

Department of International Development & STICERD book launch

Decentralization and Popular Democracy: governance from below in Bolivia

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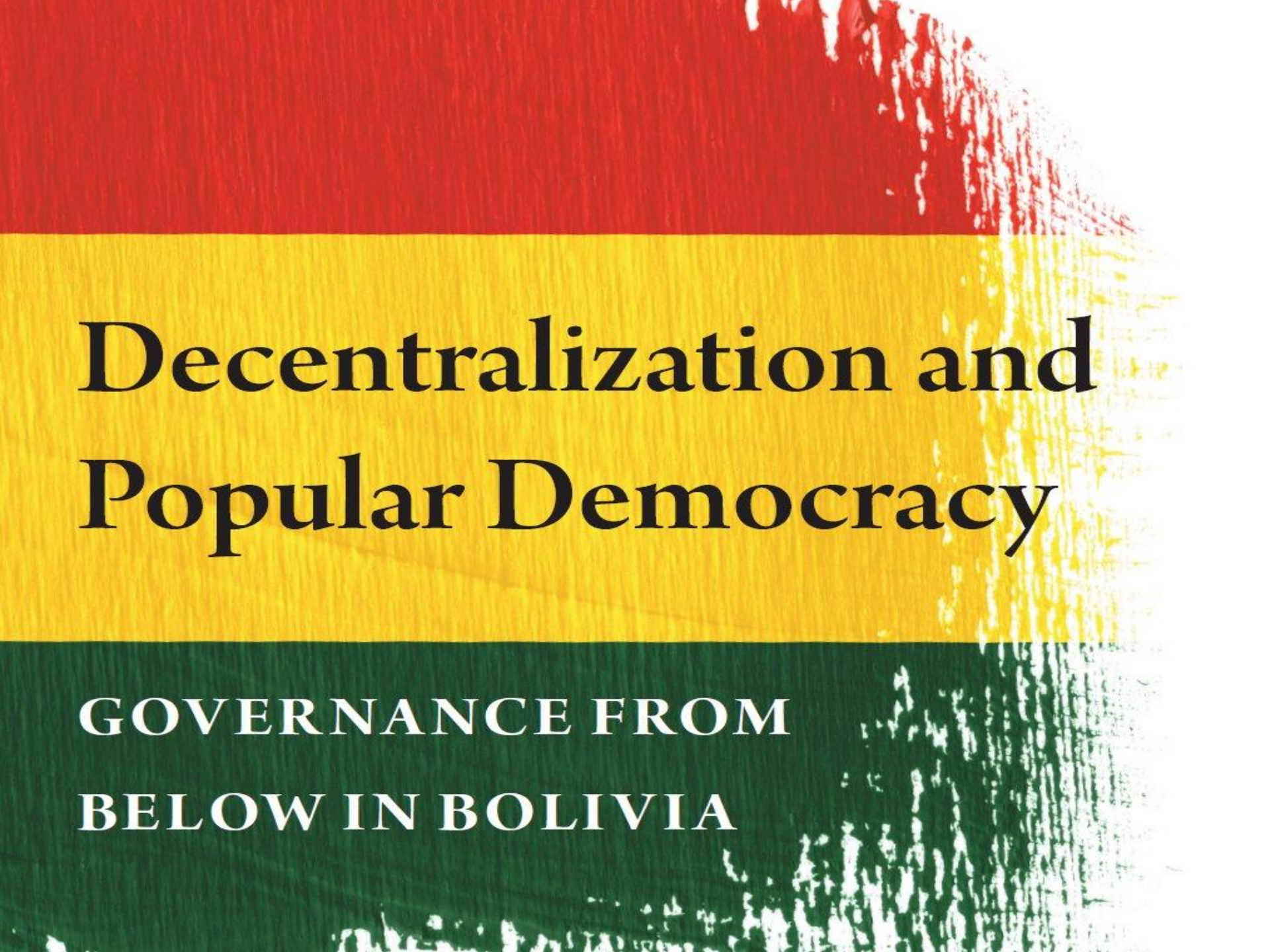
Chair, LSE



The logo for LSE events, with 'LSE' in white on a red square background followed by the word 'events' in a red, lowercase, sans-serif font.

Suggested hashtag for Twitter users: #LSEBolivia





Decentralization and Popular Democracy

GOVERNANCE FROM
BELOW IN BOLIVIA

Governance from Below website

<http://personal.lse.ac.uk/faguetj/>

DECENTRALIZATION AND POPULAR DEMOCRACY

Governance from Below in Bolivia

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Outline

1. Motivation
2. Decentralization in Bolivia
3. Local government at the extremes
 - Viacha
 - Charagua
4. Theory: The determinants of government responsiveness
5. A Quantitative Test
6. Return to the Extremes
7. Conclusions

1. Motivation

Decentralization is one of the broadest movements and most contentious policy issues in development.

- 80% - 100% of countries experimenting with decentralization (World Bank 1999).
- Subsidiarity, devolution and federalism in the EU, UK and US
- Not just breadth, but depth of reforms
 - 10-50% of all central government revenues spent subnationally (Campbell 2003)

In historical terms this is a huge reversal

Continuously increasing centralization over the past 15,000 years.

- 200,000 years ago: Earliest anatomically modern humans lived in groups of **a few dozen** hunter-gatherers in Africa. Largely egalitarian and unorganized (Gronn 2010).

- 10-15,000 years ago: Earliest agricultural communities exploit productivity gains from domestication of 10-100x → settled tribes of a **few hundred**, acquiring primitive organization and clear leaders.
- Farming improvements → villages grew into **chiefdoms** with populations in the **thousands**, centralized, hereditary leaderships, and multilevel bureaucracies.
- 6,000 years ago: In river valleys of modern Egypt, Pakistan, India and Iraq, these societies became the **world's first cities**.

- 5,700 years ago: First states born in Mesopotamia, with populations of **50,000 or more**, many cities and villages, centralized decision-making and control of information, sophisticated bureaucracies and religious orders, systems of laws and judges, redistributive taxation, and a capital city. (Diamond 1998)
- Big advantages over smaller polities in the mobilization of resources and projection of power.

Then...


- Roman and Persian empires 2000 years ago.
- Medieval European kingdoms.
- Nation-states from about 17th century onwards.

Increasing centralization is the defining characteristic of the past 10,000-15,000 years of human society

→ The rise of decentralization over the past half-century represents a unexpected historical reversal

Theory provides a strong rationale

Bring government “closer to the people” → better public goods, more effective government

- Supply: Smaller scale facilitates...
 - Better information
 - Greater participation
 - More accountability

→ Deepen democracy
- Demand: Local homogeneity vs. national heterogeneity

Empirical literature does not

- Litvack et al. (1998): “One can prove, or disprove, almost any proposition about decentralization by throwing together some set of cases or data”.
- Shah, Thompson and Zou (2004): D sometimes improved, other times worsened: service delivery, corruption, macroeconomic stability, and growth across a large range of countries.
- Treisman (2007): Results are inconclusive, weak and contradictory. “To date there are almost no solidly established, general empirical findings about the consequences of decentralization”.

→ **Bizarre paradox:** After 50 years of policy experimentation and hundreds of studies, we still know very little about whether D is good or bad.

Why don't we know more?

- Conceptual confusion
 - What is D? *Deconcentration, Delegation, Devolution, Privatization?*
 - Where is it implemented?
- Non-rigorous empirical basis
 - Qual: Small-N and large-X
 - Quant: Cross country studies make for bad comparisons – too much RHS uncontrolled variation.
- Wrong question: “Is D good or bad?”

The solution

Decentralization is the devolution by central government of specific functions (administrative, political and economic attributes) to democratic local governments that are independent of the center within a geographic and functional domain.

Empirical rigor – Large-N in one country + case studies.
Blended quantitative-qualitative analysis.

- Permits fine-grained, nuanced analysis.
- Controls for external shocks, political regime, institutions, and other exogenous factors.

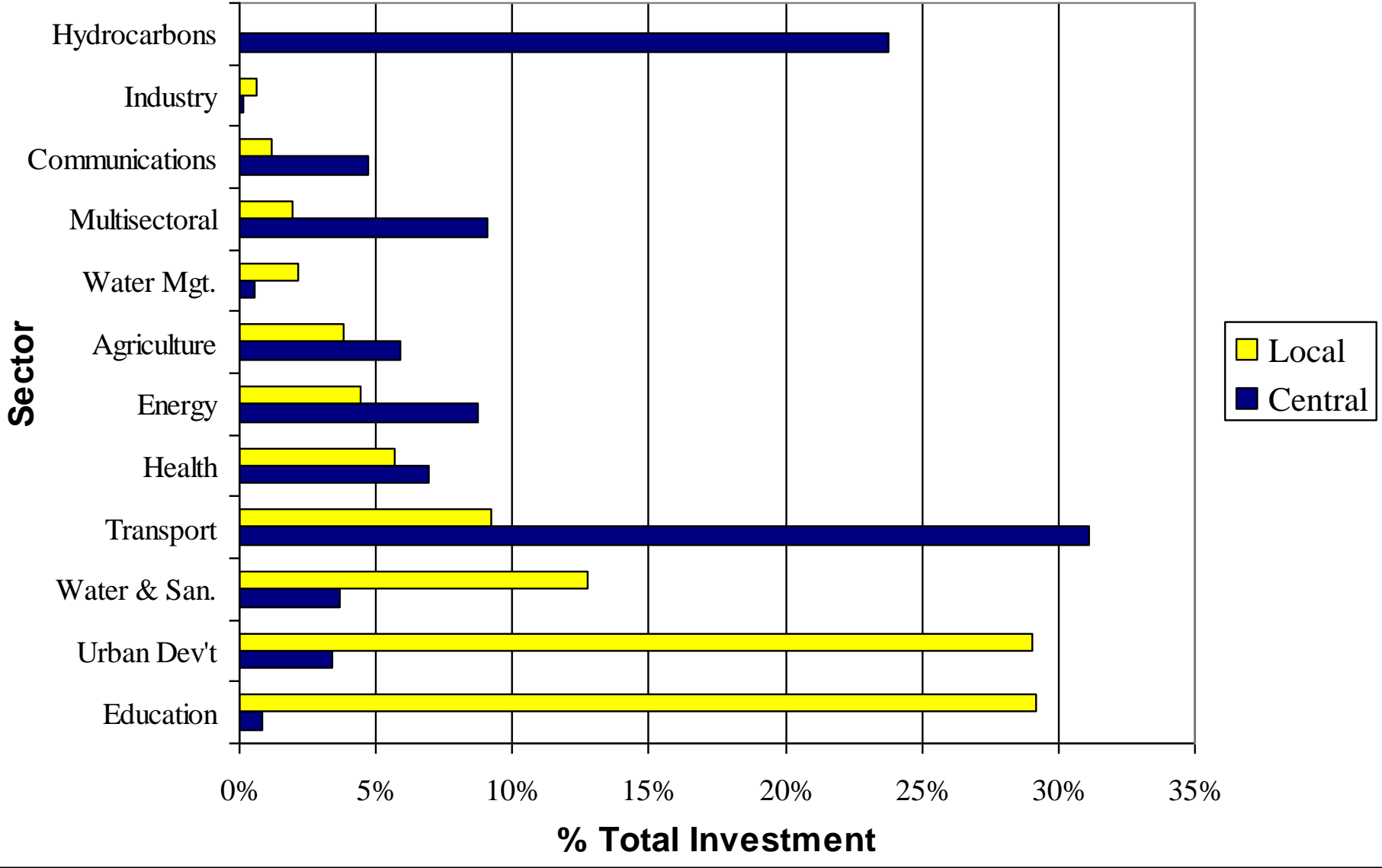
Right question: Why is the good good and the bad bad?
“Outputs” of D = aggregate of local political & institutional dynamics, and so to understand decentralization we must first understand how LG works.

2. Decentralization in Bolivia (radical & sincere)

The Bolivian Decentralization Programme

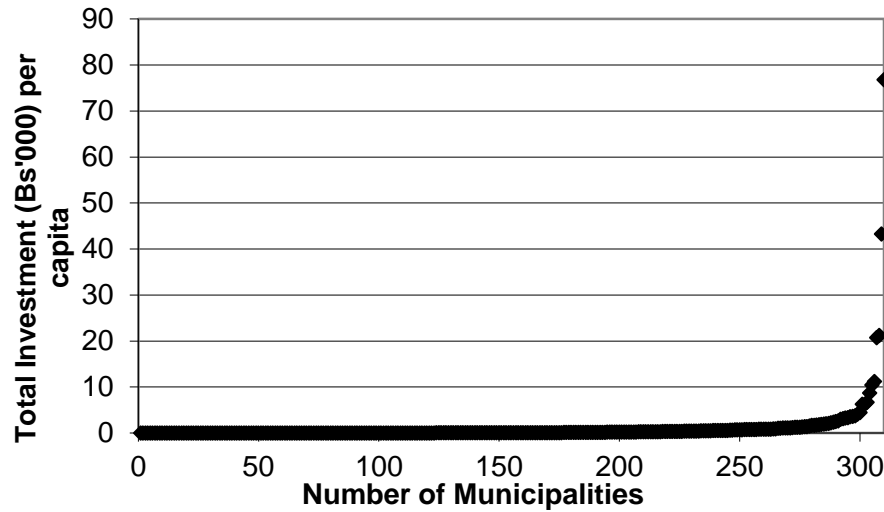
- **Resource Allocation.** Transfers x2 → 20% national revenues. Later increased greatly.
Allocation: political → per capita.
- **Local Public Services.** Education, health, irrigation, roads, sports and culture. Ownership of infrastructure and responsibility.
- **Oversight Committees** (*Comités de Vigilancia*) Alternative channel for popular demands. Composed of local, grass-roots groups that propose projects and oversee municipal expenditures.
- **Municipalization.** Municipalities expanded to include suburbs and rural catchments, and 198 new municipalities (out of 311 in all) were created.

Figure 2: Local v. Central Government Investment



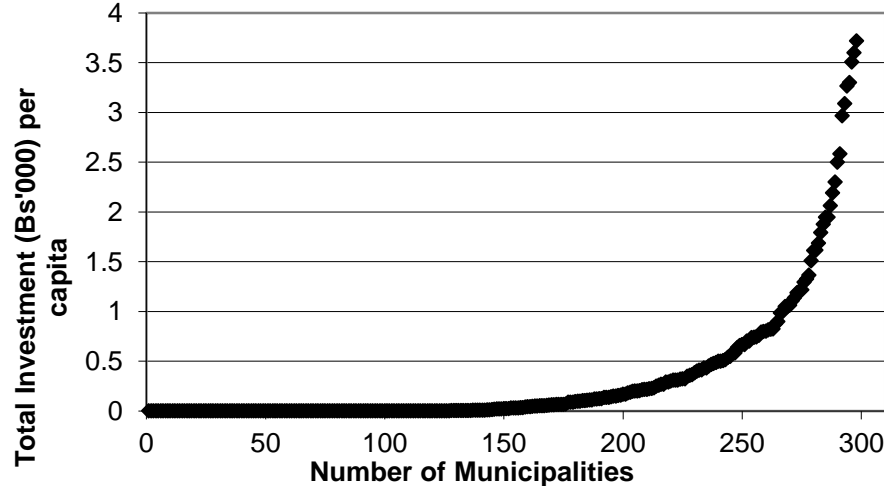
Central vs. Local Government Investment by Location

Central Government Investment, 1987-93

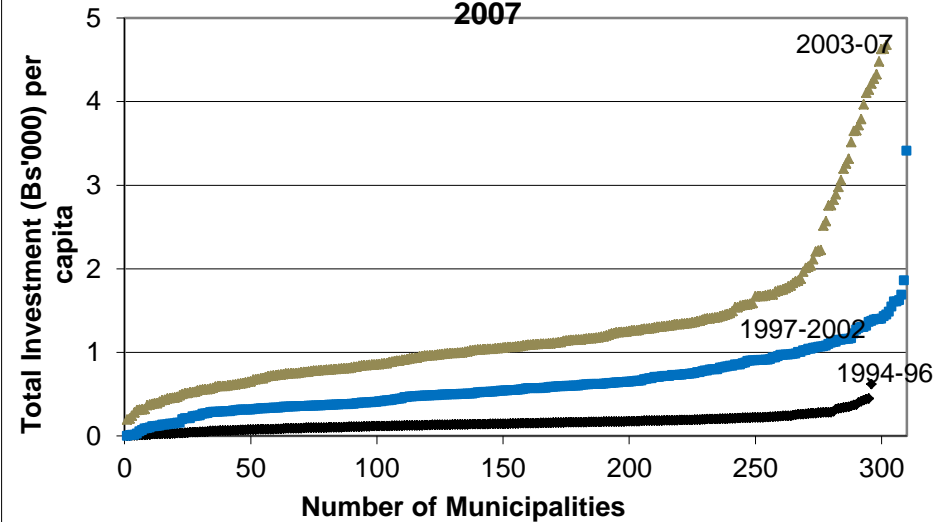


Central Government Investment, 1987-93

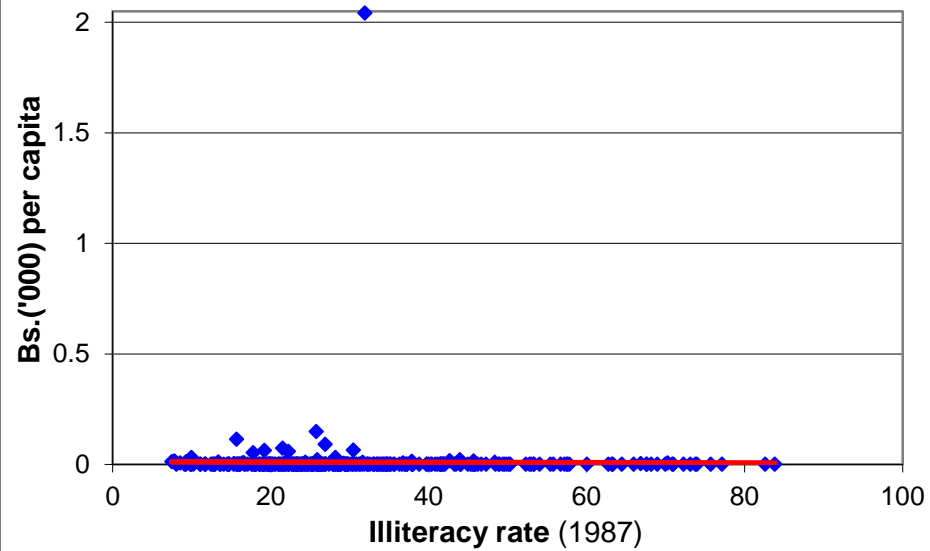
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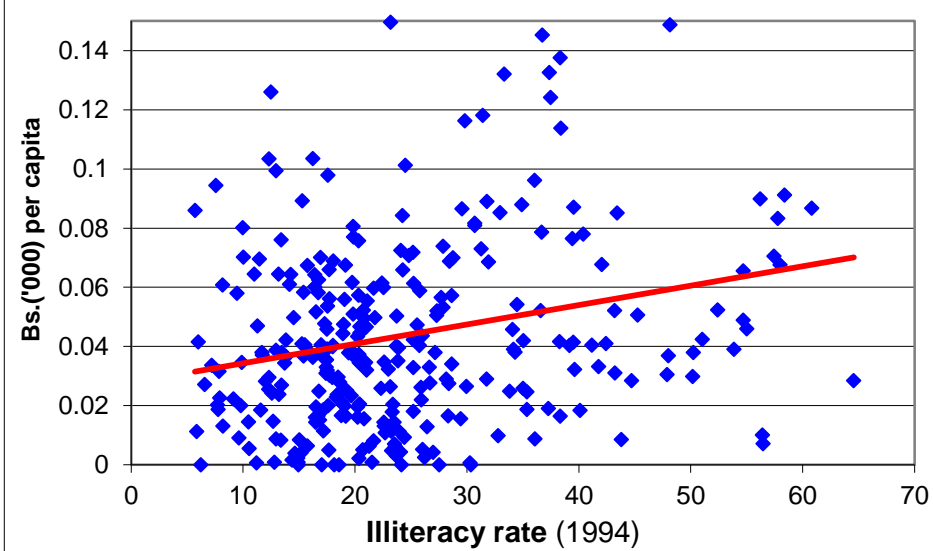
Local Government Investment by period, 1994-2007



Central Govt Education Investment (1987-93)

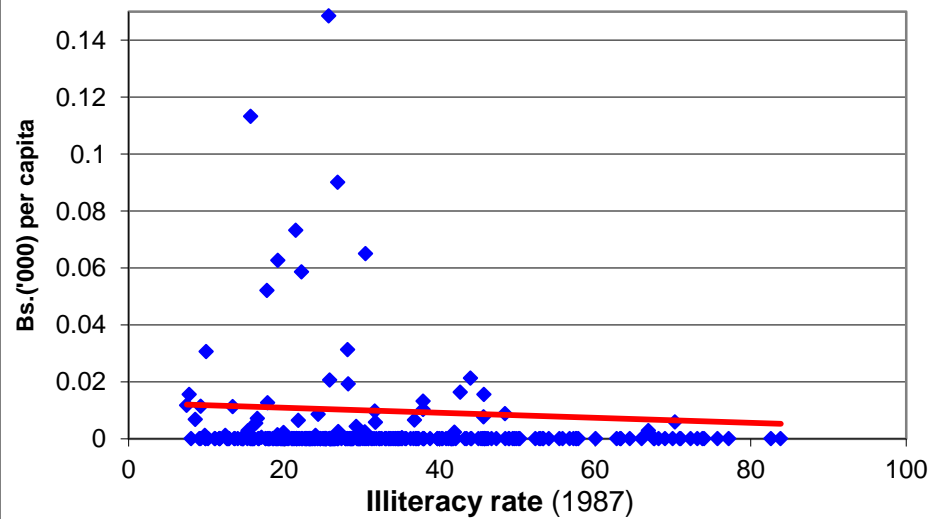


Local Govt Education Investment (1994-96)

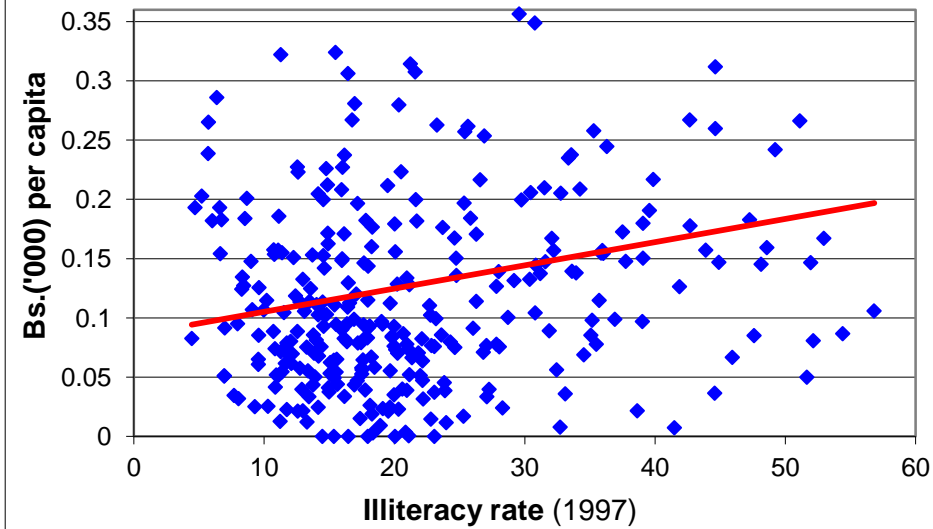


Central Govt Education Investment (1987-93)

(vertical axis expanded)



Local Govt Education Investment (1997-2002)



Conclusions (i): 4 Stylized facts of Bolivian D

1. D shifted public investment from production to human capital formation and primary services.
2. This shift was driven by smaller, poorer, more rural municipalities.
3. Greater spatial equality as per capita criterion shifted resources massively towards smaller, poorer districts.
4. LG investments far more responsive to local needs than CG was before.

3. Local Government at the Extremes



Viacha – LG was unresponsive, violent and corrupt.
Mayor sabotaged accountability and public oversight.

Evidence

- LG expanded the payroll by >100% without increasing administrative ability or technical skills.
- Unfinished, over-budget municipal coliseum
- Exploding sewerage
- Public officials, municipal councilmen, and mayor's political boss → mayor is corrupt
- National audit charged mayor with malfeasance.

Why?

- Corrupt and corrupting mayor
- Ineffective municipal council
- Neutralized, corrupted oversight committee

→ Neither political nor social oversight of municipal activities.

Deeper causes

- A dominant firm – CBN brewery – was fiercely partisan. Dominated political party system and undermined opposition. Twin Strategy: capture votes & promote the UCS/CBN brand. Monopsonistic provider of political finance to all parties.
 - Political party competition neutralized → Little political competition and no substantive political choice → Political apathy.
 - Civil society divided between “white” city and indigenous countryside, itself divided between Machaqas and the rest.
- Widespread distrust; Episodic violence; No collective action

1. **Charagua** – LG was participative and responsive, led by strong organizations of government that produced high-quality policy outputs.

Evidence

- Mayor topped a departmental ranking
- Operating costs kept to 4% of a municipal budget that had grown 6,500%
- National government audits concurred
- Local testimony overwhelmingly concurred

Why?

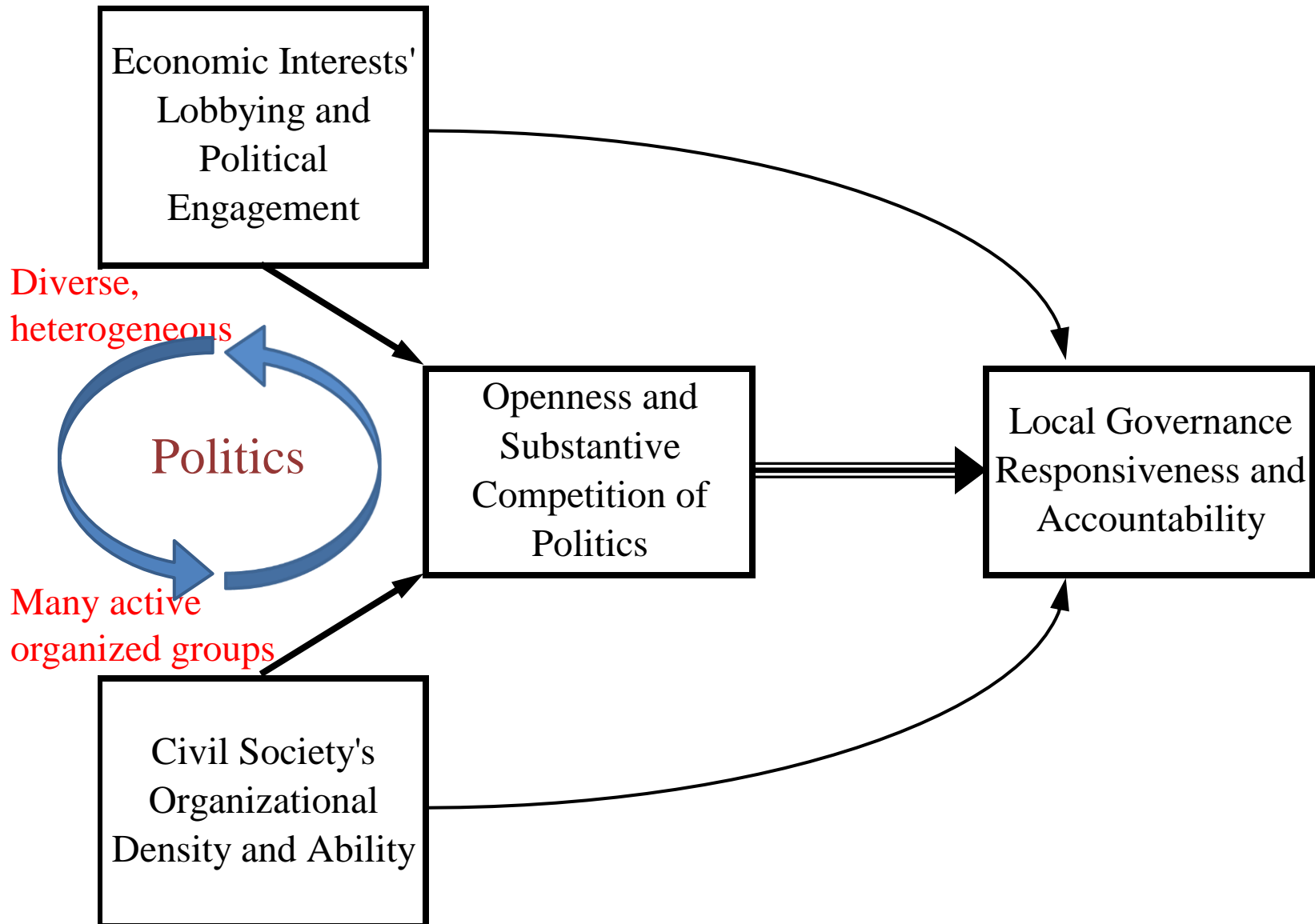
- Honest, hard-working mayor
- Representative, responsive municipal council
- Vigilant, independent oversight committee

Deeper causes

- Competitive local economy – pluralistic ranchers
- Open, competitive political system – open to new entrants
 - Political entrepreneurialism
 - Broad representation
- Highly structured and coherent civil society; High social capital

The APG is a civic organization rooted in Guaraní village traditions, which acts as ethnic advocate and regional self-government → high legitimacy and capacity to mobilize constituents' opinions and efforts.

4. Theory: Determinants of Government Responsiveness



5. A quantitative test: National evidence

For each sector I estimate:

$$G_m = \alpha + \beta N_m + \gamma \mathbf{F}_m + \delta C_m + \zeta N_m \mathbf{F}_m + \eta N_m C_m + \theta \mathbf{F}_m C_m + \lambda N_m \mathbf{F}_m C_m + \xi \mathbf{Z}_m + \varepsilon_m \quad (1)$$

G = per capita investment in the given sector

N = initial stock of public goods (scalar)

\mathbf{F} = # private sector firms (scalar or **vector**)

C = # civil society organizations (scalar)

\mathbf{Z} = regional, demographic, economic, and institutional controls (**vector**)

Interaction terms are added gradually:

$$G_m = \alpha + \beta N_m + \gamma F_m + \delta C_m + \xi Z_m + \varepsilon_m$$

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...permitting a careful exploration of *how* firms and civic organizations affect government responsiveness.

Results

Education (dependent variable: education investment (Bs.) per 1000 population)		Model			
		Base	2	3	4
		1994-96	1994-96	1997-2002	2003-07
<i>Need Variable</i>					
Illiteracy rate		496.7 *	319.2	2310.8 *	5351
		(1.840)	(1.010)	(1.830)	(1.400)
<i>Firms and GROs</i>					
No. of firms		-258 ***	1867	2543.8	29361.4 ***
		(-3.150)	(1.350)	(0.640)	(2.800)
No. of GROs (legally registered)		119.8 **	-13.1	216.4	-1718.1 ***
		(2.100)	(-0.100)	(0.700)	(-3.020)
<i>Interaction Terms</i>					
Illiteracy*Firms			-97.5	143.3	-7748 ***
			(-1.010)	(0.610)	(-3.330)
Illiteracy*GROs			5.11	-8.79	42.8
			(1.280)	(-0.760)	(1.270)
Firms*GROs			12.7 **	23.8 *	-129.8 ***
			(2.320)	(1.920)	(-3.240)
# School attendance*Firms*GROs			-0.219 **	-0.433 *	35 # ***
			(-2.500)	(-1.720)	(3.650)
<i>Controls Omitted</i>					

Interactions between private and civic groups are the single most important determinant of municipal responsiveness. → **Large real effects.**

2003-07: 1 s.d. increase in illiteracy, given dense firm-GRO interactions → Bs. 998,795 investment per thousand. Independent effects of GROs & firms on need-responsiveness are small and nil. Need variable on its own becomes insignificant.

Urban Development (dependent variable: urban development investment (Bs.) per 1000 population)

	Model				
	Base	2	3	4	5
	1994-96	1994-96	1994-96	1997-2002	2003-07
<i>Need Variable</i>					
No. of markets per capita	190360.2 ** (2.370)	183631.2 ** (2.300)	229153.2 ** (2.210)	-57771.1 (-0.160)	-47078.8 (-0.130)
<i>Firms and GROs</i>					
No. of firms	220.1 *** (5.420)	124.2 ** (2.450)	6.8 ** (2.390)	-1.41 (-0.310)	-179 (-0.570)
No. of GROs (legally registered)	127.7 * (1.850)	105.2 (1.590)	93.3 (1.490)	137.6 (1.050)	-8.98 (-0.090)
<i>Interaction Terms</i>					
Markets*Firms			4323294 * (1.690)	45985490 *** (6.300)	-1893897 * (-1.840)
Markets*GROs			-5147.5 (-0.780)	-27042.6 (-0.820)	14681 (0.330)
Firms*GROs		0.0119 ** (1.980)	0.146 (0.370)	-1.34 *** (-2.810)	0.679 (0.480)
Markets*Firms*GROs			-138560.9 ** (-2.190)	-148192.6 (-1.020)	117847 *** (5.340)
<i>Controls Omitted</i>					

Model 3-5 are full test of theory: Urban development investment is regressive in terms of need, mainly because firms want it so. Firms press municipalities for regressive investment, but civic groups counteract most of that through their interactions with firms.

Health (dependent variable: health investment (Bs.) per 1000 population)

	Model				
	Base	2	3	4	5
	1994-96	1994-96	1994-96	1997-2002	2003-07
<i>Need Variable</i>					
Child malnutrition rate (total)	289.5 *	288.2 *	359.3 **	-183	-2687.4 **
	(1.840)	(1.850)	(1.990)	(-0.530)	(-2.070)
<i>Firms and GROs</i>					
No. of firms	-54.1	-260.5	833.5	4250.9	-29.4 *
	(-1.300)	(-1.000)	(0.850)	(1.140)	(-1.770)
No. of GROs (legally registered)	45.9 *	26.7	117.8	41.1	-1337.9 *
	(1.720)	(0.990)	(1.520)	(0.210)	(-1.860)
<i>Interaction Terms</i>					
Malnutrition*Firms			-34	-210.6	48.1 ***
			(-1.120)	(-1.180)	(3.460)
Malnutrition*GROs			-2.88	0.106	37.3 *
			(-1.220)	(0.020)	(1.840)
Firms*GROs		0.00828 **	-3.19	-0.28 *	0.0834 **
		(2.100)	(-1.320)	(-1.730)	(2.220)
Malnutrition*Firms*GROs			0.000716 ***	0.0156 *	0.00133
			(3.490)	(1.770)	(1.020)
<i>Controls Omitted</i>					

Firms and civic organizations have different preferences. Primary way they affect local policy is via interactions with each other → unambiguous collective preference for more health investment in 2 of 3 periods. Interaction effects > residual impact of need variable. → Whatever else makes investment sensitive to health needs is less important than interaction of economic and civic actors through the political system.

6. Return to the Extremes

Viacha 13 years later

Viachan LG is transformed → Open, transparent and responsive.

Evidence

- All 63 rural communities now have electricity
- Most now have potable water and all will soon
- 70% of schools have internet
- Quarterly Mayor's reports; Weekly OC reports; Spending plans down to district and community level
- 3 successive national audits praised municipality
- UNDP ranked Viacha in top $\frac{1}{6}$ of all muns

How did LG in Viacha change?

- CBN plant closed down
- Ascent of civil society – organized & assertive
- A modernizing candidate promised transparency and efficiency, was elected, and delivered
- ➔ Voters had learned the costs of conflict and paralysis

Charagua 13 years later

Charaguan LG has improved further, and participation and transparency have deepened considerably

Evidence

- Now all rural communities have schools, and almost all have health posts and electricity
- Budgeting and planning devolved to district and village levels
- Mayor gives quarterly reports on works, budget
- Communities manage budgets and projects directly
- Charagua ranked 3rd-best nationwide

How did LG in Charagua improve?

- APG entered into politics directly via Law of Citizen Associations
- APG + MAS brought political stability (5 years)
- Ranchers choose to work with Guarani-led LG

Good government + participation → endogenous rise in local standards/expectations for LG

Conclusion (ii): Determinants of LG Responsiveness

- Neither economic interests nor social forces alone can explain Viacha/Charagua or quantitative results (311 muns.)
- *Interaction* of both factors explains outcomes
- Politics appears to be endogenous to the interaction of economic actors and civic organizations

How to study comparative institutional reform?

Class of phenomena where rules, complex organizations, and individuals interact in a context heavily influenced by culture, history and social norms.

- 1-country, large-N study
Quantitative + Qualitative methods
- Understand in depth what happened in each country before comparing amongst them.

Thank you

Theoretical Arguments. What can decentralization do?

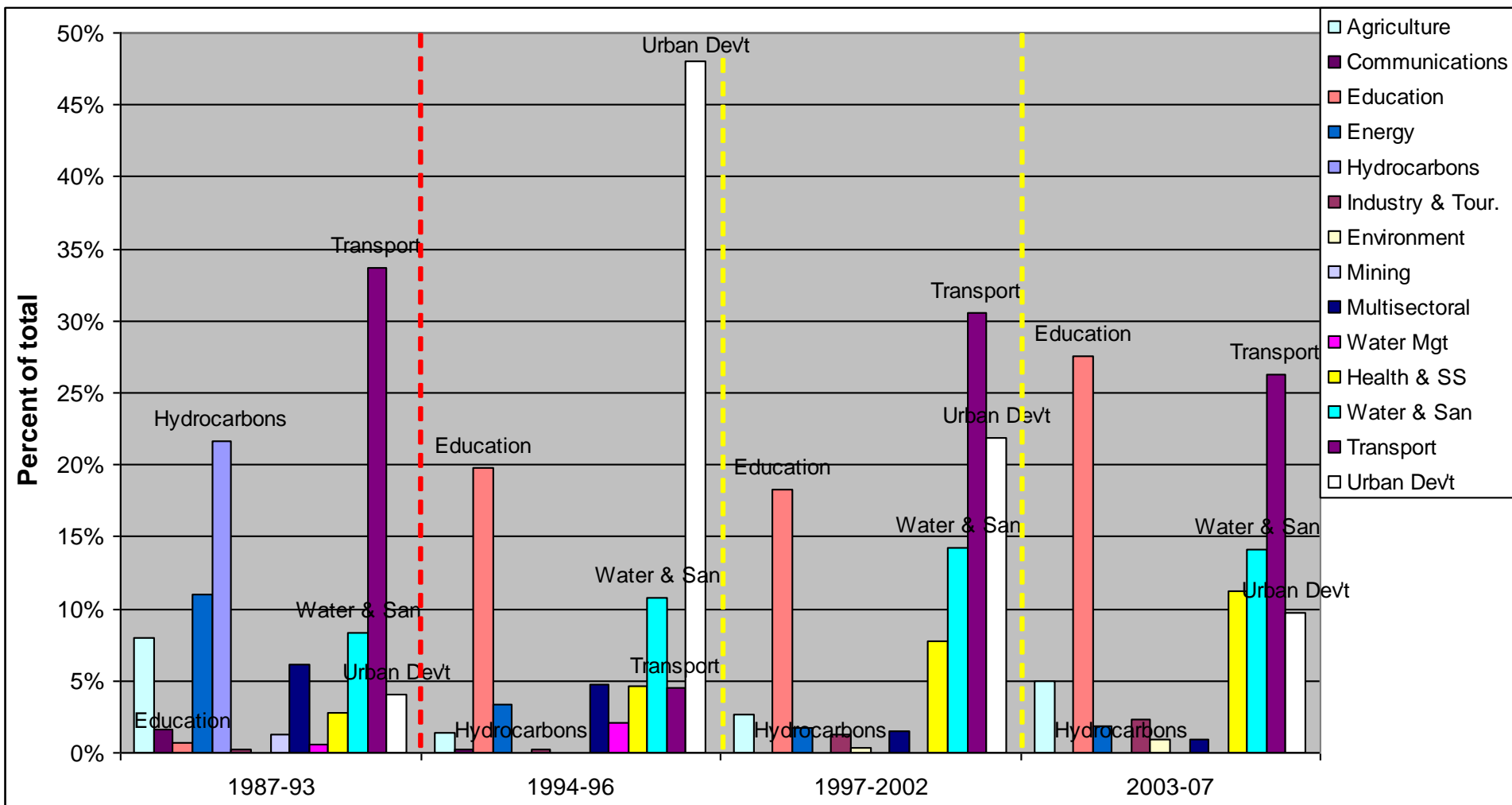
Arguments for. Decentralization can...

- i. improve information re: local wants and needs
- ii. increase citizen voice and participation
- iii. improve government accountability & responsiveness
- iv. deepen democracy
- v. strengthen individual liberties
- vi. improve economic performance
- vii. increase policy stability
- viii. reduce bureaucracy
- ix. decrease public spending
- x. decrease political tensions and the risk of civil war

Arguments against. Decentralization can...

- i. decrease efficiency in public goods production
- ii. decrease the quality of policy-making
- iii. increase graft and corruption
- iv. facilitate elite capture of government
- v. increase fiscal deficits and hence macroeconomic instability.

Public Investment by Sector and Period, 1987-2007



5. Conclusions

1. Quant: Where many firms *interact with* organized society, local policy is responsive to voters' objective needs. These interactions are not only stat. sig., but also resolve competing priorities of different actors.

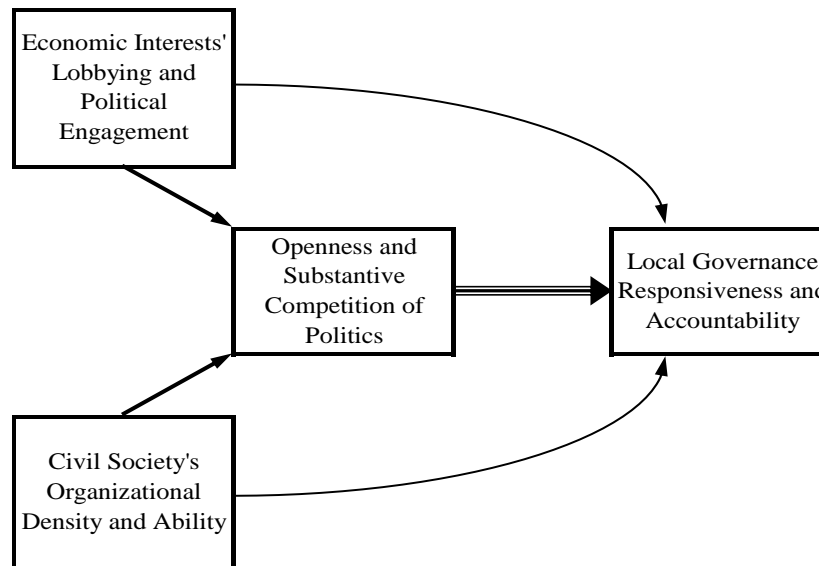
2. Qual:

Charagua: Heterogeneous local economy + highly organized society → political competition and entrepreneurialism → Effective LG

Viacha: Dominant firm acting as monopsonistic financier of parties + divided, suspicious society → Unaccountable, ineffective, corrupt LG

What are the fruits of Q2?

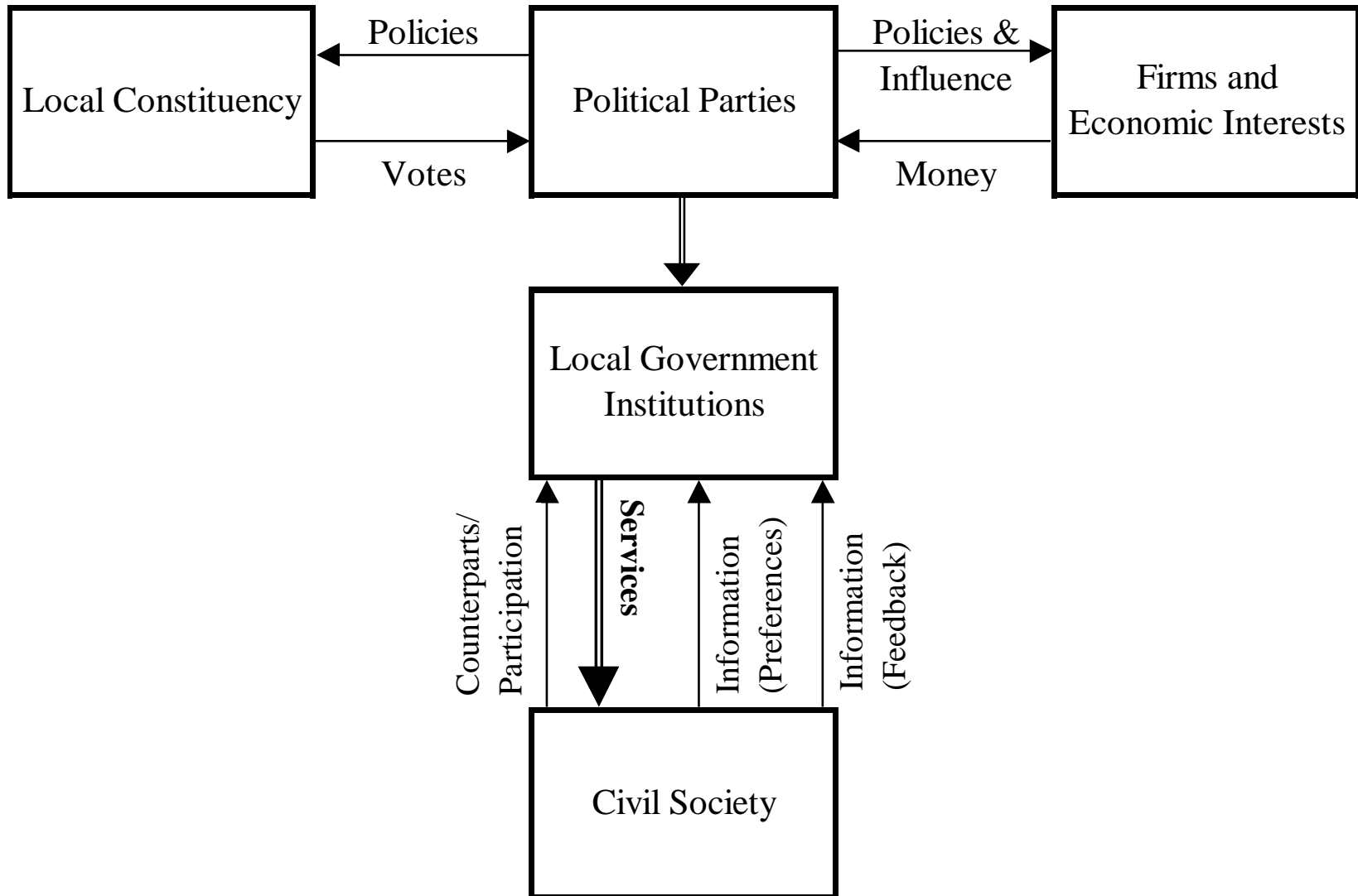
- **Depth and generality.** A nuanced set of relationships can be shown to hold not only in two municipalities, but for the whole of Bolivia.
- **Discrimination.** Theory does not tell us whether both causal factors are strictly needed to produce responsive government, or one alone can.
- Qualitative evidence provides too few degrees of freedom to distinguish between alternatives. Only quantitative evidence can distinguish.



- **The answer?** Interaction of *both* factors is required for government responsiveness to local needs. Competing priorities of different actors are resolved through political competition. Different actors wield different amounts of influence over different issues, and voters get government to do what they need via their civic institutions, effectively countering the power of private firms and economic interests.

3. The Structure of Local Government

The Structure of Local Government



Two channels to government responsiveness:

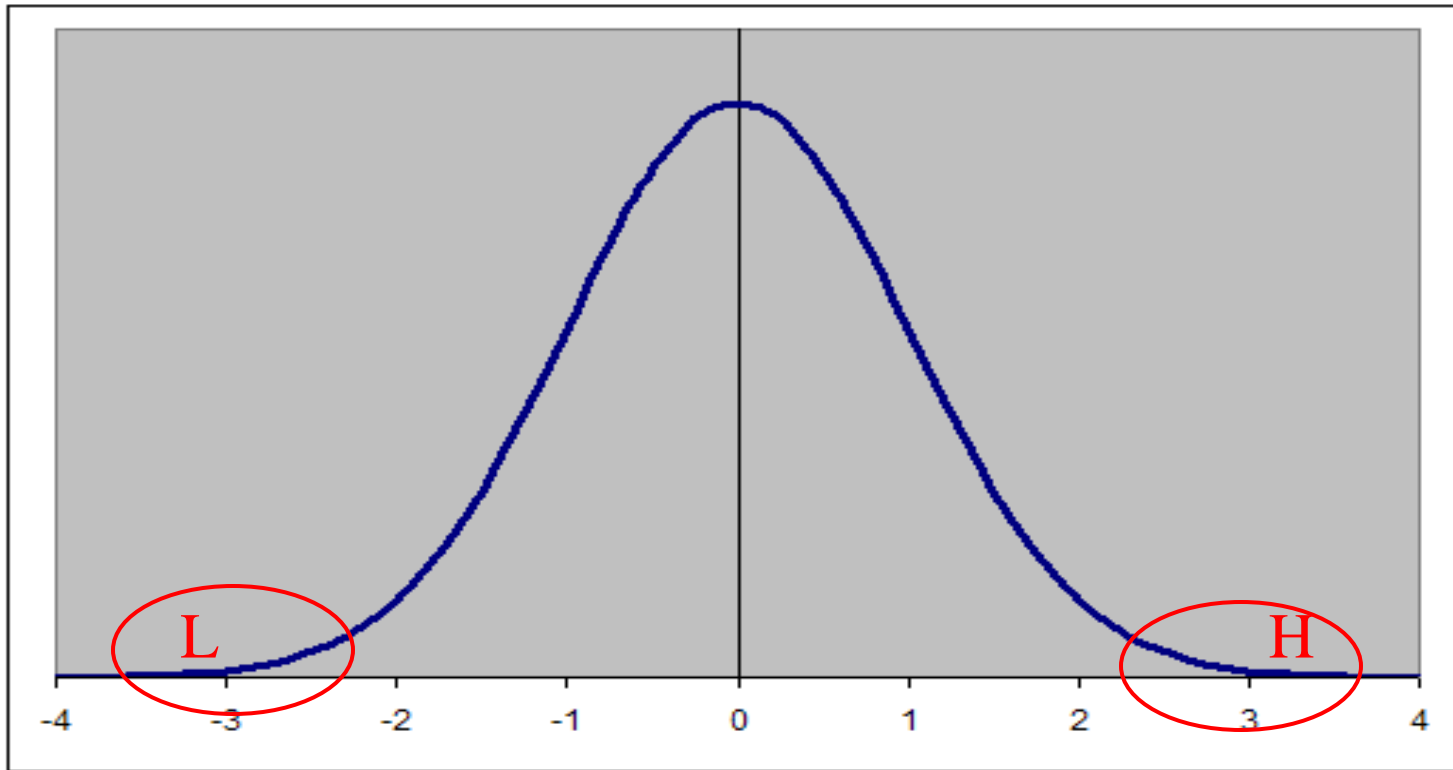
Principal

Diverse, heterogeneous local economy + Active society rich in organized groups → Open, substantive political competition

Alternative

Encompassing interest (firm, social group) → Open, substantive competition of ideas and demands

The Question: Assume politicians are distributed normally by ability/effectiveness...



What are the characteristics of a political system that selects from L vs. H range?

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