



Decentralization and Local Government

Based on Crisis States Programme Working Paper no.29: Jean-Paul Faguet, 'Decentralization and Local Government in Bolivia: an overview from the bottom up'. This is intended to provide a summary of the principal findings, and an indication of the implications these may have for debates over policy.

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. It begins by summarizing the econometric results on the effects of decentralization nationally, and then turns to qualitative research 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. These results are explained as the aggregate of discrete local institutional and political dynamics. A conceptual model is developed 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.

- **Decentralization and the redirection of investment**

The Bolivian example shows how decentralization can occur through the redirection of investment in four principal ways: 1/ public investment is shifted into social and human capital formation, at the expense of economic production and infrastructure; 2/ investment is distributed more equally across space; 3/ investment is made more responsive to local needs; 3/ investment is shifted towards poorer districts.

- **Local political competition dependent upon competitiveness of local economy**

Since political parties depend upon funding to mount campaigns, the domination of a locality by a single employer is likely to reduce political competition. This in turn reduces the level of oversight that local government institutions are subject to, and may leave sectors of the population unrepresented and effectively disenfranchised. Conversely, an open and competitive local economy 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.

- **Effective local governance requires vigorous local politics**

For local governance to be effective, it is necessary for there to be a local politics in which competition spurs political entrepreneurship and policy innovation as parties vie to win new voters. Three related conditions are required for this: 1/ an open and transparent electoral system; 2/ a competitive party regime; 3/ 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. Reforms promoting all of these encourage citizens to express their political preferences freely, which 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'.

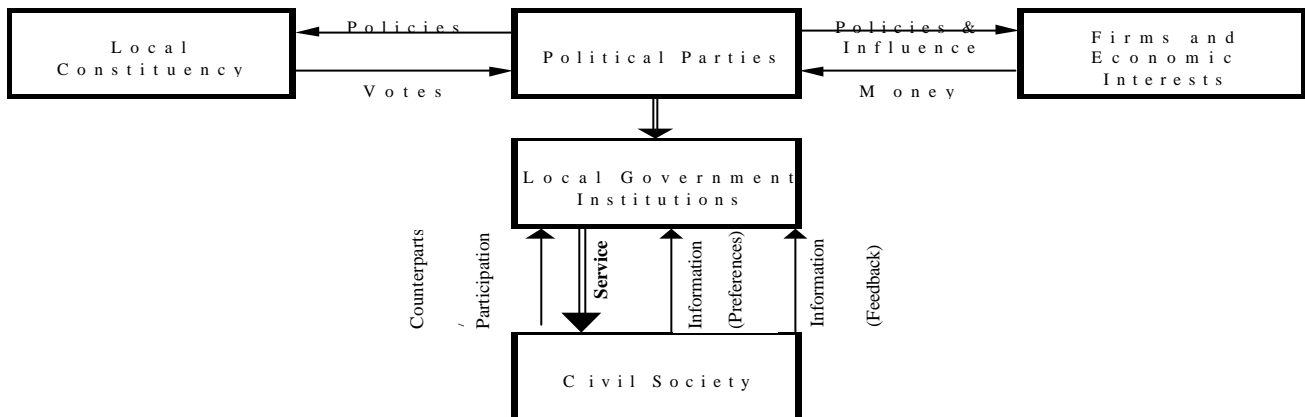
- **Competitive party system a prerequisite for benefits of systemic opening**

Political entrepreneurship which attempts to offer dissatisfied voters a political alternative will be thwarted by a party regime which is monopolized by one actor. 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 voters, will tend to serve the welfare of their constituents better than those dominated by a single actor.

- **Responsive local politics needs effective civil society**

For civil society to provide useful oversight and a feedback mechanism for the governing process: 1/ it must be able to identify a specific failing of local policy at the community level; 2/ it must formulate a coherent demand or complaint and transmit it upwards through its own hierarchical levels; 3/ local civic leaders must be able to take up this complaint and communicate it convincingly to the mayor or municipal council. These are facilitated by the following general traits needed by civic leaders: a) the ability to communicate, often across large areas and diverse ethnic groups; b) norms of trust and responsibility, within communities and across them, as well as across time; c) a minimum level of human capital amongst civic leaders, such that those at the municipal level are able to interact productively with local government; d) a minimum level of resources required to carry out these activities.

- **A conceptual model for local government**



- **Effective local government dependent upon maintaining equilibrium**

Local government is the nexus of two political markets (between political parties, and individual voters and local economic interests respectively), and the organizational dynamic between civil society and local government institutions. In order for local government to be effective, these three relationships must counterbalance each other, with none dominating. 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 and money of other actors – this last element is the most complex and difficult to observe of the three. But it lies at the heart of the government process, playing an important role in the transmission of information and enforcement of accountability.

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