

GOVERNANCE FROM BELOW
A Theory of Local Government With Two Empirical Tests*

September, 2008

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Keywords: local government, civil society, democratic theory, good governance, decentralization, Q^2 (Q-squared), Bolivia

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* I thankfully acknowledge the LSE's William Robson Memorial Prize, as well as financial support from the World Bank and ESRC. I am grateful to Armando Godínez, Dan Treisman, seminar participants at the World Bank, DESTIN, Initiative for Policy Dialogue, IEPRI, and the 2003 LSE-MacArthur conference for their thoughtful suggestions. All remaining errors are my own.

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19 September 2007

Abstract

This paper examines decentralization through the lens of the local dynamics it unleashed in the much noted case of Bolivia. It argues that the national effects of decentralization are in large part the sum of its local-level effects. Hence to understand decentralization we must first understand how local government works. The paper begins exploring the deep economic and institutional determinants of government quality in two extremes of municipal performance. From this it derives a theoretical framework of local government as the confluence of two quasi-markets and one organizational dynamic. Good government results when these three elements – political, economic and civil – are in rough balance, and actors in one cannot distort the others. Specific types of imbalance map into specific forms of government failure. I test the theory's predictions on a database containing all Bolivian municipalities. The theory proves robust. The combined methodology provides a higher-order empirical rigor than either approach can alone.

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. Optimists (e.g., Ostrom *et al.* 1993, Putnam 1993, Wallis and Oates 1988, World Bank 1994, UNDP 1993) argue that decentralization can make government more responsive to the governed by increasing “citizen participation and governmental accountability while improving allocative efficiency and equity in service distribution” (Kubal 2006). Pessimists (e.g. Crook and Sverrisson 1999, Prud’homme 1995, Samoff 1990, Smith 1985, Tanzi 1995) 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. But neither side has been able to win over the other with convincing empirical evidence.

Consider the broadest surveys of decentralization experiences. In a wide-ranging survey, Rondinelli, Cheema and Nellis (1983) note that decentralization has usually disappointed. 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 indicate limited success in some countries but not others. A decade and a half later, surveys by Piriou-Sall (1998), Manor (1999) and Smoke (2001) come to cautiously positive conclusions, but with caveats about the strength of the evidence in decentralization’s favor. Smoke asks whether there is empirical justification for pursuing decentralization and finds the evidence mixed and anecdotal. More recently still,

Shah, Thompson and Zou (2004) review 56 recent studies of decentralization, finding that reform has in some cases improved, but in others worsened, service delivery, macroeconomic stability, corruption, and growth across a large range of countries. The lack of consensus is striking.

Under closer examination, this inconclusiveness is less surprising. Empirical work on decentralization can be divided into two broad groups: Qualitative (small sample) work, and Quantitative (large sample) work. The former (e.g. Blanchard and Shleifer 2000, Parker 1995, Slater 1989, Treisman 1999, and Weingast 1995) focus usually on a single country, or develop comparisons between a small set of countries, relying primarily on descriptive and qualitative evidence. This analysis is often careful, deep and nuanced. But the methodology implies low levels of generality and an excess of variables over observations, making it difficult to control for exogenous factors. On the other hand, quantitative studies (e.g. de Mello 2000, Fisman and Gatti 2000, Huther and Shah 1998, and Zax 1989), benefit from the high degree of generality, consistency and empirical transparency that statistical approaches provide. But they necessarily suffer problems with the quantification of nuanced concepts, and data comparability across diverse countries (or regions). The combination of such methodological difficulties with the widely varying definitions of “decentralization” adopted by different countries, often followed by poor or incomplete implementation of whatever definition is chosen, goes a long way toward explaining why empirical studies of both types have been unable to pin down its effects clearly.

This paper attempts to overcome such difficulties by attacking its research question with a blend of qualitative and quantitative evidence¹, focusing on a single country – Bolivia – where decentralization was clearly defined and vigorously pursued. The question is: Why do some local governments perform well and others badly? As we shall see below, this question transforms itself rapidly into: How does (democratic) local governance work, and what are the major ways in which it can be deformed? The paper’s empirical strategy combines deep insight

into the causes of government quality in two extreme cases of municipal performance, with national results from all of the country's municipalities. In this way, we can approach the elusive goal of an explanation that has both generality and deep understanding. We can avoid problems of cross-country comparison (e.g. institutions, political regimes, idiosyncratic shocks) while still benefiting from the formal rigor of large-N studies. And we can retain a central focus on complex, nuanced explanatory factors – such as accountability, trust, and political entrepreneurialism – that are hard to treat with quantitative data alone.

I argue that the “outputs” of decentralization within any given country are largely determined by local-level political and institutional dynamics. This is a significant departure from the bulk of the decentralization literature, where the analytical approach is top-down, treating reform as an essentially national phenomenon. This paper takes the opposite tack, approaching decentralization as a single reform that sets into motion a large number of largely independent local processes. The effects of decentralization are to a great extent the sum of the effects of these local dynamics, which inevitably diverge as much as local conditions do. To understand decentralization, we must first understand how local government works, and in particular when it works well and when badly. It is worth noting that neither approach, top-down or bottom-up, is somehow “right” to the exclusion of the other. Rather, each is well-suited to certain kinds of questions. If a top-down approach is well suited to analyzing variations across countries in relations between center and periphery (*e.g.* Eaton 2006), then a bottom-up approach should be well suited to understanding in-country variations in local government responsiveness and accountability.

Hence this paper explores the deep causes of good and bad municipal performance in two Bolivian municipalities, Charagua and Viacha. We seek to go beyond an account of how these results came about, to their underlying economic and social determinants. The results of this inquiry mirror broader results from qualitative work in nine Bolivian municipalities, which

gives confidence that our conclusions are not purely idiosyncratic. From these qualitative results we derive a theory of local government that integrates a variety of well-established insights on the role of elections and lobbying in democratic politics with more recent ideas about civic organizations and social linkages. The framework provides a structure in which economic interests, political actors, and civic organizations interact to make policy decisions. I derive predictions based on local characteristics, and then test them with extensive quantitative evidence from the universe of Bolivian municipalities. 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 so poor, and include information on the political, social and civic, economic, institutional, and administrative characteristics of all of Bolivia's municipalities.

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 center within a legally delimited geographic and functional domain. The rest of the paper is organized as follows. Section 2 presents the qualitative methodology, and explores the causes of divergent government quality in two extreme cases of local government performance. Using these insights, section 3 develops a theory of local government and derives predictions. Section 4 tests the predictions using econometric models of public investment and a database that comprises all Bolivian municipalities. Section 5 concludes.

2. Local Government at the Extremes: Charagua vs. Viacha

2.1 Context and Methodology

We turn now to detailed qualitative evidence from two extreme cases of local government performance in Bolivia. These emerge from a broader study, involving six months of field work in nine municipalities chosen to broadly represent Bolivia in terms of size, region,

local economy, rural vs. urban setting, and cultural and ethnic characteristics. In each of these, a small research team conducted a systematic program of semi-structured and unstructured interviews of public and private leaders, key informants, and citizens at the grass-roots level. Interviews were carried out in the main city/town and throughout rural catchment areas. The majority of the interviews by number were with members and spokesmen of grass-roots organizations.

But let us first quickly review the institutional context 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 the top vote-getters. Bolivia's European-style, fragmented political culture, grafted onto an American-style presidential system, ensures that most municipal (and national) governments are coalitions.²

The third institution of local government is the oversight committee (OC), composed of grass-roots representatives, who propose projects and oversee municipal expenditure. OCs provide an alternative and continuous channel for representing popular demand in the policy-making process. Once elected, OC members name one of their own president, whose legal status is comparable to the mayor's. The OC's power lies in its natural moral authority, as well as its ability to freeze central transfers to local government if it judges that funds are being misused, effectively paralyzing the latter. 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.

We turn now to a detailed examination of the best and worst municipalities I found in Bolivia – Charagua and Viacha – based on 77 interviews with 111 respondents. I focus on the extremes of municipal performance in order to place in stark relief the systematic differences in

decision-making that characterize each, leading to their very different outcomes. Charagua is an object lesson in high quality local government, and hence we begin there.

2.2 Charagua

Located in the scrub grass and low twisted bushes of Bolivia's arid Chaco, Charagua's 60,000 km² make it larger than Costa Rica and twice the size of Belgium. One-eighth of its inhabitants live in Charagua town, with the rest scattered across 80 indigenous and rural communities. The economy is based on agriculture, cattle-ranching and a teacher-training college. Only cattle-ranching achieves a respectable scale, with a few families raising huge herds on tens of thousands of hectares. Most of Charagua's agricultural sector is pre-modern – communal lands farmed by Guaraní peasants who break the earth with their traditional stick method. The population of Charagua is overwhelmingly Guaraní. Townsfolk think of themselves as either white or mestizo, in strict opposition to Guaraní peasants. The town has no industry and little commerce. Its public services greatly surpass those of surrounding communities.

By mid-1997 Charagua had acquired a reputation for being well run. The mayor came top in a departmental ranking. "He is a very good administrator," said the Social Investment Fund's regional head. "He has a very good image – even people from rival parties recognize this."³ Councilmen were also judged hard-working, honest and effective, and villagers were pleased with the outcome of their work. Decentralization had increased municipal resources by some 6500% year-on-year, and yet the funds appeared to be well-spent. Local government had managed to keep operating costs to just 4% of total budget. National government audits concurred (Secretaría Nacional de Participación Popular 1997).

As did our research – primary evidence abounds that local government in Charagua was of high quality. At a time when public disaffection with Bolivian politicians was high, dozens of hours of interviews with authorities and citizens from all walks of life produced not a

single accusation of official corruption. Grass-roots respondents from all over Charagua reported satisfaction with their local government, and felt that their concerns were being addressed. Working in concert with the municipal council and the OC, the mayor had implemented an investment planning system which authorities and villagers alike agreed was transparent, equitable, and highly participative. Projects resulting from this process pleased citizens because they responded to real needs and incorporated local concerns from the start. A wide range of public officials and business and civic leaders agreed that municipal authorities were well-meaning and effective, and the quality of the services provided was high.

The foundation of good local government in Charagua was a political covenant in which the center-left *Movimiento Bolivia Libre* (MBL) party allowed the Guaraní People's Association (APG) to choose its candidates and write important parts of its platform in exchange for Guaraní votes in municipal elections. The covenant was a success, and allowed the MBL – which had never done well in Charagua – to quadruple its share of the vote (Corte Nacional Electoral) and occupy the mayor's office.

The deeper background to Charagua's municipal dynamics is a Guaraní cultural renaissance which began in the early 1980s. Having survived Spanish colonialism for over three centuries, the Guaraníes succumbed throughout the 1800s to a potent mix of Christian conversion, land accumulation by cattle ranchers, and government annexations, all backed by the repression of the Bolivian army (Albó 1990, 19-22). 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 community.⁴ Kurujuky cast Guaraníes onto the margins of society, where they survived as indebted slaves confined to vast estates, or subsistence farmers in isolated rural communities. They spent the better part of a hundred years in material and spiritual deprivation, a once proud and bellicose people lost in a sort of collective amnesia triggered by defeat (Medina 1994, 19-30).

The 1980s witnessed a re-birth of Guaraní consciousness and Guaraní pride. The APG was formed in 1986-7 to coordinate Guaraní affairs, foment cooperation amongst communities, and articulate Guaraní interests. It essentially built upward levels of representation and voice onto existing Guaraní institutions of community self-government. The moment was ripe – aided by consensual decision-making and high levels of solidarity amongst Guaraníes, the APG flourished and quickly established a central role throughout the Guaraní world from mundane community tasks to regional and national affairs.

2.3 Viacha

Viacha squats under the fierce altiplano sun, a large rural municipality with a dusty, medium-sized city in one corner. By Bolivian standards it is wealthy, home to numerous textile and construction-related firms, as well as a large bottling plant of the *Cervecería Boliviana Nacional* (CBN), Bolivia's largest brewery. Municipal income is higher and more broadly based than most Bolivian cities. Yet by mid-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 accusations of corruption and incompetence. Dozens of communities' investment requests went unsatisfied, yet the 1996 budget under-spent by Bs.2 million. The participative planning process broke down as the city became polarized between groups supporting the mayor and those demanding his resignation. Because the UCS was founded by the owner of the brewery, and in many ways operated as the political wing of the city's largest employer, the stakes in Viacha were high.

Primary evidence from personal testimony, municipal accounts, and facts on the ground confirm that local government was of very poor quality. The institutions of government varied between ineffective and fully corrupt, producing policy outputs that were 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 municipality's

administrative ability or technical skills. And he squandered huge sums of money on pet projects, like an unfinished, over-budget municipal coliseum; a high, twisting playground slide whose main panels soon began to fall off, threatening children with severe injury; and an expensive municipal sewerage system which exploded, throwing feces onto the streets of the city. Public officials, municipal councilmen, and even the mayor's political boss testified to Callisaya's corruption, and a national audit of municipal accounts charged him with malfeasance. The mayor's example spread throughout his administration, forming a web of corruption that enveloped the municipality.

Across the hall from the mayor's office, the municipal council readily admitted scarce knowledge of their own responsibilities, and displayed no interest in finding out. Respondents from across Viachan society considered them unsophisticated, unresponsive and easily manipulable. Increasingly their loyalties belonged to just one party. When opposition representatives began to question municipal policy, the UCS hired them and members of their family, and the criticism stopped. The situation of the OC was more dire. Viacha suffered two OCs – OC1, the "official" OC recognized by local and national governments, was uninformed and inert. Its president, recently arrived from distant Potosí, was unaware of the financial details of projects he had approved, and ignorant of basic facts like how many people the municipality employed, or how much it sent per year. Almost no one in the city knew who he was. The opposition OC2, by contrast and despite the mayor's efforts, was considerably more active and well-informed. Unrecognized by the national and local state, however, and excluded from official deliberations, OC2 was ultimately powerless to intervene.

The eruptions of Viachan politics occur within a broader tide of urban migration which flows around and through the city. Perched on the edge of the La Paz-El Alto metropolis, Viacha is the first stop for many peasants fleeing the subsistence agriculture of the altiplano. Some move on but others stay, pushing the city's adobe neighborhoods farther and farther

outwards. They take little pride in the traditions of a city that defines itself in opposition to the countryside; they stay, having found jobs in the capital, because the living is cheap.⁵

2.4 Theorizing Local Government at the Extremes

Now abstract away from the proximate causes of government performance – the mayor, municipal council, oversight committee. This section contrasts the social and institutional characteristics of Charagua and Viacha under three headings: the local economy, local politics, and local civil society, in order to understand the deeper currents at work in each.

The Local Economy

The economic differences between Charagua and Viacha are huge. Even though Viacha's brewery comprises a considerably smaller share of the local economy than Charagua's ranchers, the single-minded exploitation of its resources and distribution network, combined with skillful political tactics, allowed it to dominate the city's political life to a remarkable degree. The CBN financed not only the UCS, but indeed the entire local political party system, with abusive and monopsonistic effects. With fiercely partisan aggression, the CBN mounted integrated advertising campaigns for politics and beer, pushed political propaganda through its distribution network, and rallied its staff to work political rallies where beer was given away. And once the UCS was in power, it bribed, hired and intimidated other party leaders so as to neutralize opposition.⁶ Beneath this lay a simple strategy designed to capture votes and promote the UCS-CBN brand. And so it generated, for a time at least, a political monopoly in which the UCS raised the price of dissent and won repeated re-election.

By contrast, Charagua's ranchers favored of a more diverse approach better suited to a pluralistic group of businessmen. Unlike the CBN, they were an association of entrepreneurs who did not face identical business conditions, and accordingly did not act politically or commercially with a single will. Cattle ranchers contributed to, and could be found in, all of Charagua's political parties. In this way they encouraged competition in the political system,

and created conditions whereby entrepreneurship could flourish. In business also, ranchers helped Guaraní farming communities to drill wells, and gave non-members technical and veterinary assistance. And when their rivals won power, the ranchers found an accommodation.

Local Politics

Consider systemic issues first. In the 1980s and '90s Bolivia enacted a number of national reforms that improved the transparency, secrecy, and independent oversight of the voting process. Additional reforms simplified voter registration, increased the number of rural polling stations, and greatly extended rural literacy programs (especially amongst women). Their collective effects were a broad increase in voter registration and participation. Charagua provides a case study of this process. Registered voters increased by 72 percent between the 1993 and 1995 elections, and suffrage rose 139 percent.

The impact of these reforms were greatly multiplied by the decentralization program that followed soon after. The LPP redrew municipal boundaries so as to bring rural areas into the municipal system, and then devolved significant resources 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 authority were at stake. The prospect of controlling them drove political parties into the countryside in search of votes. The prospect of benefiting from them pushed villagers and farmers into municipal politics, and into the voting booth.

The reforms that opened politics to a new electorate also promoted fairness and openness. The old methods of bribery and intimidation could no longer be counted on. Proof is that an attempt to bribe an ADN councilman to confirm the MNR candidate as mayor failed because, given electoral transparency, the transaction would have been apparent and would have exposed the ADN to the voters' wrath.⁷ 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 pre-eminence and was thrown out of government.

The process was very different in Viacha. Although voter registration also increased, Viacha's gain of 22% was an order of magnitude lower than Charagua's. This reflected the fact that Viacha's politics remained closed to the concerns and priorities of the rural majority. This, in turn, was mostly due to the CBN, and in particular to the head of the local bottling plant, Juan Carlos Blanco. Blanco, a swearing bear of a man, threw all of the CBN/UCS' resources behind the effort to deliver large local majorities. He took the fused politics-and-beer strategy to comical lengths, and bribed and intimidated opposition parties into a meek submission.

The lamentable consequence was that the legal-electoral reforms detailed above were insufficient to counter the CBN-UCS' capture of local government. Under normal conditions, political competition and openness could be expected to catalyze a cleansing of the political system. But a substantive political choice is required for this mechanism to operate, and in Viacha there was none. The local political system was uncompetitive, unrepresentative and incapable of innovation. Voters offered a "choice" of the UCS or toothless, dormant alternatives eschewed politics altogether and dropped out of the system. Political oversight of government fell away, and the municipality became deeply corrupt.

Civil Society

The conspicuous differences between Viacha and Charagua extend to the social arena as well. In Charagua the Guaraní majority form a large network of rural villages with homogeneous social characteristics and self-governing community structures. Townspeople, the other important group, had their own organizational structures, but proved pragmatic and willing to work with the Guaraní majority.

By contrast, Viachan civil society is a heterogeneous mix of groups with strong and divergent identities and a long history of mutual antagonism, marked by episodic outbreaks of violence. Rural Viacha is 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. Rural and urban 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.

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 in which communication was fluid and norms of trust and responsibility strong. Through it, civic and municipal authorities found it easy to stay in touch with local demands 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. In Viacha, by contrast, civil society was functionally broken. Its constituent parts did not trust each other, and in many cases could not 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 effectiveness at the village level were overwhelmed by the scale and pressures 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 note that Charagua, while in some ways more homogeneous than Viacha, is itself a heterogeneous society, with minority white, 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 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 investment scheme that produced unequal distributions would lead to strife amongst the Guaraníes, an outcome they would seek to avoid. Allocations that were fair amongst Guaraní communities but systematically lower for minority groups might be technically feasible, but would alienate *criollo* townspeople, along with the technical and financial resources they controlled.

In Olson's (2000) terms, there existed in Charagua an "encompassing interest" – i.e. one whose incentives were consistent with the growth of the collectivity. 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. Charagua's history was if anything more repressive and more cruel than Viacha's, leaving a potentially deeper reservoir of resentment. And 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 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.

3. A Theory of Local Government

3.1 Economy, Politics, Society

Elections do not establish a contract (explicit or implicit) between government and governed, nor do they set a specific policy agenda. This is due to two problems: political contracting, and cycling. The former, emerging from the incomplete contracts literature (e.g. Hart 1995, Hart and Moore 1990), refers to the impossibility of writing a comprehensive platform that links politicians' actions to voters' policy preferences. Specific responses to all possible contingencies cannot be contracted for the simple reason that all possible contingencies cannot be foreseen. The latter, well-known problem of cycling in multidimensional space (Condorcet 1785, Dodgson 1884, Black 1948, Mueller 1989) further limits elections' ability to convey information with anywhere near enough detail to inform specific policy decisions (Verba et al. 1993). Hence elections serve instead to allocate control over governing institutions to the "team" (Downs 1957) most trusted by voters. Elections are about the allocation of power – power to take future decisions that affect society's welfare.

In this setting, local government is a hybrid. Its function is to produce local services and policies at the intersection of two quasi-market relationships and one organizational dynamic. Thus local government occurs at the confluence of two distinct forms of social interaction. Political parties and politicians are at the center of both quasi-markets. The first of these occurs between parties and individual voters. Following Schlesinger (1984), this can be thought of as the primary, or retail, political market in which parties exchange ideas and declarations of principle for votes; parties compete with promises and ideas to attract voters, who vote for the party or candidate that inspires the most confidence. Such exchange is intrinsic to the nature of democracy.

The second market connects parties to private firms, producer associations, and other economic and issue-oriented interest groups. Following the pressure group politics work of

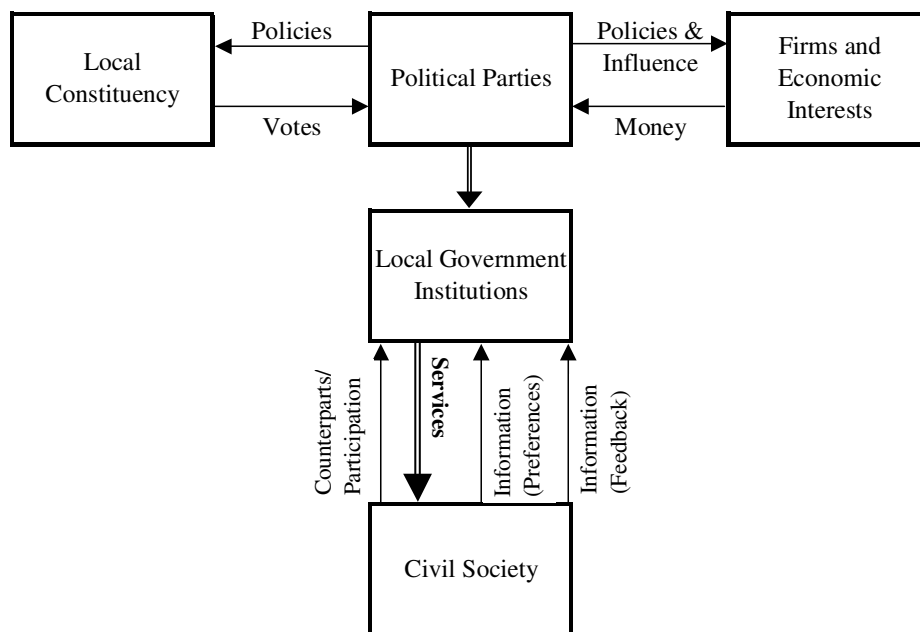
Bentley (1908), Finer (1997) and Truman (1951), it can be thought of as a secondary, or wholesale, political market in which specific policies or entire policy bundles, as well as broader influence over legislators and the policy-making process, are sold to interest groups in exchange for money. The rationale for this market is derivative but compelling: even where they are all-volunteer organizations, political parties require resources to fund election campaigns and sustain party operations. And firms are interested in a continuing influence over government decisions and the policy environment in which they operate (Kitschelt 2000). Such wholesale exchanges, combined with gifts from the faithful, are how parties finance themselves.⁸ Ben-Zion and Eytan (1974), Palda and Palda (1985), Poole and Romer (1985) and many others, have tested the relationship between campaign contributions and policy-making empirically, with positive results.

The second form of social interaction in local government involves civil society conceived as a collectivity or set of collectivities – as opposed to atomized individuals – and their relationship with the institutions of government. Where governance is concerned, local civil society operates as a complex of organizations. These aggregate preferences and represent community needs, mediate community participation in the production of certain services, facilitate social expression and the assertion of local identity, and enforce political accountability on the institutions of government. It is not useful to conceive of this interaction 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 generate their own norms of behavior and responsibility organically, and over time may develop stores of trust and credibility that enhance capacity, or may not (Putnam 1993, 2000).

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 (Bardhan 1996). Politicians also depend on these

relationships to gauge public satisfaction with their performance between elections. The organizational dynamic of civil society is thus intrinsic to the process of local governance. Figure 1 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 1: A Model of Local Government



3.2 Local Characteristics, Local Dynamics

Now consider how the quasi-markets for policies and influence interact. Figure 1 suggests a political analogue of the neoclassical argument that open and competitive markets lead to efficient resource allocations. Where a municipality's economic landscape is dominated by an economic hegemon, that hegemon can increase the efficiency of its political finance by focusing resources on the success of a single party. Competing parties will find it difficult to

finance their activities, and may be actively undermined by an abusive hegemon. Monopsony in the provision of political funds thus encourages monopoly in the party system.

In an open and competitive local economy, by contrast, a variety of economic actors with competing interests will tend to support a variety of political expressions. This in turn promotes a vigorous local politics, in which competition spurs policy innovation as parties vie to win both votes and financial backing. Innovation happens when parties actively canvass local society, identifying pockets of voters, currents of opinion, or particular interests that are under-represented, and propose policies that respond to these and other changing voter needs. Policy innovation of this sort can be termed political entrepreneurship. As we shall see below, vigorous local polities are characterized by a greater diversity of ideas and policy proposals competing for public favor, and hence a broader representation of the public's needs.

A direct result of this is improved public accountability for government officials, as opposition parties continuously search for advantage over their rivals. By contrast, the reduction in competition that characterizes political monopoly reduces the level of oversight that local government institutions are subject to, and may well leave sectors of the population unrepresented and effectively disenfranchised. Where an economic hegemon and a dominant political party collude abusively, the entire local governance system can be deformed to perverse ends. This happened in Viacha.

If a competitive party regime is the first condition of a local politics with accountability and broad representation, the second is an open and transparent electoral system. This refers to rules and mechanics of the electoral process, which serve to encourage or discourage the political engagement of the citizenry. These can have a decisive effect on turnout, and hence political outcomes, and so should be open, neutral and transparent. Systemic reforms which increase the transparency and ease of voting serve to increase participation by making voting both feasible and fair. This includes direct measures, such as permitting independent observers

to inspect vote counts, as well as indirect measures, such as providing rural citizens with the identity papers needed to register to vote. Voters who are able to reach a polling center 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. Such reforms encourage citizens to express their political preferences freely, not just inside the voting booth but outside too. This in turn raises the electoral return to political entrepreneurship.

The insertion of civil society *per se* into the framework occurs after elections have been held, and a given political team has assumed control over the institutions of local government. In order for civil society to provide useful oversight and a feedback mechanism for the governing process, it must be able to identify a specific failing of local policy at the community level, formulate a coherent demand or complaint, and transmit it upwards to a level where it is advocated convincingly to policy-makers. Such abilities are not culturally or organizationally specific, and thus a wide variety of societies are likely to have them. But they will share four general traits that facilitate these tasks.

The first is simply the ability to communicate, often across large areas and ethnically diverse groups. The second is norms of trust and responsibility, both within and across communities 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 accountable by communities.

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 fourth trait is a minimum level of resources required to carry out these activities. Even if civic officials are unpaid, there remain unavoidable, non-trivial transaction costs associated with their activities.

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 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 policies/votes is weak or missing, government will tend to be undemocratic; where the market for political influence is weak, underfunded parties may be unable to canvass voter opinion effectively, and government may be insensitive to economic conditions; and where society's civic organizations are weak, government will be lacking in information, oversight and accountability.

To state the problem another way, assume political agents are distributed along a continuum between "good" and "bad" extremes. What are the characteristics of municipalities where bad politicians gain control of public institutions? and where and why do good politicians prevail? 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. In districts where a stable tension between the economic, political and civil obtains, politicians will face strong incentives to satisfy voters' needs. Bad political agents will dedicate themselves to other pursuits or leave.

In the interplay between these three factors, 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 somewhat balanced.

Under usual circumstances civil society is at a 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. In one hand they carry the relatively inexpensive tool 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 the 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 are high.

The genius of Bolivian decentralization was to include civil society explicitly in the local governance process via Oversight Committees (OCs – see below). This additional instrument allows Bolivian society to level the playing field between the competing logics of market and representation intrinsic to local government. 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.

3.3 An Application, and a Postscript

It is instructive to apply the framework to our two districts. Charagua's political market was dominated by the rural Guaraní population, while economic power was overwhelmingly concentrated in cattle-ranchers' hands. But Charagua's civic organizations were also mostly run

by the majority Guaraníes through the APG, an organization as structured and disciplined as it is legitimate in 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, monopoly in the market for political finance allowed the CBN/UCS to snuff out competition in the local political system. Civil society was divided along ethnic and historical lines, riven with hostilities and mistrust, rendering its organizations incapable of cooperation and unable to engage substantively with government institutions. Local government was thus crippled. Having mastered the quasi-market dynamics which give rise to government, the UCS was able to perpetuate its corrupt and ineffective rule in the absence of any countervailing forces that might have moderated it or demanded accountability.

The framework thus provides a succinct, coherent explanation of government quality in both districts. Its completeness is underlined by the final, extra-systemic denouement in Viacha. In late March of 1997, following a series of town meetings that aired their grievances, the people of Viacha rose up against their mayor.⁹ On March 22nd a crowd of several hundred people¹⁰ marched through town, and then massed in the central square opposite Callisaya's office, loudly and angrily denouncing him. A few days later he resigned. In the process of entrenching itself, the CBN/UCS had so comprehensively distorted the local political system that only a massive external shock could break its hold. The UCS had taken voters for fools, and the voters had had their revenge.

4. A Quantitative Test – National Evidence

The framework explains outcomes in Viacha and Charagua well. But does it have more general implications? We turn now to a large-N database in search of broad support. If, as argued above, the outcomes of decentralization are largely the sum of the many local processes that it sets into motion, then a framework that models such processes should help us understand the national results of decentralization in Bolivia. Faguet (2004) shows that decentralization caused important policy changes in Bolivia: public investment shifted from economic

infrastructure to social services and human capital formation, and resources were distributed much more equally across space. He finds evidence that local government was more responsive to local needs, but does not explain how this came about. Can our framework explain these outcomes?

4.1 Methodology

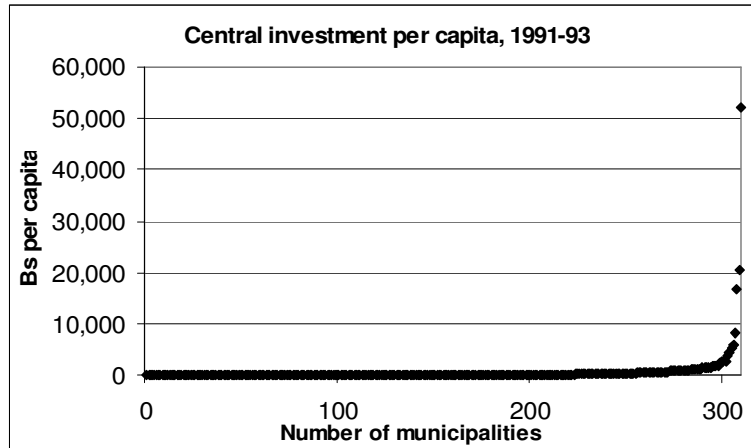
The framework proposes that policy results from the interactions of civic, political, and economic actors, within a particular institutional structure that comprises local government. High quality policy decisions – effective government – depends on a rough balance between these three factors. An ideal test of this framework would model the quality of government outputs as a function of the civic, political and economic factors identified above, attempting to measure the degree of balance amongst them. But even for the richest, most data-abundant countries, there is no obvious natural measure of good government. Constructing one that is both robust and meaningful for Bolivia's 311 municipalities is operationally fraught, especially given the data available.

So instead I do a more general test of the framework's structure, by modeling policy outputs as a function of the same civic, political and economic actors. I use local investment decisions as the dependent variable, as a measure of key policy outputs. If our framework is correct, key determinants of local investment decisions should include: (i) the degree of engagement by civil society in the policy process; (ii) the degree of competition and openness in local politics; and (iii) the competitiveness of the local economy, especially where the provision of political finance is concerned. Hence I put indicators of all three factors on the RHS. I also include indicators of local need, so mimicking Faguet's test of whether decentralization made government more or less responsive to local conditions. If local civil society, local politics, and the local economy are important determinants of municipal investment decisions, they should be involved in making these investments more (or less) responsive to local needs than central

government was previously. Using local investment as the dependent variable has three advantages: investment data are copious and reliable; investment flows are measured in non-controversial units; and variation in investment levels and composition is high both before and after decentralization.

Before proceeding, it is useful to understand the economic context. In the years leading up to decentralization, central government invested very little in most municipalities. Figure 2 shows all pre-decentralization investment in all of Bolivia's municipalities, summed over the period 1991-93. Each municipality is represented by a black dot. We see that a handful of municipalities received large resource flows, a larger number received modest sums, and the majority received very little or nothing. In fact, fully half of all of Bolivia's municipalities received zero investment during these three years. Hence at the start of decentralization, most Bolivian municipalities can be characterized as small, poor, rural towns and villages lacking in infrastructure, and even primary social services. In such an environment, the objective need for investment in services such as primary health and education was high. This was confirmed with subjective data: in hundreds of interviews in Viacha, Charagua and seven other municipalities in the course of this research, the vast majority of respondents stated that investment in education, health, urban development, and to a lesser degree water and sanitation were top priorities in their districts. Hence we assume that the typical Bolivian municipality has large needs, and hence more investment in these sectors is better than less. We further assume that investment in any of these sectors has larger and more broadly-based benefits for the population than the alternatives. Alternatives include investing the same resources in other sectors, spending them on salaries and running costs, or leaving them idle in the bank.

Figure 2



Source: National Secretariat of Public Investment and External Finance

We test the theory's predictions with an original database that marries investment data for all of Bolivia's municipalities during the decade 1987-1996 with a rich set of indicators of local institutional and decision-making characteristics. Doing so required "municipalizing" pre-decentralization investment records first. This is because the vast majority of public investment in villages and towns before 1994 was undertaken by central government. But financial records of these projects do not include information on which municipality they would eventually belong to. Hence it became necessary to work with local experts in geographic information systems to allocate the thousands of public investment projects in the 1987-1993 Public Sector Investment Budget¹¹ to Bolivia's municipalities as created or expanded in the 1994 reform. This data was combined with post-reform data reported by municipalities to create a 1987-1996 municipal investment dataset.

I investigate the determinants of investment flows into Bolivia's 300+ municipalities separately for centralized and decentralized government. Because need indicators are specific to each sector, I disaggregate municipal investment flows by sector, and for each sector estimate the model

$$G_m = \alpha + \beta C_m + \gamma P_m + \delta E_m + \zeta S_m + \eta Z_m + \varepsilon_m, \quad (1)$$

where G is aggregate investment per capita; C is a scalar measure of the number of civil society organizations present in a municipality; P is a vector of political disengagement and the growth of such disengagement (i.e. *stagnant, uncompetitive* politics, per Viacha above); E is a vector of the number of private sector firms in a municipality, which we use as a proxy for competition in the provision of political finance; S is a scalar or vector of the existing stock of public goods of that type (variously defined) at an initial period, and Z is a vector of regional, demographic, economic, and institutional controls, all subscripted by municipality. My use of the C , P , E and Z terms follows Bergstrom and Goodman (1973), and Rubinfeld, Shapiro and Roberts (1987) within the context of the available data; my use of the S term follows Faguet. In order to compare like with like and smooth natural discontinuities, I sum investment flows during 1992-93¹² for central government, and 1994-96 for local government, and run cross-sectional regressions. I assume that C , E , S and Z (but not P) are constant over these five years – a necessary assumption due to the lack of time-series data for these variables. Because G_m is left-censored at 0, we use Tobit estimations for equation (1).

The main coefficients of interest are β , γ and δ , corresponding to the civic, political and economic factors that underpin local governance. The simplest test of our framework is that the three coefficients should be significant. But we can go further. We measure the degree of civic engagement in the policy process, C , by the number of grass roots organizations (GROs) officially registered in each municipality. Registration is with the prefecture (departmental government), and confers upon a GRO the status of formal representative of the people living in a particular geographic area. Registered GROs are invited to participate in the election of the oversight committee, and help draw up a district's municipal development plan, as we saw in Charagua. Hence I interpret this indicator as a measure of civil society's engagement with public officials in the formation of local policy. The interview evidence mentioned above

shows that grass-roots citizens value investment in primary social services highly. Hence I expect β to be positive.

Our measures of competition and openness in local politics, \mathbf{P} , are the level of voter absenteeism in 1995 local elections, and the growth in absenteeism between the 1993 and 1995 local elections. These variables measure dissatisfaction and disengagement with local politics, a phenomenon we saw in Viacha, and thus are a negative measure of \mathbf{P} . Assuming once again that most voters prioritize investment in social services, we expect γ to be negative.

And our measure of economic competitiveness that supports political competition and diversity, \mathbf{E} , is the number of private sector firms in a municipality. We use total firms, and the number of firms of a particular type; the latter varies by sector. This is the least satisfying of our indicators, as the experiences of Viacha and Charagua suggest that it is the *concentration* of business activity in a small number of firms that is important. But information on relative or absolute firm size (sales, profits, payroll, etc.) is publicly available for only a handful of large cities in Bolivia, and hence we must rely on simple measures that count firms. We expect firms to have two distinct effects: a general, systemic effect, and a firm-specific effect. The systemic effect refers to the assumption that municipalities with more firms are likely to support a larger number of political parties, and hence greater competition in the local party system. This, in turn, will better allow for the transmission of voters' preferences upwards to policy-makers. From this effect, we expect δ to be positive. But in addition, there may also be firm-specific preferences, where certain firms may have specific preferences over investments in certain sectors. Hence construction firms, for example, will tend to prefer investment in urban development over other sectors. We expect these coefficients to be significant, with sign varying by sector and firm type.

Lastly, I use coefficient ζ to characterize central and local investment patterns according to need, where "need" is defined as the marginal utility arising from a particular type of public

service, $N=U'(g)$. This is based on an assumption of decreasing marginal utility of a public service as the level of provision of that service increases. Hence need falls as the stock of g rises, and vice versa. We expect ζ to be positive and significant when Z is measured by a relevant public “bad” (*e.g.* illiteracy, malnutrition), and negative and significant when measured by the per-capita stock of a particular type of infrastructure (*e.g.* markets per capita).

4.2 Results

I examine investment patterns in education, health and urban development, which together account for 64 percent of all local investment. For the sake of brevity I omit agriculture and water and sanitation, although these results are similar to what is presented below. I present separate models of investment under central and local government in order to explain decisions under each regime. For the sake of comparability, I estimate pre-decentralization models with the same C , P , E and Z variables used for the post-decentralization models. But it is the post-decentralization results that interests us most, given that the local dynamics theorized above did not exist before 1994 by definition. For centralized investment, the main issue of interest is responsiveness to local needs.

Education

Figure 3 presents results for education investment. Local government investments rise as the degree of civic engagement in policy making rises. The degree of competition and openness in local politics does not seem to affect investment patterns, but the number of local firms does. Education investment rises with the total number of firms, as we expect, but falls where the concentration of construction and financial firms is greater. The magnitude of this negative effect exceeds the positive effect of total firms by two orders of magnitude. I interpret this as support for the theory via the systemic effect. But in addition to passive support for education investment via supporting a competitive politics, certain firms actively seek to mold such policy by directing resources away from education towards other uses. We present

evidence below that these other uses include urban development. Investment also rises as illiteracy rises, implying that local government is sensitive to local needs. The presence of local health authorities is positive and significant, as we would expect. These results are robust to different specifications, two of which are presented below.

Central investment in education is not related to illiteracy. This implies that central government did not take local need into account when allocating resources. Curiously, growth in electoral absenteeism and increasing numbers of civic organizations are associated with rising central investment. But as central investment predates the elections in question, we dismiss the former result as a spurious correlation. The latter is interesting as it implies that civic groups were able to influence central investment priorities also, perhaps by lobbying their representatives. But neither our theory nor our data provides further insight, and so we leave this issue for future research. No other variables, controls or otherwise, are significant.

Figure 3**Education** (dependent variable: per capita investments in education)

	Local		Central	
	I	II	I	II
No. of GROs registered	0.0001132 ** (1.960)	0.000119 * (1.820)	0.000278 *** (2.660)	0.000279 ** (2.270)
Voter absenteeism in 1995 local elections (%)	-0.0000194 (-0.260)	-1.9E-05 (-0.260)	-0.0002 (-0.980)	-0.0002 (-1.000)
Change in absenteeism, 1993-95 local elections (%)	-0.0000412 (-1.100)	-4.2E-05 (-1.100)	0.000328 ** (2.400)	0.000323 (2.420) **
No. of firms (total)		3.20E-06 *** (3.370)		2.19E-06 (1.280)
No. of firms (financial)	-0.0002492 *** (-3.070)	-0.00041 *** (-5.100)	5.68E-05 (1.180)	-1.8E-05 (-0.300)
No. of firms (construction)		-0.00014 *** (-4.750)		-8.3E-05 (-1.400)
Local education authority dummy	0.008169 * (1.770)	0.008151 * (1.760)	-0.01649 (-1.450)	-0.01688 (-1.480)
Illiteracy rate	0.0004719 * (1.660)	0.000484 * (1.700)	0.000382 (0.600)	0.000391 (0.610)
Altiplano regional dummy	0.0086133 (1.380)	0.008537 (1.380)	-0.00222 (-0.170)	-0.00317 (-0.250)
Eastern regional dummy	0.0026222 (0.410)	0.001911 (0.300)	0.009238 (0.620)	0.007425 (0.490)
Population speaking indigenous languages only (%)	-0.0001664 (-0.680)	-0.00018 (-0.750)	7.67E-05 (0.190)	4.82E-05 (0.120)
Rural population (%)	-0.0000598 (-0.630)	-6.6E-05 (-0.700)	-0.00013 (-0.470)	-0.00015 (-0.500)
High-income households, by housing category (%)	-0.0001312 (-0.960)	-0.00017 (-1.250)	3.66E-05 (0.110)	-5.7E-05 (-0.170)
Percentage of households having a kitchen	0.0003024 (1.590)	0.000298 (1.570)	0.000155 (0.330)	0.000143 (0.310)
Economically inactive population (%)	-0.0001565 (-0.630)	-0.00015 (-0.590)	-0.00044 (-0.780)	-0.00042 (-0.750)
Central government investment project (FIS) dummy	0.0103977 ** (2.540)	0.009743 ** (2.400)	-0.00133 (-0.120)	-0.00251 (-0.220)
constant	0.0119852 (0.490)	0.013492 (0.550)	-0.03135 (-0.570)	-0.02634 (-0.480)
ln sigma	-3.338598 (-45.630)	-3.34342 (-45.370)	-2.92252 (-13.570)	-2.92586 (-13.570)
χ^2	43.45	103.87	35.63	31.83
Prob> χ^2	0.0001	0.0000	0.0012	0.0105
N	292	291	299	298

Tobit estimation with robust standard errors; z-statistics in parentheses.

*, **, *** = coefficients significant at the 10%, 5% and 1% levels.

Health

Civic engagement is insignificant in both models of local health investment. But both measures of electoral dissatisfaction and disengagement are significant and negative. This implies that health investment increases with the degree of competition and openness in local politics. As for education, health investment increases with the total number of firms, but

decreases with the number of financial firms; once again, the latter effect is two orders of magnitude stronger than the former. I interpret this as evidence that a competitive local economy promotes health investment by supporting competition and diversity in politics through multiple sources of political finance. But financial firms actively lobby to shift resources towards other uses, and hence their presence reduces health investment. The variable of need is significant in both models, implying that health investment rose where total malnutrition¹³ was higher, as a direct response to the same. The results are robust to different specifications.

Figure 4**Health** (dependent variable: per capita investments in health)

	Local		Central	
	I	II	I	II
No. of GROs registered	0.0000347 (1.470)	0.0000248 (1.010)	0.0027377 * (1.830)	0.0031827 ** (2.100)
Voter absenteeism in 1995 local elections (%)	-0.0001079 * (-1.750)	-0.0001154 * (-1.830)	-0.00063 (-0.180)	-0.000618 (-0.170)
Change in absenteeism, 1993-95 local elections (%)		-0.0000493 ** (-2.060)		0.0039099 * (1.950)
No. of firms (total)	1.10E-06 ** (2.000)	1.21E-06 ** (2.230)	0.000028 (0.990)	0.0000242 (0.920)
No. of firms (financial)	-0.0001498 *** (-4.110)	-0.0001456 *** (-4.260)	-0.000945 (-0.810)	-0.001163 (-1.060)
Total child malnutrition rate	0.0002928 * (1.820)	0.0003071 * (1.880)	0.0095031 (0.980)	0.0082097 (0.890)
Altiplano regional dummy	-0.0057569 ** (-1.960)	-0.0042802 (-1.620)	-0.735264 ** (-2.310)	-0.820464 ** (-2.520)
Eastern regional dummy	-0.003145 (-0.790)	-0.0025271 (-0.690)	-0.472694 (-1.410)	-0.513308 (-1.500)
Population speaking indigenous languages only (%)	-0.0002406 ** (-2.450)	-0.0003233 *** (-2.560)	0.0007247 (0.110)	0.0044656 (0.660)
Rural population (%)	0.0000319 (0.800)	-2.16E-06 (-0.050)	-0.013681 ** (-2.340)	-0.010246 ** (-2.010)
High-income households, by housing category (%)	-0.0000544 (-0.810)	-0.0000959 (-1.230)	-0.012099 * (-1.740)	-0.009518 (-1.500)
Percentage of households having a kitchen	0.0001406 (1.560)	0.0001351 (1.520)	-0.003004 (-0.370)	-0.003799 (-0.470)
Economically inactive population (%)	-0.0001397 (-1.440)	-0.0000903 (-0.880)	0.0165757 (1.390)	0.0143833 (1.190)
Central government investment project (FIS) dummy	0.0013606 (0.680)	0.0007045 (0.380)	-0.020613 (-0.100)	0.0191147 (0.090)
constant	0.0084859 (0.870)	0.0085227 (0.870)	-0.493298 (-0.570)	-0.433652 (-0.490)
In sigma	-4.028535 (-19.240)	-4.042517 (-19.840)	-0.112679 (-0.540)	-0.131293 (-0.650)
χ^2	36.85	38.14	26.96	28.93
Prob> χ^2	0.0004	0.0005	0.0126	0.0107
N	281	280	289	286

Tobit estimation with robust standard errors; z-statistics in parentheses.

*, **, *** = coefficients significant at the 10%, 5% and 1% levels.

In both models of centralized investment, by contrast, malnutrition rates are insignificant, implying that central government invested without reference to local need. The number of civic organizations and growth in electoral absenteeism are again significant determinants of centralized investment. Again we take note of the former, and dismiss the latter as irrelevant.

Urban Development

The number of civic organizations is positive and significant, implying that increasing civic engagement in policy making increases local investment in urban development. Electoral absenteeism is negative and significant, implying that greater competition and openness in local politics increase urban investment. And local investment increases with the number of private firms. Once again, the coefficient on construction firms is two orders of magnitude greater than that on total (or commercial) firms. But this time all the coefficients are positive. The need indicator is also significant, but positive. This implies a pattern of investment that is regressive in terms of need, as local governments invested more where local market infrastructure is abundant, and less where it is scarce. The results are robust to different specifications.

Central government, by contrast, appears to have allocated investment resources with no reference to need. The number of civic organizations is positive and significant in one model, a result which is interesting but weak. And both measures of political dissatisfaction are significant in one model, but with conflicting signs, a result which we can again dismiss.

Figure 5**Urban Development** (dependent variable: per capita investments in urban development)

	Local		Central	
	I	II	I	II
No. of GROs registered	0.000119 * (1.730)	0.000129 * (1.790)	0.0024321 (1.480)	0.0034231 * (1.810)
Voter absenteeism in 1995 local elections (%)	-0.0002012 *** (-2.700)	-0.000211 *** (-2.870)	-0.010534 (-1.460)	-0.0154366 ** (-1.990)
Change in absenteeism, 1993-95 local elections (%)		4.34E-05 (1.280)		0.0132325 ** (2.280)
No. of firms (total)	2.80E-06 ** (2.110)		-8.20E-06 (-0.350)	
No. of firms (construction)	0.0001093 ** (2.200)		-0.000796 (-0.610)	
No. of firms (commercial)		7.98E-06 *** (3.460)		-0.0000379 (-1.200)
No. of markets per capita	0.2237749 *** (3.310)	0.209265 *** (3.080)	-53.63884 (-1.430)	-39.81017 (-1.190)
Altiplano regional dummy	-0.0097418 * (-1.770)	-0.007625 (-1.290)	-0.556372 ** (-2.510)	-0.8317229 ** (-2.510)
Eastern regional dummy	-0.0051322 (-0.800)	-0.003161 (-0.480)	0.2720911 (0.830)	0.1847318 (0.570)
Population speaking indigenous languages only (%)	-0.0000721 (-0.630)	3.03E-05 (0.280)	-0.01375 (-1.450)	-0.0063248 (-0.600)
Rural population (%)	-6.89E-06 (-0.570)	-6.76E-06 (-0.660)	-0.013415 ** (-2.040)	-0.0045411 (-0.820)
High-income households, by housing category (%)	0.0008296 *** (5.280)	0.000765 *** (4.890)	0.0055684 (0.780)	0.0108986 (1.410)
Percentage of households having a kitchen	4.59E-06 (0.030)	8.62E-05 (0.570)	0.0065063 (0.500)	0.0004636 (0.040)
Economically inactive population (%)	-0.0002365 (-1.020)	-0.000242 (-1.080)	-0.018845 (-1.320)	-0.0207057 (-1.430)
Central government investment project (FIS) dummy	-0.0102315 ** (-2.340)	-0.011315 *** (-2.690)	0.6098402 * (1.740)	0.5557339 * (1.810)
constant	0.0573622 *** (3.520)	0.052822 *** (3.270)	0.4040315 (0.370)	0.9645114 (0.880)
ln sigma	-3.343699 (-45.030)	-3.364224 (-42.670)	-0.334977 (-1.300)	-0.4183915 (-1.960)
χ^2	151.5	97.15	25.44	20.81
Prob> χ^2	0.0000	0.0000	0.0202	0.0767
N	292	288	303	296

Tobit estimation with robust standard errors; z-statistics in parentheses.

*, **, *** = coefficients significant at the 10%, 5% and 1% levels.

4.3 Summary

The results support our framework of how local government decisions are made. Civic engagement in policy making, competition and openness in local politics, and the competitiveness of the local economy are significant factors in explaining local policy outputs. And the outputs in question are non-trivial: investment patterns in the three sectors that account for two-thirds of all local government investment, and that fieldwork respondents consistently

judged of the highest priority. Where civil society was more engaged in the policy process, allowing citizens to exercise greater voice, local governments invested more in education and urban development. Where local politics was more open and competitive, leading to greater electoral participation, local governments invested more in health and urban development. And where the local economy was more competitive, and provided greater and more diverse sources of political finance to parties and politicians, local governments invested more in education, health and urban development. Within the context of post-decentralization Bolivia, these are the effects that the theoretical framework predicts.

But the results allow us to refine our conclusions further. There is evidence of tension amongst our main actors via a political economy mechanism by which different interests compete over public resources. Financial, construction, and/or commercial firms successfully lobby for lower investment in health and education in districts with a vigorous private sector, in order that more resources may be devoted to urban development, a sector which offers many more lucrative contracts than training farmers or refurbishing schools. And civil organizations, representing civil society via neighborhood organizations, rural syndicates and other grass roots groups, succeed in getting local government to increase investment in education, one of their areas of highest priority. The fact that the variable for political disaffection and protest enters negatively in the model of urban development, where investment is regressive in terms of need, suggests a healthy picture of local democracy in which voters are able to influence local government through both their civil institutions and the electoral mechanism. Where local government works well, even the poorest citizens have voice and may participate in the policy debate, providing a counterweight to the power of private firms and government's own politico-bureaucratic interests.

The evidence further shows how decentralization changed the policy regime from one where central government ignored local needs, to one where local government invests more

where need is greater. Central investments appear blind to need in all three sectors, while local governments invest more where need is greater in health and education. Given the overall results, the sensitivity of local government to real local needs is not surprising. The competitive interplay of local economic, political and civic forces ensures that politicians are well informed about social preferences. And binding mechanisms exist to ensure accountability. Central government policy making, by contrast, appears to have been much less tied to local priorities.

5. Conclusion

Qualitative information set out above provides rich, nuanced evidence that our framework can indeed explain the quality of government in Viacha and Charagua. Quantitative evidence from the universe of Bolivian municipalities constitutes a less detailed, but much more extensive and general argument that the framework can explain municipal behavior throughout the country. By weaving the two strands together, we can achieve a higher-order empirical test of the theory than either alone can achieve.

The framework proposes that local government occurs at the intersection of two quasi-market relationships and one organizational dynamic. The quality of municipal decision-making is intimately bound up with the nature of competition amongst local economic actors, the openness and competitiveness of local politics, and the coherence and organizational capacity of civil society. Effective, accountable government relies on a rough balance between these three elements, each a form of local power. Where one element is compromised in some way, the dynamics that feed into local decision-making become unbalanced, and local policy will suffer a variety of deformations.

Hence we saw how in Viacha a dominant CBN, acting as monopsonistic provider of finance to the local party system, was able to stamp out political competition, ultimately driving voters away from the polls. A mutually suspicious civil society divided between urban and rural, and again between traditional and modern peasant communities, lacked the organizational capacity to counter this pernicious influence. And so local government became unaccountable,

ineffective and corrupt. In Charagua, by contrast, heterogeneous cattle ranchers comprised a competitive private sector, which nurtured competition and entrepreneurialism in politics. This led to political accountability, and hence responsive, equitable policies, themselves informed and abetted by a coherent and highly organized civil society given shape in the APG.

In less detail, but on a much larger scale, these results are mirrored nationwide. A test of policy-making in all of Bolivia's municipalities shows the importance of civic engagement in policy making, a competitive and entrepreneurial local politics, and competition in the local economy, in explaining patterns of municipal investment in the three most important sectors. And the coefficients' signs point to a healthy tension amongst competing political actors, each pressing public officials for the sorts of investment that benefit them most. In districts where civic organizations are strong, municipalities spend more on education, one of their highest priorities. Where political engagement is high, districts invest more in health. The fact that indicators of need are positive in both sectors implies that citizens succeed in getting what they need most out of government. Where finance and construction firms are abundant, by contrast, municipalities tend to invest less in education and health, and more in urban development – by nature a sector of more expensive, capital-intensive projects. But this last tendency is checked through the political system, where disaffection and protest serve to drive invested amounts back down.

The combination of qualitative and quantitative evidence provides support for the model of local government set out above that is not only analytically deep and detailed, but also broad. The framework holds not only for two obscure towns, but for the whole of Bolivia. Indeed, it is crucial for understanding the effects of decentralization more generally. The 1994 reform made government more responsive by re-directing public investment to areas of greatest need, and more equitable by shifting resources towards poorer districts. How precisely did it achieve these things?

Decentralization worked by creating local authorities beholden to local voters. Through this it opened the institutional space in which local economic, political and civil dynamics could directly affect policy. It put real power over public resources in the hands of ordinary citizens throughout the national territory. This changed not only the form of government in Bolivia, but also its substance. Before 1994, the relatively few central officials stationed beyond national and regional capitals had little 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 favors from the center, but ordinary citizens' ordinary concerns received little hearing. After 1994, the fate of local officials was made dependent on local voters, and voters' welfare dependent in turn on the accountability they were able to impose on their politicians.

As both Viacha and Charagua illustrate, independent civic organizations were important to this change, transmitting information, overseeing politicians' actions, and enforcing accountability. The fact that decentralization engaged thousands of neighborhood councils, peasant communities, *ayllus* and *mallkus*, which previously had little voice in how their districts were run, was critical to its success nationwide. By locating real resources and political power in municipal institutions, it reached out to all strata of society, offering them the means to improve their lives and concrete incentives to participate.

The experience of decentralization in Bolivia underlines a deeper point which is denied by some of decentralization's foes, but which is nonetheless true. The poor as a rule are ignorant, but they are not stupid. They know what they want, and the things they want are by and large good for them. They can ill afford otherwise. Decentralization succeeded in Bolivia because it created more Charaguas than Viachas. It put significant power and resources in the hands of decent, ordinary people, who then made good choices. Such a conclusion is not hopelessly naïve. It is the essence of democracy.

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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

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

La Brecha: Francisco Chávez Flores, Delcio Moreno Candía, 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.

María 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, Industrias de Cerámica Paz 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

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 NGO 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.

¹ Similar applications of “Q²” methods include Rao and Woolcock (2004), and Rao and Ibáñez (2005).

² Hereafter I use “mayor” to refer to the executive branch of local government, including all appointed administrative and technical officials – by far the largest of the three.

³ Dr. Fernando Muñoz Franco, Social Investment Fund departmental director, interview, Santa Cruz, 31 March 1997.

⁴ Fr. Gabriel Sequier (Tianou Pirou), parish priest, interview, Izozo, 3 April 1997.

⁵ Luis González, departmental director, Social Investment Fund, interview, Viacha, 17 March 1997.

⁶ Juan Carlos Blanco, CBN bottling plant director, interview, Viacha, 16 October 1997.

⁷ Abelardo Vargas Portales, municipal council president (ADN), interview, Charagua, 1 April 1997.

⁸ In some countries government is a third source of campaign finance.

⁹ *Presencia*, 22 March 1997.

¹⁰ Estimates of crowd size vary from 150-200 according to UCS spokesmen, to 500 according to OC2.

¹¹ Source: Ministry of Finance, National Secretariat of Public Investment and External Finance.

¹² I reduce the sample to the period 1992-93 in order to avoid endogeneity. This does not affect the results.

¹³ Associated in Bolivia much more with nutritional balance than caloric intake, and hence susceptible to simple medical interventions.