

DECENTRALIZATION FROM ABOVE, GOVERNANCE FROM BELOW

Extreme Local Government in Bolivia

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1. Introduction

Decentralization has become one of the broadest movements, and most debated policy issues, in the world of development.

- “A quiet fashion of our time” → “The Quiet Revolution”

Theoretical literature

- *Tiebout (1956)*: Foundational work in economics.
- Political science tradition is much older, going back at least to Rousseau, Madison-Hamilton-Jay, and de Tocqueville.
- Recent wave of theoretical work by Bardhan & Mookherjee, Besley and Coate, Persson & Tabellini, etc.

Applied/Policy literature in the 1960s – 1990s.

- *Rondinelli, Cheema and Nellis (1983)*: Decentralization has seldom, if ever, lived up to expectations. Serious administrative problems in most developing countries. Limited success in some countries.
- *Piriou-Sall (1998), Manor (1999) and Smoke (2001)*: Surveys come to cautiously positive conclusions, but with many caveats about the evidence. Manor concludes “while decentralization ...is no panacea, it has many virtues and is worth pursuing”. Smoke finds the evidence mixed, anecdotal and unconvincing.

- ➔ After 50 years of policy experiments and hundreds of studies we still don't know enough about whether D is a good or bad thing, or why.

A Simple Definition of Decentralization

Decentralization is 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 center within a legally delimited geographic and functional domain.

This paper

- Blended quantitative-qualitative analysis.
- Argues that the “outputs” of decentralization are simply the aggregate of local political & institutional dynamics, and so to understand decentralization we must first understand how LG works.
- Control for external shocks, political regime, institutions, and other exogenous factors.

1. Decentralization in Bolivia

- Pre-1952 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” (Klein 1993, 237).
- Post-1952, a nationalist revolution embarked upon a state-led modernization strategy of breaking down provincial fiefdoms and transforming social relations (Dunkerley 1984). Their main tool was a very centralized state.
- State power & authority was organized into a cascading chain of authority originating with the President. Legal and Political instruments of local government mostly did not exist. Beyond 30-odd main cities, local government didn't exist in Bolivia.

The Bolivian Decentralization Programme

1. **Resource Allocation.** Devolved funds doubled to **20%** of national revenues. Allocation switched from 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, along with responsibility to maintain, equip & administer facilities, and invest in new ones.
3. **Oversight Committees** (*Comités de Vigilancia*) – alternative channel of representation in the policy-making process. Composed of representatives from grass-roots groups. They propose projects and oversee municipal expenditure. Can suspend disbursements funds – paralyze local government.
4. **Municipalization.** Existing municipalities were expanded to include suburbs and surrounding rural areas, and 198 new municipalities (out of 311 in all) were created.

Figure 1: The Changing Allocation of Public Funds

City	Central-to-Local Revenue Sharing (Bs'000)			% 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%

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

Figure 2: Local v. Central Government Investment

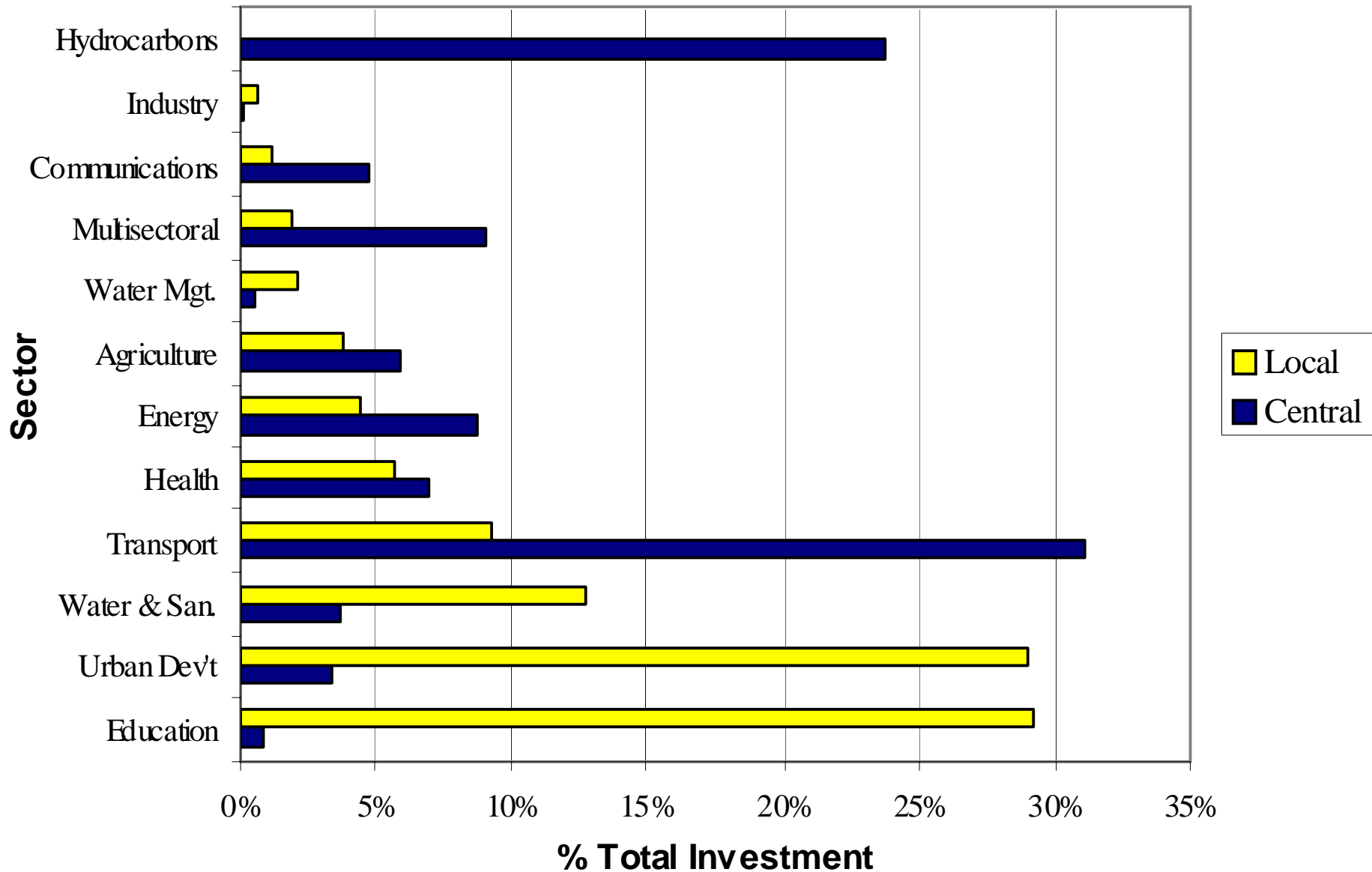


Figure 3: Investment per capita, 1991-93

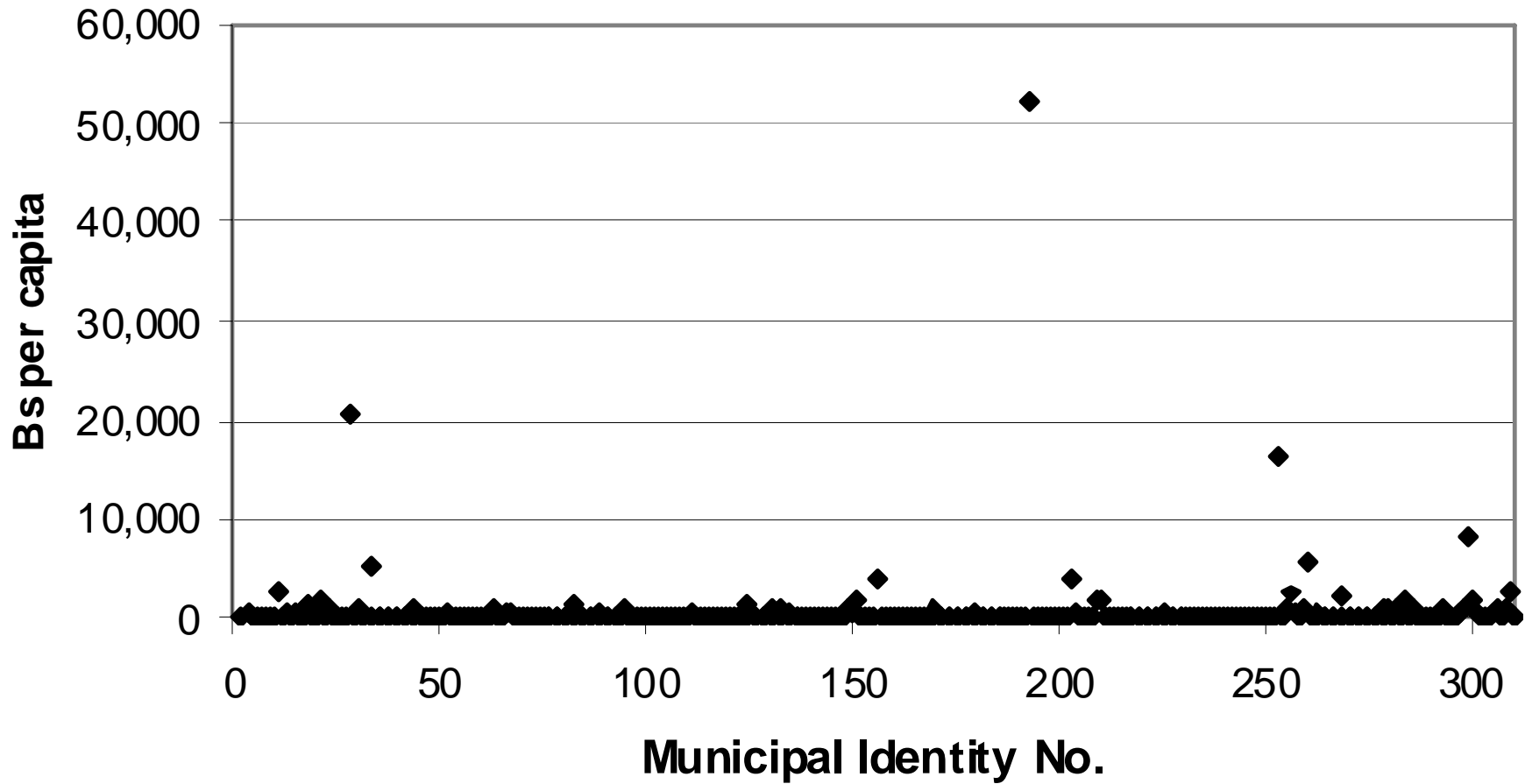


Figure 4: Investment per capita, 1991-93

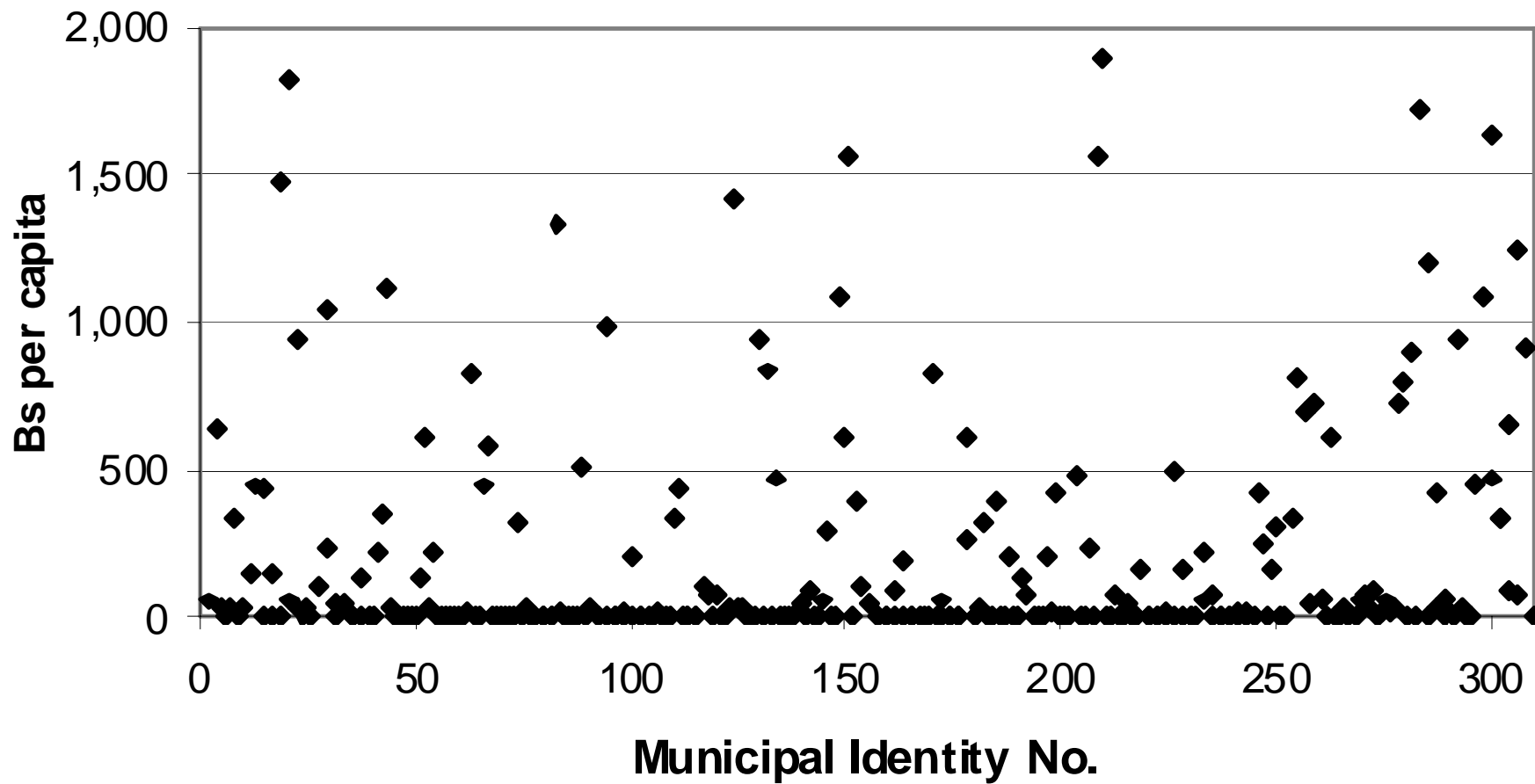
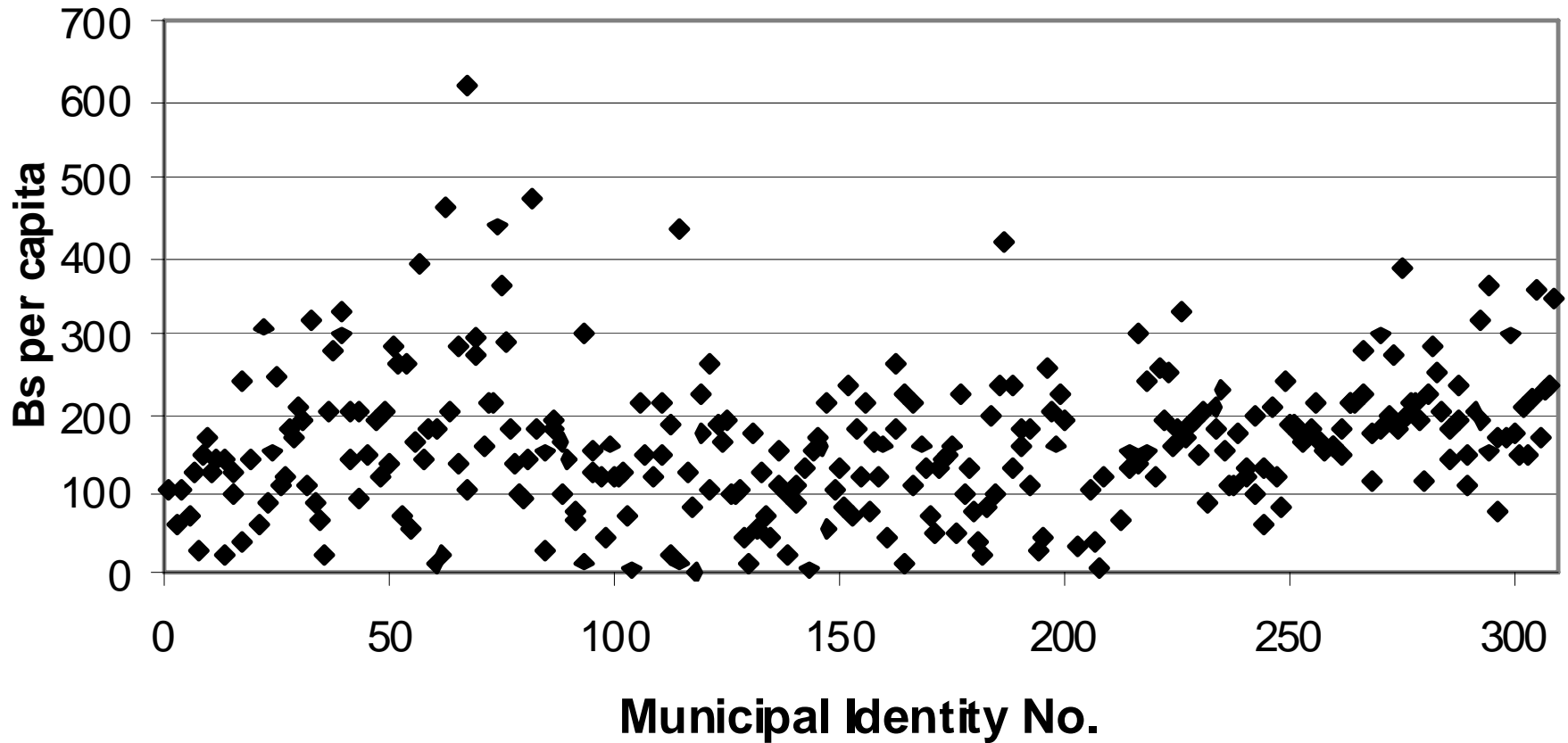


Figure 5: Local Investment per capita, 1994-96



Stylized fact 3

Faguet (JPubE 2004): Decentralization increased government responsiveness to real local needs. Investment in education, water & sanitation, water management, and agriculture was a positive function of illiteracy rates, water and sewerage non-connection rates, and malnutrition rates respectively. 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.

Stylized fact 4

(Faguet 2002b): A similar technique shows that centralized investment was economically regressive, concentrating public investment in richer municipalities. Decentralization shifted resources towards poorer districts.

1. **Viacha** – LG was unresponsive, violent and corrupt. Sewerage; Toboggan.

- Corrupt and corrupting mayor
- Ineffective municipal council
- Neutered, suborned oversight committee

No effective oversight, freeing the mayor's corrupt hands.

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

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

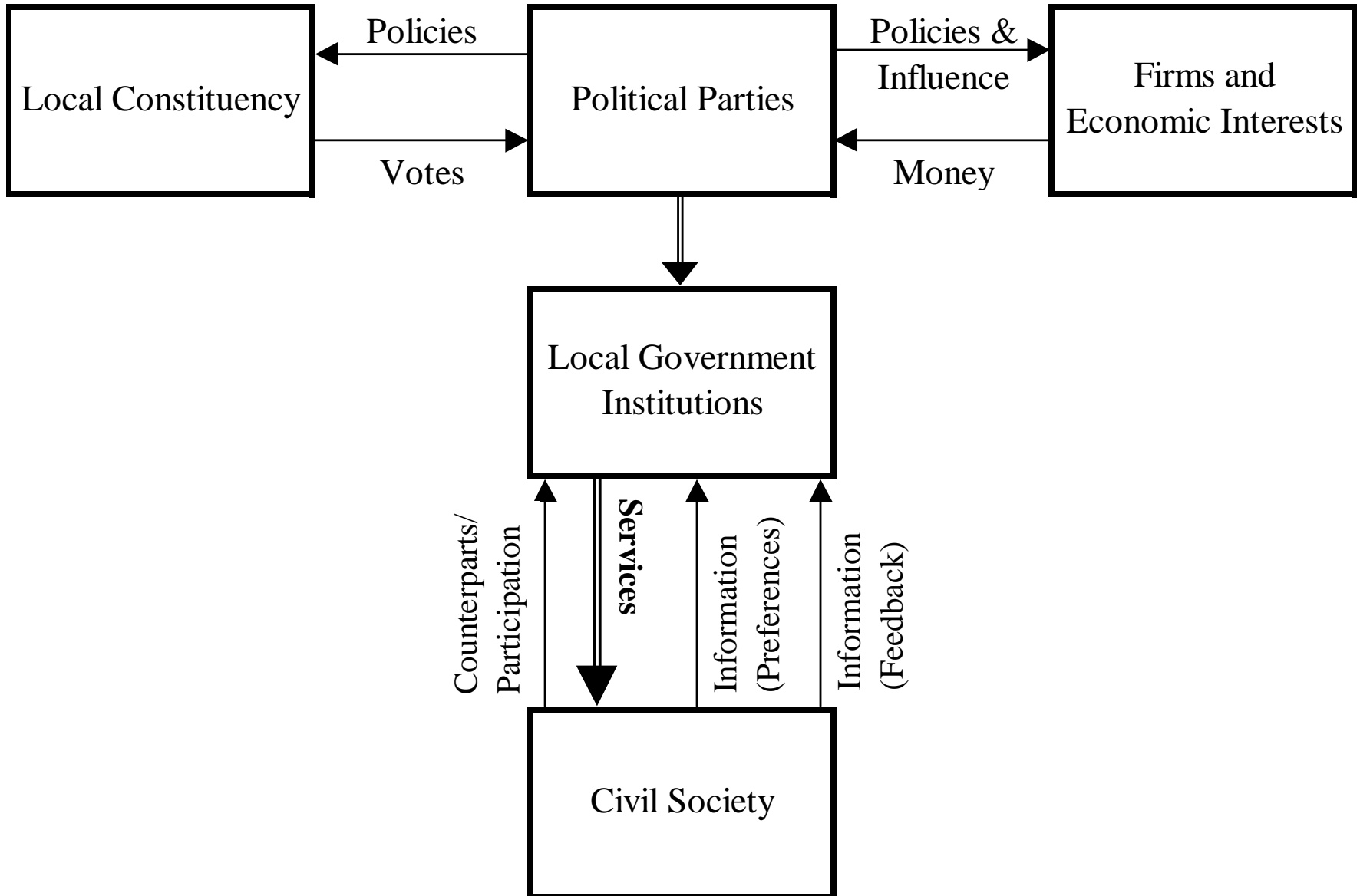
Viacha: Why?

- A dominant firm – CBN brewery – fiercely partisan.
Monopsonistic provider of political finance.
Twin Strategy: capture votes & promote the UCS/CBN brand.
- Political party system → 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 between town and country; Episodic violence; Low social capital

Charagua: Why?

- 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.
APG is an independent civic organization with roots in Guaraní village traditions → very high legitimacy and capacity to mobilize constituents’ opinions and efforts.

1. Theorizing Local Government



Necessary Conditions for Good Local Government

The Local Economy

Competitive local economy → Competition in politics

Economic hegemony/monopsony → Political monopoly

- Low levels of competition; low diversity of ideas
- Low levels of inclusion/representation
- Poor political oversight

Local Politics

1. Open and transparent electoral system
2. Competitive party regime
3. Substantive focus on local issues (via *political entrepreneurship*)

Civil Society

→ Information and Coordination

1. Ability to communicate
2. Minimum levels of human capital amongst civic leaders
3. Minimum resources
4. Norms of trust and responsibility

Viachan Denouement: OC2 called demonstrations and protests which toppled the mayor.

1. Conclusion

Decentralization...

- made government more responsive to areas of greatest need.
- made investment much more equitable – favoured poorer districts.
- shifted resources from economic production and infrastructure to social services and human capital formation.

How did decentralization achieve this?

➔ *More Charaguas than Viachas*

➔ *Real power and resources in the hands of ordinary people*

Decentralization created of hundreds of LGs that proved more sensitive to local conditions, and more accessible to grass-roots pressure, than CG had been. Their superior responsiveness is a product of the structure of local governance, in which power and influence are nurtured and ultimately channelled by voting and information.