 March 1997.

Remigio Quispe Mendoza, Walter Patzi Paty and Nemesio Mamani Fernández, oversight committee (1) president, federation of neighborhood councils (1) president and federation officer respectively, interview, Viacha, 18 March 1997.

Jorge Rada, chief financial officer, interview, Viacha, 15 October 1997.

Edgar Robles, mayor, interview, Viacha, 10 October 1997.

Antonio Soto, MIR chief, interview, Viacha, 10 October 1997.

Esteban Ticona, municipal councilman, interview, Viacha, 9 October 1997.

Hipólito Tovar, Alejandro Yujra Laura and Rony Morales Quispe, oversight committee (2) president, vice-president and officer, interview, Viacha, 19 May 1997.

Hipólito Tovar and Rony Morales Quispe, oversight committee (2) president and officer, interview and site visits, Viacha, 21 May 1997.

Community and Grass-Roots Organizations (Viacha)

Canton Chama: Severo Guarachi Ramos, community officer, interview, Viacha, 17 May 1997.

District Five: Alicia Rodríguez, women's leader, interview, Viacha, 17 May 1997.

District Six: Gerónimo Colque Velarde, community officer, interview, Viacha, 17 May 1997.

Názacara: Juan Laurel Hinojosa, Dona Francisca Plata de Maldonado, Julio Choque Huanca and Jaime Gómez, community coordinator, community leader, education officer and school director, interview, Názacara, 14 October 1997.

Rosapata: Marcelino Chuy Quenta, Cecilio Plata Flores, Teodoro Casita Ticona and Daniel Mamani Churra, community leader, community education officer, school teacher and school teacher, interview, Rosapata, 14 October 1997.

Santa Ana de Machaqa: Francisco Juliano Paz, community officer, interview, Viacha, 18 March 1997.

Santa Ana de Machaqa: José Quezo Cusi, Lorenzo Julián and Olga Cusi de Julián, community leader, teacher and electoral notary, and *Plan Internacional* liaison, interview, Santa Ana de Machaqa, 23 March 1997.

Titik'ana Tacaca: Genaro Mamani Chiri, Gumercindo Vito Guarachi, Saturnino Tola Mamani, and Doroteo Callisaya Mamani, community leader, district officer, representative to the Federation of Ayllus and indigenous communities of Ingavi Province (FACOPI), and community officer, interview, Titik'ana Takaka, 20 March 1997.

Viacha: Simon Canavi Rojas, community officer, interview, Viacha, 17 May 1997.

Villa Santiago de Chacoma: Eulogio Choque and Valentín Atahuichi Callisaya, cantonal officer and community construction officer, interview, Villa Santiago de Chacoma, 11 October 1997.

Appendix 1 – Econometric Models of Responsiveness to Local Need

Results on decentralization and responsiveness to local needs are taken from Faguet (forthcoming), which contains further details on methodology and additional results. My estimation method begins with the model

$$\mathbf{G}_{mt} = \beta_1 \alpha_m + \beta_2 \alpha^*_m + \beta_3 \delta_t + \varepsilon_{mt} \quad (\text{A.1})$$

where G_{mt} is sector-by-sector investment in public goods subscribed by municipality and year, α_m and δ_t are vectors of state and year dummy variables as per above, and α^*_m is the product of α_m and a decentralization dummy variable which takes the values 0 before 1994 and 1 after (i.e. post-decentralization).⁵⁵ Investment patterns are thus decomposed into three terms: a state effect, α_m , which captures all of the characteristics of a state fixed in time, a year effect, δ_t , which captures year shocks and time-specific characteristics, and a decentralization-interacted state effect, α^*_m , which captures state-specific characteristics commencing in 1994 which were previously absent. As decentralized public goods provision began in 1994, this term will capture the effects of local government, local civic associations and other local institutions that sprang up with the reform, and social and political dynamics more generally that impact upon local government but lay dormant under central rule. The data cover the period 1987-1996.

I then place the *differences* in state dummy coefficients on the LHS and estimate the model

$$\beta_2 - \beta_1 = \zeta S_m + \eta Z_m + \varepsilon_m \quad (\text{A.2})$$

for each of ten sectors, where S is a scalar or vector of the existing stock of public services (variously defined, as we will see below) at an initial period, and Z is a vector of institutional and civic variables, both indexed by municipality m . This approach isolates those changes in investment patterns resulting from a move to a decentralized regime and then examines its determinants. The LHS variable should by construction be unrelated to all factors which remain constant between the two periods, and thus I omit socio-economic, regional and other variables which do not vary between the centralized and decentralized regimes. I assume that the variables in Z , as well as the stock of public services in the ten sectors of interest, S , are constant over the period in question.⁵⁶

Literally hundreds of variables that might be included in the Z vector are available for Bolivia. To facilitate analysis, and in order to combine very specific Z -type variables into indicators that are meaningful and useful, I characterize them according to the groups in figure A.1, and construct principal component variables (PCVs) for each.

⁵⁵ Thus α^*_m takes the value 0 for all municipalities and all years before 1994, and is identical to α_m for all years from 1994 onwards.

⁵⁶ For most of the demographic and socio-economic variables in question, which tend to show change that is statistically significant only over longer periods of time, this is reasonable. It is less reasonable in the case of the S variable. Unfortunately the data leave no choice.

Figure A.1: Interpretation of PCVs

PCV Group	PCV No.	Interpretation - Variable increases in... listed in order of importance, where applicable (see Annex 1 for details)
Civil Institutions	1	Strength of local civil institutions and organizations
Private Sector	1	Dynamism of the local private sector
Training & Capacity-Building	1	Intensity of the local capacity-building efforts undertaken by/for local government
Information Technology	1	IT systems - hardware and software
Project Planning	1	Informed project planning which follows consensual and open procedures

In theoretical terms, the main coefficient of interest is ζ , which I interpret as an indicator of the degree to which investment is based on need. This is rooted in the assumption of decreasing marginal utility of a public service as the level of provision of that service rises. I use two types of information as indicators of the stock of public services: (1) the penetration rates⁵⁷ of public services or benefits in the local population, r , or the population without access to the same, $1-r$,⁵⁸ and (2) the initial per capita stock of infrastructure (at the outset of decentralization). Examples of these are: (1) the literacy and illiteracy rates, the share of population without water or sewerage; and (2) the number of sports facilities and markets per capita in 1994. Of these, type 1 variables can be considered truer indicators of need, as they better capture the criterion of public service use by the population and are likely to be better measures of the flow of benefits produced by public investments. I expect ζ to be negative when S_m is measured by the penetration rate r , and positive when measured by $(1-r)$.

I investigate the determinants of the difference in dummy state variables, $\beta_2 - \beta_1$, equivalent to the increase in investment due to decentralization.

⁵⁷ Note that “rate” here denotes a stock and not flow concept.

⁵⁸ I use both for education, and obtain the expected variation in sign in our results (see below).

Education

Figure A.2

$$\beta_2 - \beta_1 = \zeta S_m + \eta_1 Z_{1m} + \dots + \eta_5 Z_{5m} + \varepsilon_m$$

Independent Variable	Model*				
	I	II	III	IV	V
Private Sector PCV1	-0.000983 (-2.466)	-0.00121 (-3.004)	-0.00106 (-2.689)	-0.0003 (-1.004)	-0.00056 (-1.619)
Project Planning PCV1	-0.000538 (-0.919)	-0.00049 (-0.830)	-0.00055 (-0.925)	-0.00037 (-0.703)	-0.00052 (-0.879)
Civil Institutions PCV1	0.000973 (1.752)	0.00101 (1.774)	0.00103 (1.839)		
Training & Capacity Building PCV1				-0.00063 (-0.591)	
Information Technology PCV1					0.00118 (1.010)
Illiteracy Rate (Adult)	0.000173 (2.906)			0.00019 (3.116)	0.0002 (3.306)
Illiteracy Rate (Over-6's)			0.00018 (2.505)		
Literacy Rate		-0.00011 (-1.844)			
Local Education Authority	0.005603 (1.421)	0.00534 (1.356)	0.00543 (1.378)	0.0053 (1.354)	0.00479 (1.379)
_constant	0.0075759 (1.814)	0.02037 (3.728)	0.00806 (1.816)	0.00722 (1.862)	0.00704 (1.731)
R-square	0.0176	0.0136	0.0162	0.0155	0.0172
Prob>F	0.001	0.0025	0.0016	0.0128	0.0104

* OLS regressions reported with robust standard errors
t-stats in parentheses; PCV1 = 1st principal component variable

Investment rises under decentralization where the illiteracy rate is higher, and thus where need is greater. This implies that local government is more sensitive to local need than central government. This finding is not sensitive to specification or the measure of illiteracy used, as is evident in figure A.2 above, where the literacy rate is significant and negative. Educational investment falls where the private sector is stronger, a finding which is again insensitive to specification. This is most likely because private firms lobby for resources to flow to other sectors where they stand to profit more. Civil Institutions, by contrast, lead to an increase in investment after decentralization, suggesting grass roots support for education (*i.e.* parents worried about their children). Participative planning methodologies have no effect on investment, nor do information technology or local training and capacity-building activities.

Water & Sanitation

Figure A.3

$$\beta_2 - \beta_1 = \zeta S_m + \eta_1 Z_{1m} + \dots + \eta_5 Z_{5m} + \varepsilon_m$$

Independent Variable	Model*			
	I	II	III	IV
Private Sector PCV1	0.000123 (0.130)		-0.000856 (-1.265)	-0.000712 (-1.058)
Project Planning PCV1	-0.003165 (-2.002)		-0.003322 (-2.237)	-0.003517 (-2.205)
Civil Institutions PCV1	-0.001227 (-1.230)			
Training & Capacity Building PCV1			-0.001129 (-1.161)	
Information Technology PCV1				-0.000196 (-0.163)
% Pop. w/out Sewerage	0.000194 (1.881)		0.000170 (1.768)	0.000180 (1.756)
% Pop. w/out Water		0.000157 (1.791)		
_constant	-0.030616 (-3.324)	-0.027167 (-4.492)	-0.028461 (-3.348)	-0.029259 (-3.217)
R-square	0.0323	0.0064	0.0320	0.0302
Prob>F	0.0000	0.0743	0.0000	0.0000

* OLS regressions reported with robust standard errors

t-stats in parentheses; PCV1 = 1st principal component variable

Investment rises under decentralization where more people have no sewerage. It also rises where the share of population without access to drinking water increases, though this finding is sensitive to specification and drops out when other variables are included in the model. Thus local governments invest more where need is greatest. Participative planning methodologies are significant and negative, thus decreasing investment, and the private sector and civil institutions are both insignificant. The latter is surprising given the positive effect of civil institutions on investment in education.

Watershed Management

Figure A.4

$$\beta_2 - \beta_1 = \zeta S_m + \eta_1 Z_{1m} + \dots + \eta_5 Z_{5m} + \varepsilon_m$$

Independent Variable	Model*			
	I	II	III	IV
Private Sector PCV1	0.000171 (0.602)	0.000170 (0.609)	0.000056 (0.405)	0.000155 (0.758)
Project Planning PCV1	-0.000550 (-0.877)	-0.000540 (-0.878)	-0.000533 (-0.906)	-0.000525 (-0.829)
Civil Institutions PCV1	-0.000171 (-0.655)	-0.000182 (-0.655)		
Training & Capacity Building PCV1			-0.000024 (-0.063)	
Information Technology PCV1				-0.000445 (-1.326)
% Pop. w/out Water	-0.000087 (-2.363)		-0.000088 (-2.339)	-0.000088 (-2.412)
% Pop. w/Water (Int. Plumbing)		0.000135 (0.879)		
% Pop. w/Private Standpipe		0.000067 (1.639)		
% Pop. w/Public Standpipe		0.000101 (2.012)		
% Pop. w/out Sewerage	0.000085 (2.217)	0.000110 (1.485)	0.000087 (2.249)	0.000077 (2.097)
% Pop. w/"Other" Sewerage**	0.000113 (1.793)	0.000139 (2.481)	0.000112 (1.850)	0.000103 (1.725)
_constant	-0.001260 (-0.393)	-0.012457 (-1.441)	-0.001367 (-0.404)	-0.000426 (-0.136)
R-square	0.0110	0.0114	0.0103	0.0116
Prob>F	0.0832	0.1422	0.0824	0.0635

* OLS regressions reported with robust standard errors

t-stats in parentheses; PCV1 = 1st principal component variable

** "Other" Sewerage refers to non-public-utility, non-septic-tank methods of sewerage disposal.

The watershed management sector is related to water & sanitation but is broader in scope, including reservoirs and wastewater treatment lagoons, levees, and storm drainage works. In general the degree of overlap between the two sectors is high, and similar indicators of need are used for both. Investment in water management is lowest where the share of population with no access to water is highest, rises as more people have access to public and private standpipes, and falls again as internal plumbing becomes widespread. Investment is also highest where few people have access to sewerage, or access to rudimentary sewerage, and decreases as municipal sewerage systems become widespread. These results point to investment that increases in need

at intermediate and high levels of provision. But at the lowest levels of provision, local government fails to respond to need and central government is superior. This would make sense if initial investments in water were so great (*e.g.* from developing water sources, laying water mains and building treatment plants) that local governments cannot undertake them alone, but once these initial investments are made the marginal costs of extending the system are manageable. Perhaps surprisingly, civic and institutional variables appear to have no effect on investment – only variables of need matter.

Appendix 2 – Abbreviations*

ADN	Acción Democrática Nacionalista
AGACOR	Cattle Ranchers' Association of the Cordillera
AOP	Annual Operating Plan
APG	Guaraní People's Association
Cabi	Capitanía del Alto y Bajo Izozo
CAO	Eastern Agricultural Congress
CBN	Cervecería Boliviana Nacional
CIPCA	Centre for the Investigation and Promotion of the
Peasantry (an NGO)	
COB	Bolivian Confederation of Labor
Comibol	Bolivian (State) Mining Company
Condepa	Conciencia de Patria
DDE	District Director of Education
DDH	District Director of Health
FIS	Social Investment Fund
GRO	Grass-Roots Organization
Incerpaz	Industrias de Cerámica Paz (Viacha)
LPP	Law of Popular Participation
MBL	Movimiento Bolivia Libre
MNR	Movimiento Nacionalista Revolucionario
NGO	Non-Governmental Organization
OC	Oversight Committee
OC1	Official OC
OC2	Opposition OC
PASE	Programa de Apoyo Solidario a las Escuelas
SOBOCE	Sociedad Boliviana de Cementos
UCS	Unión Cívica de Solidaridad

**Norms of abbreviation and capitalization adhere to most common usage in Bolivia.*