TESI DOCTORAL

FRAGILE MIRACLES: THE CREATION AND SUSTAINABILITY OF AUTONOMOUS OVERSIGHT AGENCIES IN A POLITICIZED BUREAUCRACY
The case of Bolivia

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While writing this dissertation, I started doing a lot of bicycling as a way to get out of the house and refresh my brain and my body. A lot of people describe writing a dissertation as an endurance test; I think of it as similar to a long-distance bike ride. There is the long process of finding a topic, which in my case was a difficult uphill battle. The excitement of doing original research in the field is incomparable, but it reminds me a little bit of how much I enjoy exploring new routes on my bike, never sure what I will find ahead. The writing process has its ups and downs, like the rolling hills of the countryside where I enjoy biking.

Sometimes I wondered when, or indeed if, I would ever complete this project. The will to finish came from within, but it would not have survived without nourishment from several groups of people in different parts of the world. In Barcelona, where I began this long ride, I received the initial push from my dissertation adviser, Ricard Gomà. Ricard agreed to direct my thesis even though I was not able to tell him exactly what I wanted to study. When I moved to Washington, DC in the early stages of my work, Ricard continued to provide guidance via e-mail, reading the chapters I sent him and providing rapid and supportive responses. To Ricard go my first thanks. My friends and colleagues of the former “Barcelona Governance Project” also provided crucial support in those early days: Fabrizio Zarcone, María Elena Corrales, Laura Lamolla and Carla Zumbado offered advice and encouragement that I will always remember.

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Chapter 1. Introduction: organizations for export

Until the mid-1980s, Bolivia represented one of the most extreme cases of political instability, economic stagnation, and poverty in Latin America. Even when the country's economy underwent a dramatic recovery in 1985, its government was still considered one of the most poorly managed in the region. Like many developing countries, the inefficiency, corruption, and incompetence of Bolivia's public sector has hampered development efforts, both by domestic and foreign actors.

Of all the countries in Latin America, Bolivia was one of the largest recipients of foreign assistance during the 20th century. In order to assure themselves that their money will be paid back (if a loan) or used for the intended purposes (if a development project, whether loan or donation), providers of foreign assistance -- whether private companies or public agencies -- have been particularly concerned with avoiding the high levels of inefficiency and politicization that characterize Bolivia's public administration. To that end, money from foreign lenders has generally come with strings attached.

One common condition imposed by external actors[1] in light of their concerns about Bolivia's politicized bureaucracy has been to require the government to create administrative "enclaves": autonomous or semi-autonomous public agencies established through special legislation, which enjoy some degree of protection from interference by narrowly defined interests. These public agencies are created to carry out government functions that external actors view as essential for realization of the goals they are pursuing through their assistance to the recipient country, such as tax and customs administration, construction of infrastructure, and regulatory activities. Often created with direct involvement by foreign consultants, the agencies reproduce the organizational design, regulations and procedures of similar institutions in the industrialized world (Drake 1989).

The Bolivian government has been highly responsive, at least nominally, to conditions set by the external actors that provide foreign resources. The title of this chapter is taken from a Bolivian expression – "*leyes para exportar*" – that refers to the tendency of the Bolivian government, like many governments in states with extreme dependence on outside actors, to formally accept recommendations in order to assuage the fears of those who promise foreign revenues. Conditions are met in the short term (a law is passed, the size of the civil service is cut, an agency is created, etc.), but are not sustained. Commonly, governments renege on their promises in the face of strong pressures from domestic political and economic interests. According to Drake (1994):

> "For centuries, Latin American rulers have had to walk a fine line between external demands and internal expectations. Officials in colonial Spanish America, for example, told the Crown in Spain, 'I obey but I do not execute' ('*Obedezco pero no cumplo*'), to avoid implementing royal decrees unacceptable to local elites. In similar fashion, Brazilians in the nineteenth century labeled unconventional behavior to propitiate powerful foreigners "for the English to see." In the 1920s, Bolivians called legislation concocted more to curry foreign favor than to apply to local citizens 'laws for export.' (Drake 1994, xxiii)

The Bolivian government's behavior towards the autonomous or semi-autonomous public agencies created under external impetus raises the question of whether the creation of these organizations, too, has been "for export". For most of the 20th century, the answer appears to be affirmative for the majority of these special agencies, as few remained

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[1] I use "external actors" as an encompassing term for foreign financial investors, bilateral government aid, and multilateral lending agencies such as the World Bank. The term "foreign revenues" refers to both loans and grants, unless otherwise specified.

insulated for very long. Most of the time, the government has permitted or even participated in the violation of agency independence, almost before the ink dried on the law proclaiming agency autonomy.[2] The politicization of public agencies can take many forms. Often, politicization begins with personnel decisions, whereby employees at all levels are hired because of their political connections rather than their professional competence. Management teams staffed by people who are obligated to respond to particular political interests tend to make unsound administrative and strategic decisions, leading to poor agency performance. In Bolivia, for example, the semi-autonomous land reform institute was highly inefficient in reviewing and responding to title applications, except by applicants who belonged to a certain political party. Regulatory agencies are a particularly attractive target for politicization, since their staff are charged with overseeing key economic sectors and have the authority to make decisions about how and when to apply government rules to these industries. For this reason, I have chosen autonomous oversight agencies as the object of study in this dissertation.

Before I go further, a caveat: it is important to point out that in a democratic political system, no public organization has absolute autonomy. First, public agencies must in theory be held accountable to their principal (the executive and/or the legislature), and thus indirectly to the electorate. Second, in the real world, politicians and/or interest groups will almost always attempt to exert some pressure over state agencies. Particularly in a bureaucracy as politicized as the Bolivian one, we must

[2] The Bolivian case is extreme in the sense that external actors have played some role in many of the government's decisions to create autonomous or semi-autonomous agencies. External actors have not played such a prominent role throughout Latin America; sometimes, domestic pressures have led governments to attempt to create "modern" public agencies based on foreign models (e.g., in Mexico, Brazil, Chile, and Peru).

remember to analyze agencies' autonomy in *relative* terms, compared to other public sector organizations in the country.

The research questions In the midst of a proliferation of political patronage, we can observe some exceptions in Bolivia's public sector. While most of the country's public organizations suffer noticeably from the effects of politicization, it is also apparent that a few appear fairly independent and professional. This observation led me to try to learn more about these exceptions: if the norm is for public organizations in Bolivia to be quickly captured by political and/or special interests, how can we explain the cases where agencies seem to avoid capture?

There are a limited number of instances where political actors in Bolivia have been able to arrive at a consensus for the creation of an agency that will be "off limits" to partisan pressures, carrying out its mission independent of political interference. Other studies (Grindle 1977; Bawn 1995; Willis 1996; Matsuda 1997; Taliercio 2000) of so-called "islands of excellence" – public agencies that avoid political capture and develop into technically competent organizations – have explained the process whereby agencies acquire and maintain their autonomy as primarily a political problem instead of a technical one. My study of two autonomous oversight agencies in Bolivia supports this finding. However, my research goes beyond existing scholarship to examine how micro-level organizational factors interact with politics on a macro level, thus adding to our understanding about how autonomous oversight agencies survive once they are created.

My first goal in this thesis is to develop an explanation for ***why*** and ***how*** these autonomous oversight agencies were created in the first place. The first research question I try to answer is, *which variables explain the creation of externally imposed autonomous* *oversight agencies in Bolivia?* This is an interesting question because it addresses a difficult trade-off that has often confronted Bolivia's political leaders: should they continue to respond to the patronage demands of their constituents, or should they try to satisfy a foreign financier by creating an effective public organization? There are numerous cases where the Bolivian government has resisted external pressures to create an autonomous agency. But there are a few cases where the government has acceded to agency creation. This thesis explores four cases where the balance has tipped in favor of the latter, and tries to explain the configuration of incentives that led to that particular decision.

There is not a single instance of an autonomous public agency in Bolivia that has not lost at least some of its independence at some point. But loss of autonomy does not occur across the board: during certain periods in the country's history, certain agencies have been protected from politicization while others have not. Since the country's profound institutional transformation marked by its transition to democracy and a heroic battle against hyperinflation in the 1980s, a few agencies have recovered their autonomy and maintained it for over a decade. This fact raises the second research question I address in this thesis: *which factors explain the sustainability of agency autonomy in Bolivia?* Under what conditions will agency independence be protected? Does protection depend entirely on support from the Bolivian government? Or, do other factors besides government support partially account for the maintenance of an agency's autonomy? In particular, I develop an explanation of the role the agency itself plays in defending its own autonomy.

The variables

Dependent variable The ***dependent variable*** in this thesis is the *creation and maintenance of agency autonomy.* I define autonomy as the agency's ability to carry out its legal mandate without interference from other actors in its environment. I see agency autonomy as the opposite of agency capture, defined by Echeverri-Gent (1992) as a situation where "relations with other actors oblige [the agency] to operate according to their interests rather than its policy mandate." (342)

I operationalize this concept along three different dimensions: personnel, financial, and technical. I define *personnel autonomy* as the freedom to make human resource selection and promotion decisions without partisan or patronage pressures. This includes the legally defined process for the agency head's appointment (and removal if necessary), as well as the existence of clearly specified processes for recruitment, promotion and removal of staff at other levels. *Financial autonomy* has to do with whether or not the agency is assured the flow of resources it needs to perform its mission, and generally results from the degree of insulation of the agency's budget and cash flow from pressures exerted by the Ministry of Finance's Treasury Department. Finally, I refer to *technical autonomy* as the agency's freedom to take mission-related operational decisions without political interference.

Through the analysis of two primary case studies at two different periods in Bolivian history, I will show that these three types of autonomy are not necessarily all present at the same time in a given agency. Of course, it is unlikely that an agency can pursue independent technical decisions if it does not first have a staff of insulated bureaucrats (personnel autonomy) and at least some degree of financial independence. However, I found in my research that technical autonomy does not automatically result from either of the other two kinds.

Independent variables In this thesis, I identify four factors that affect the creation and sustainability of autonomous oversight agencies: politicians' political survival needs; pressure from external actors; pressure from domestic actors; and the agency's own strategy.

Political survival How can we explain politicians' decision to create an autonomous agency, and the subsequent maintenance of autonomy? In many countries, these decisions constitute a political choice, which is most often explained by theorists as motivated by politicians' immediate desire to hold onto power so they can then carry out their objectives in office.[3] As a rule, political survival in democratic systems focuses on vote-maximizing activities: winning elections is the way politicians retain power. Politicians engage in whatever behavior they believe will attract the largest number of votes for themselves or their party in the next elections.[4]

In many developing countries, winning electoral support involves directing public expenditures to certain groups, distributing public jobs, giving favors, or providing some other preferential treatment from government agencies, even if these behaviors contradict sound policy decisions. This is precisely the kind of behavior that *violates* agency autonomy.

[3] Ames (1987) differentiates between two kinds of preferences: survival (which generally entails short-term behavior aimed at retaining power), and substantive (longer-term ideas about the future of society, providing favors to preferred groups or regions, etc.). Ames does not address the issue of substantive preferences, concentrating instead on explaining survival behavior. He assumes that "at certain times the predominant interest of leaders is the maintenance of office." (4)

[4] As Ames (1987) points out, "why [politicians] want power is not at issue…leaders may seek power in order to assist certain social or ethnic groups, to improve the well-being of all citizens, to enjoy the trappings of office, or to get rich. None of these goals is attainable unless executives can maintain a grip on their offices." (1)

In recent years, political science has produced some interesting studies of cases where politicians choose state reform agendas that limit their own degree of control. For example, Geddes (1996) explores politicians' efforts to create professionalized corps of civil servants in five South American countries, thus limiting their own access to patronage spoils that increase their chances at being elected. Grindle (2000) analyzes presidential decisions to decentralize public investment decisions and service delivery to municipal governments. She tries to explain why politicians sometimes adopt reforms that substantially diminish their control over policy decisions and resources. My research explores a similar case of apparently counterintuitive behavior, but I contribute a new perspective by examining the role of the autonomous public organization itself, once created.

When we take a closer look at the environment in which autonomous agencies have been born in Bolivia, it is even more surprising that any have succeeded in surviving as independent entities. The creation and maintenance of the autonomous agencies analyzed in this study has occurred during periods of democracy in Bolivia (1927-1930 and 1982-present), so according to the political survival theory, political leaders' behavior should be motivated by attempting to appeal to the electorate. Moreover, politicians in Bolivia[5] have tended to operate on an especially short time horizon in light of the acute instability that has characterized the country since independence.[6] These conditions make it highly probable that independent public agencies will be sacrificed in the interest of attracting constituent support, because they require politicians to give up a portion of their ability to appeal to the electorate. But then, why do we find some cases of government agencies which *do* enjoy continued protection from political interference?

[5] I am referring especially to presidents, the type of politician that is the focus of this thesis.

I argue that to understand Bolivian politicians' survival strategies, we must take into account two additional variables that sometimes lead to a decision to protect autonomous agencies: 1) the country's extreme dependence on external actors to provide very scarce resources, and 2) formal and informal institutions that promote coalition governments in a fragmented society. In this thesis, I examine how these additional factors help shape political decisions in Bolivia.

External actors Sometimes, the important presence of external actors overrides constituents' demands for public employment or other types of preferential treatment by the administration. The Bolivian government has generally responded willingly to external pressures for *creating* autonomy, though maintaining it has been much less consistent.

This raises interesting questions for external actors: under what conditions are the providers of external assistance an effective force in protecting agencies from political interference? Has the influence exerted by external actors in Bolivia depended only on the amount of money they offered, or have non-financial incentives – such as ideas about how to organize certain public sector functions -- also played a role in Bolivian politicians' decisions to create and sustain autonomous oversight agencies? I use several indicators to operationalize variations in external actors' demands: public discourse; patterns of resource distribution within the country and the region; types of assistance provided; and reactions to specific decisions by the government.

Domestic actors In Bolivia, politicians' calculus is further complicated by the fragmented nature of Bolivian society and the fact that office holders tend to have a weak

[6] By one calculation (Malloy and Thorn, 1971) the country had 26 heads of state between 1926 and 1970, an average of about 24 months per administration. Between December 1978 and October 1982, the country

command of power. Throughout its history, the country's formal and informal institutional frameworks[7] have favored the formation of governments held together by pacts and coalitions among various actors. Frequently, however, a single government is a fragile patchwork of support from different groups who are fighting for opposing courses of state action. For example, a government might represent a coalition of trade union leaders as well as prominent members of the business community. Low-skilled workers represented by the trade unionists would prefer that the government attracted fewer foreign resources in exchange for more partisan distribution of public sector jobs. Many large business owners would prefer that the government attract more foreign technical assistance to improve public sector performance and generate a better investment environment. For example, Drake (1989) has analyzed the so-called "Kemmerer coalitions" who initially supported the approval of the Kemmerer recommendations in 1927-28, and later withdrew their support in the face of economic disaster in the early 1930s. I use Putnam's (1988) "two-level game" theory as a framework for analyzing how pressures exerted by domestic and external actors affect political decisionmaking.

Agency strategy In addition to developing an explanation for why autonomous oversight agencies are created in the first place, this thesis also contributes to our understanding of how such agencies survive over time. In Chapter 5, I introduce a fourth independent variable that is essential to explain the sustainability of an autonomous agency: the ability of agencies themselves to adopt strategies that protect against political interference. I contend that once an autonomous oversight agency is created, the bureaucrats hired to staff it generally wish to maintain their agency's independence because

had 11 heads of state (Conaghan and Malloy 1994).

autonomy is a desirable asset.[8] These officials try to develop strategies to protect independence; the most successful strategies will fit with the formal and informal rules of the game in the environment where the agencies exist.[9] There are two broad strategies that agencies can employ to protect themselves against political interference: *engagement* and *insulation*. Engagement entails interaction with politicians and others in the agency's task environment[10] in order to win support for the agency's sustained independence. Insulation stems from the belief that the agency's independence can best be maintained by walling itself off as much as possible from partisan influence.

Why does the agency's strategy favor one or the other approach? Through which mechanisms is the strategy implemented? We must observe key individuals' and groups' behavior within the agency to determine its strategy. I draw on literature referring to agencies' efforts to develop a corps of highly professional bureaucrats and their career patterns (Schneider 1993, Willis 1995); styles of agency leadership (Wilson 1989); and how organizations define and sustain their power base (Pfeffer and Salancik 1977 and 1978, Pfeffer 1982) as key elements for understanding the agency's chosen strategy.

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[7] Formal institutions include electoral legislation and legislation regulating political parties; informal rules include unwritten norms of cooperation and patron-client networks between politicians and other social actors such as labor unions, the business community, etc.

[8] According to Wilson's (1989) studies of U.S. government agencies, "autonomy is valued at least as much as resources, because autonomy determines the degree to which it is costly to acquire and use resources" (195)

[9] This idea draws on Douglass North's (1990) theory of institutions, that people adapt to the formal and informal rules and norms of behavior that lead to success in their particular institutional environment.

[10] Selznick (1949) defines the task environment as "those who are immediately and directly affected by [the agency's] intervention" (20).

The case selection

The CGR and the SBEF Most studies of political reform in Latin America are macro in their approach; the scholarship on Bolivia is no exception. The few political scientists who study Bolivia tend to focus on questions such as the origins and impact of the 1952 Revolution (Malloy 1970, Malloy and Thorn 1971, Blasier 1971); the birth and development of political parties (Klein 1969 and 1982, Brill 1967, Mitchell 1977); and the genesis of the austere macroeconomic stabilization and adjustment policies of the mid-1980s (Conaghan and Malloy 1994, Gamarra 1994). Few authors focus on the interaction between the broad features of Bolivia's political landscape and specific impacts at the organizational level. In part, this may be due to the marked lack of organization-specific information and the reticence of many public sector agencies in Bolivia to allow independent researchers open access.

My thesis builds on existing macro-level work on Bolivia, but throughout my research I attempt to fill a void in the existing academic literature by linking the macro with a micro-level analysis of two public organizations. By narrowing my focus to two agencies involved in regulation and oversight, I try to develop a theory of how autonomous oversight agencies are created and how that independence is sustained in a highly politicized environment that is at the same time heavily dependent on external revenues.

I employ a historical narrative technique to tell the stories of two such agencies: the Comptroller General's Office (*Contraloría General de la República* or CGR) and the Superintendency of Banks (now called the *Superintendencia de Bancos y Entidades Financieras* or SBEF). I begin by exploring the intellectual, political and economic factors that led to the agencies' creation in the late 1920s, and then explain how their autonomy declined during Bolivia's revolutionary period. The core of the case studies focuses on identifying the factors that led to the recreation of these agencies as independent entities in the 1980s (the CGR in 1982; the SBEF in 1987), as well as exploring the causes of fluctuations in their autonomy since recreation.

Maximizing the number of observations Although the theory I develop is based on only two primary case studies, I have tried to maximize the number of observations in this thesis. I argue that autonomy is not created merely with the passage of a law, but instead is a changing (not necessarily unidirectional) process of negotiations between relevant actors. Accordingly, I observe multiple milestones in each agency's struggle for independence from political interference. These milestones occur along the different dimensions of autonomy defined earlier (personnel, financial, and technical). In addition to considering a number of observations over time, I also discuss the hypotheses in relation to several secondary cases of semiautonomous agencies in Bolivia. Although I cannot claim that these are independent tests of the explanations for creation and sustainability of agency autonomy,[11] they do provide useful additional information.

Control factors Keeping in mind King et al's (1994) emphasis on the importance of controls in small-*n* field studies, I used a matching technique to select the two primary agencies. In choosing the CGR and the SBEF, I attempt to control for several important factors. First, I have selected agencies that carry out a very similar activity: oversight of a specific "industry" (banking and public expenditure) through the collection

[11] There are two reasons why historical narratives and use of secondary case studies from the same country are not entirely independent instances of creation and maintenance of agency autonomy. First, when analyzing the same agency over several different time periods, we must bear in mind that earlier time periods exert some influence on later time periods. Second, it is possible that autonomous agencies within

14and analysis of information provided by the supervised entities. This need for continual information flows requires both agencies to engage in close interactions with the entities they supervise. Second, both agencies enjoy similar degrees of formal autonomy. Third, both agencies were created at the same time (1928) and both went through a major reorganization in the 1980s during a period of dramatic institutional reform in Bolivia: the environments in which they were first granted autonomy and later reclaimed it are the same. Finally, both agencies are attractive targets for political interference because of the considerable power and discretion that they hold: their mission is to examine particular cases and then determine how to apply a set of government rules to important players.

Summary In general, there has been a gap between political scientists who study autonomy at the "macro" (state) level versus public administration and organizational theorists who study autonomy at the "micro" (agency) level. Simply put, the former is concerned with politicians' decisions to implement broad policies, while the latter is interested in the way bureaucrats run an insulated public agency. My own position falls between these two: to understand autonomous agencies, both perspectives are important. It is not very interesting to limit analysis to why autonomous agencies are created in a politicized bureaucracy, since so many lose their autonomy very quickly. And yet, without understanding the political forces that lead to their creation, we cannot explain how the agency protects its independence. Scant attention has been paid to the impacts of macro political conditions at the agency level, and even less to the possible influence of agency-level reform on the state apparatus as a whole.

the same country are affected by each other (for example, by an imitation effect, or by movement of personnel from one autonomous agency to another).

My research attempts to link debates about autonomy at the macro and micro levels. The first objective of this thesis is to understand how macro-level political factors (motivations of the executive and legislature, political party structures and incentives, interactions with external actors) work together with micro-level agency factors (design of enabling legislation, agency leadership, initial interactions between the newly created agency and its task environment) in the preliminary step of vesting an agency with some degree of formal independence. The second objective is to see how this same macro-micro interaction affects the sustainability of agency autonomy.

In summary, I will show in my thesis how the creation and sustainability of autonomous oversight agencies in Bolivia requires the generation of a political coalition. This coalition in turn depends on four factors which, in different combinations, account for variations in agency autonomy: politicians' survival needs; demands by external actors; demands by domestic actors; and bureaucrats' behavior within the agencies themselves.

Chapter 2. Patronage and political decay in Bolivia

Introduction

Malloy and Gamarra (1988) describe Bolivia as "an extreme case of a common set of problems and trends that pervaded [Latin America]" (3) during the 20th century. Its political and economic history is a study in conflict and contrasts: the country has made remarkable progress in some areas, while appearing condemned to repeat time and again destructive patterns of behavior in others. Twice during the last fifty years, Bolivia has undergone profound political changes that irreversibly affected its development path. In 1952 it experienced a major social revolution that was once considered one of the region's most significant progressive events. In 1985, after a crushing economic crisis, the country rebounded in a matter of months and has since become one of the darlings of the international aid community.

Cutting across all of Bolivia's major reforms is one constant feature of the political landscape: the prominent presence of a politicized bureaucracy. In the early part of the 20th century, the country was entirely controlled by a traditional oligarchy that ran the monoproduct (mineral) economy as well as the very small state; the latter was almost entirely at the service of the former. As the size of the Bolivian state grew rapidly between 1952 and 1985, the complexity and proliferation of patron-client networks swelled to a point where they posed a real threat to the country's capacity to generate a viable national government. Since 1964, Bolivia fits the description of what Huntington (1968) called a "praetorian" society: "a situation in which levels of political mobilization have gone beyond the capacity of existing political institutions to control mobilized social forces…[I]n Bolivia, praetorianism has been exacerbated by a limited resource base and the fact that all relevant political actors perceive themselves to be involved in a zero-sum political game" (Malloy 1977, 478).

The mechanisms of patronage distribution have varied. During periods of democracy (or quasi democracy), political party elites have acted as intermediaries in disbursing public jobs, subsidies, low-interest loans, licenses, etc. During periods of military dictatorships, most notably that of General Hugo Banzer Suárez (1971-78) when political parties were outlawed, a highly personalized mode of rule developed which undermined the already weak formal institutions of government. No matter what the mechanism, the existence of a highly politicized bureaucracy has had a negative impact on Bolivia's political, economic and social development. Arguably, however, the personalized nature that dominated patronage distribution as military generals struggled to retain the formal trappings of power during the authoritarian dictatorships of the 1960s through the early 1980s was especially damaging, for it converted the entire state into a source of political spoils, a "*botín político*".

Of course, politicization of the state apparatus exists in most Latin American countries. Colombia and Venezuela are two notable examples. Unlike in these countries, however, where political elites from different parties negotiated long-standing power-sharing pacts in the interest of some measure of regime stability, political-societal relations in Bolivia have been fraught with conflict almost continually since the country achieved independence. Successive governments have been unable to move beyond the logic of power distribution based on which groups are "in" and which are "out". Repeated attempts to govern under power-sharing formulas have tended to be short-lived, with the important exception of the current democratic period (1985-present).

Bolivian society is considerably more polarized than in many other countries of the region, and the struggle over patronage opportunities rendered it even more fragmented. As we will see in this chapter, the 1952 Revolution very rapidly mobilized a broad spectrum of previously disenfranchised, nonpolitical, and/or unorganized groups. Since the 1950s, large income disparities, one of the highest indigenous populations in Latin America, interregional/racial conflicts, and a large and vocal rural peasant population have all provided fault lines along which interest groups can split. The common problem of class conflict dynamics exists in Bolivia, but class conflict alone cannot explain Bolivian politics. Instead, multiple layers of conflict and competition occur at different levels and among shifting constituencies. This has generated a weak society whose various factions have frequently been pitted against an even weaker state, generating severe political instability and retarding development. After the Revolution, the state quickly became disconnected from civil society and over time the various factions came to view the state as "almost a predatory entity whose primary purpose was to generate distributable patronage" and "as an alien entity to be penetrated and used" (Malloy and Gamarra, 38 and 113). The state became, in Malloy's and Gamarra's terms, "quasi-parasitic" as a tool of an executive who used the state apparatus as an instrument to retain power.

External actors have constituted another prominent presence in Bolivia, both before and since the Revolution. This chapter points out certain critical junctures where Bolivia's dependent relationship with the US government, private lenders, and international financial institutions (IFIs) has shaped the options available to Bolivian policymakers. I disagree with the determinist view set forth among some dependency theorists (Baran, Frank, dos Santos), whereby external dependence forces governments to blindly respond to external interests. Rather, I make a more nuanced argument consistent with those set forth by Malloy (1977), Malloy and Gamarra (1988) and Cardoso and Faletto (1979). I also draw on the theory of two-level games developed by Putnam (1988) and subsequently applied to empirical cases. According to this view of the dependency relationship, certain circumstances drive domestic interest groups to converge with key external actors in shaping and advocating a specific approach to development. The Bolivian case shows that this is especially likely to occur during periods of scarce economic resources. But contrary to the simplistic conception of external actors as all-powerful determinants of most policy decisions, I will argue throughout this thesis that the relationship between Bolivia and external actors has been a reciprocal one. Just as foreign interests (especially the US) have exerted their influence on Bolivia, so Bolivian elites have used these external forces to advance their own preferences for the direction of development and the distribution of its costs and benefits.

Bolivian leaders have long depended on two things to retain power and hold the country together: one, the ability to manipulate complex patron-client networks, and two, the ability to obtain foreign revenues. At times, these sources of support have complemented each other: foreign revenues have flowed freely and could be distributed readily to a broad number of domestic forces. Often, however, policymakers have faced a tension between the two: sometimes external actors have criticized use of their revenues for patronage purposes, while at other times domestic interests have resisted foreign interference. And at certain critical points in Bolivia's modern history, it has been impossible for the country's leaders to satisfy both sides simultaneously; invariably, this has resulted in a breakdown of governability. This chapter provides a historical narrative of the evolution of the Bolivian state from the 1920s to the transition to democracy in 1982, setting the stage upon which to address one of the primary broad question driving this dissertation:

when confronted with the trade-off between satisfying external actors or domestic forces, which factors make politicians elect to respond to one or the other?

The collapse of the oligarchy (1900-1946)

The Liberals (1900-1920) Bolivia at the turn of the 20th century was among the poorest of Latin American countries, with a population of about 1.7 million, almost all of which lived in rural areas. Beginning in 1880, the upper classes were allowed limited participation in a two-party civilian government. The Liberal and Conservative parties held a common vision of promoting economic growth, and political stability was sustained through a power-sharing arrangement, though the more powerful Conservatives held the presidency from 1880-1899. The Conservative government's development policy focused on investment in an international railway network that allowed access to Pacific ports, stimulating a renaissance in the Bolivian mining industry. In the last quarter of the 19th century a monoproduct export economy began to develop alongside Bolivia's traditional agricultural society. Silver exports brought economic expansion, some urban development, and constant growth in demands for food and transportation infrastructure.

In 1899 the Liberal party overthrew the Conservatives, bringing major changes to Bolivia. One of the most important changes that came with the rise of the Liberal party was the marked increase in Bolivia's linkages with foreign interests, because tin replaced silver as the country's main economic activity. Tin accounted for 63 percent of Bolivia's exports from 1916-20, 71 percent from 1921-25, and 74 percent from 1925-29 (Drake 1989). Ninety nine percent of the country's tin was bought by England: Bolivia became a monocultural economy that relied almost entirely on a single customer.

To a large degree, this change is explained by the nature of the mining entrepreneurs associated with the tin industry, compared with those who controlled the silver mines. Tin miners were much more cosmopolitan, widely traveled, often educated abroad, and even included some foreigners as well as new Bolivian entrepreneurs. By the early 1920s, three Bolivian families controlled the tin industry: the Patiños, the Aramayos, and the Hochschilds. The companies became complex international ventures; at least one (Patiño Mines and Enterprises, the largest producer) eventually formed partnerships with U.S. companies and sold stock to U.S. citizens. During this period, European investment was surpassed by the U.S., whose capital investments rose from around US$10 million in 1912 to around US$15 million in 1920; by 1927, U.S. investments were at least US$100 million (Drake 1989).

Another important change that came with the Liberal victory was demographic. The emergence of large tin companies laid the foundation for new, though still very small, economic classes in Bolivia. The firms were directed by an upper middle class of professional managers, and their presence began to generate a tiny but significant professionalized sector in urban areas (lawyers, engineers, white-collar bureaucrats, etc.). This in turn stimulated demand for lower-level services, a need which was filled by the gradual expansion in Bolivia's small urban middle and lower middle classes, who worked as suppliers, providers of commercial services, and lower level administrators (both public and private).

The monoproduct mining economy did not provide a broad employment base, however. No sooner was the urban middle class born than it was cast in a dependent relationship with the oligarchy that controlled Bolivia's export sector, which in turn influenced the flow of revenues to the service sector. This generated a patron-client dynamic in which middle class individuals depended on a "few powerful individuals who control[led] the vital jobs, contracts, and capacity to pay for services that determine mobility possibilities" (Malloy 1977, 460).

This same elite class wielded great influence over the expansion of the state, though not directly in the way the owners of the silver mines had. The tin barons did not consider it profitable to be directly involved in political life:

> "whereas almost all the Bolivian presidents under the Conservative rule had been either silver magnates or partners in silver mining ventures, the Liberal leaders and subsequent presidents of the 20th century were largely outside the mining elite. No tin magnate actively participated in leadership positions within the political system. Rather, they were now to rely on a far more effective system of pressure group politics, which…came to be known…as the *Rosca*" (Klein 1971, 31).

As the mining elite withdrew from its direct involvement in political leadership positions, an elite political class filled the void. As the number of public sector positions expanded with an increase in public spending, a large portion of the urban population came to depend on public jobs. Dependence cut across class lines, from upper middle class professionals through middle class office clerks and down to the lower-level urban populations who would work as messengers or doormen. The same clientelistic relationships that existed in the private sector were played out in the public sector, with political parties acting as "employment brokers" between those who depended on a government job and those who ultimately controlled job distribution. Heavy-handed government interference in the electoral process and the constant power-sharing negotiations that dominated Bolivian politics took on new meaning, as "political parties degenerated into personalistic factions… [which] undermined government stability and hampered administrative efficiency because of the high rate of turnover among elected and appointed personnel" (Malloy 1977, 460-61).

From 1900-1920, the Liberal government undertook an active program of public works, providing employment for hundreds of citizens[12] while at the same time expanding Bolivia's access to international markets. Initially, the communications network was financed by large reparations paid by Chile and Brazil for land lost in the Pacific War and in the Amazon. Further construction was paid for by contracting foreign debt. The Liberals refused to impose heavy taxes on the mining industry to finance its capital investments.[13]

Republican rule: Saavedra (1920-1925) In 1914, a new political party was established. The Republican Party was made up of displaced elements from the disappeared Conservatives, and young politicians seeking advancement by breaking Liberal *caudillo* Ismael Montes' grip on government. The Republicans were also a party of the oligarchy, sharing the liberal-positivist philosophy of the rest of Bolivia's white upper and middle classes. In 1920, they staged a successful coup led by Bautista Saavedra, overthrowing the Liberals.

Saavedra's administration was plagued by an opposing faction within the Republican Party, and in order to remain in power Saavedra was forced to seek new sources of support, so he turned to the developing labor movement and the growing middle class (Klein 1969). Social concerns had never been a dominant theme in the *laissez faire* liberalism of the Republican policy, but Saavedra began to develop a major

[12] It is important to point out that before 1952 indigenous people (about 80 percent of the population) were not Bolivian citizens, could not vote, and thus were not part of the patronage dynamic.

[13] Reliable economic figures are scarce in Bolivia, but according to different reports (Klein 1969, Drake 1989, Peñaloza 1956), in 1920 between 8 and 20 percent of government revenues came from the tin industry, which accounted for over 70 percent of the value of exports and whose gross sales were three and a half times the national budget. From 1914-1920 there was a consistent failure to collect as much tax revenues as projected (actual revenues were 40 percent less than projected in 1920), demonstrating the government's inability to impose the costs of development on the taxpaying sectors of society (i.e., the wealthy).

program of social legislation, including health and accident compensation for miners, a right to strike, and arbitration procedure legislation (Klein 1969).

Saavedra's efforts at bringing a new tone to government won him firm support from the urban working class, but the social legislation he presented to Congress was probably driven primarily by the desire to stay in office, rather than genuine convictions about the importance of social welfare. Saavedra knew where the sources of real power lay in Bolivia, and he never launched a serious attack on the oligarchy.

As opposition to Saavedra's administration grew, he turned to another reliable mechanism for strengthening his support base: he embarked on an ambitious public works program that would both improve the communications network for miners and increase the stock of public jobs. Since the Liberal regime had relied heavily on borrowing to finance its infrastructure projects (by 1920 the government had almost US$20 million of debt, about 20 percent of which was foreign and 80 percent domestic), Saavedra decided to promote foreign investment in Bolivia's natural resources and to solicit even more loans from foreign bankers so that he could continue the development programs.

The country's untapped petroleum deposits had attracted the interest of foreign investors, and Saavedra's government sold concessions to representatives Standard Oil of New Jersey. By 1925, Standard Oil was operating Bolivia's first oil wells. The inflows of capital from the Standard Oil concession were insufficient, however, and Saavedra looked to U.S. banks for additional funds. It was his administration that signed the Nicolaus loan in 1922. The largest loan of foreign capital in Bolivian history, the "twenty-five year refunding loan in gold bonds at 8 percent…for a face value of $33 million (real value $29 million) hypothecated over half the national revenues as security. The most important pledge tagged all customs receipts, which made up around 45 percent of government income" (Drake 1989, 179). The government was also forced to put up its railroad bonds and Banco de la Nación (predecessor to the Central Bank) holdings as collateral. Moreover, the contract called for the creation of a Permanent Fiscal Commission to oversee collection and disbursement of tax revenues throughout the life of the loan.

The creation of the Commission was one of the loan's most controversial components, as it constituted the first blatant case of foreign involvement in domestic affairs. Two of the Commission's three members were appointed by U.S. banks, while one was appointed by the Bolivian government. The Commission had broad powers, supervising "the collection of all national and departmental taxes, oversee government accounts, serve as director general of customs, function as inspector general of banks and monopolies, and provide one director of the Bank of the Bolivian Nation. The Commission reported to the minister of finance and to the Equitable Trust Company of New York, which served as fiduciary agent for the debt" (Drake 1989, 179).

The Nicolaus loan's terms were so harsh and the lending companies made such a high profit from it that it provoked a flood of domestic criticism and the government tried to resist signing it. Under pressure from the U.S. State Department, however, Saavedra eventually signed. Financial experts' primary criticism of the loan was that it produced little benefit in the way of economic development: most of the funds went to refunding, while only a small percentage was spent on railway construction.

Once the Commission was set up, however, it worked quite well and fears of inappropriate external interference in domestic economic affairs proved unfounded. In fact, it played an important role in systematizing Bolivia's chaotic tax system and won praise from both the government and opposition parties. However, the Commission did carry out its mandate to enforce the use of Bolivia's primary revenue sources for amortization of the Nicolaus loan. Meanwhile, the government still needed revenues to pay for more investment projects, but it now had even fewer resources available. Faced with this reality, Saavedra took the bold step in 1923 of raising taxes on the mining industry, a move which no president before him had dared to take. The 1923 Tax Reform Law bore fruit: government revenues doubled between 1922 and 1924. Not surprisingly, it also drew negative reactions from the mining sector.

Saavedra provides one of the first examples of the survival cycle that led to the downfall of so many Bolivian leaders. He sought to bolster domestic support by expanding government (increasing both the range of state activities and the number of public jobs). To do this, however, he needed additional revenues, and here he faced a no-win situation: turning to foreign lenders required onerous conditions that generated criticism from working class groups, while raising taxes on the only collective that could pay a significant amount (the mining elite) awoke their opposition. Saavedra recognized that his courageous move in raising taxes on the tin barons had to be offset by other actions that showed his support for the oligarchy. Thus, he began to crack down on miners unions, declaring a state of siege and closing down opposition newspapers after a massacre of several dozen miners and their families. When push came to shove, his real interests lay in gaining support from the oligarchy.

Saavedra's administration ended relatively quietly, and the loyal saavedrista Republican candidate won the government-controlled presidential election in May 1925. But when the newly elected president showed signs of resisting Saavedra's attempts to continue to rule from behind the scenes, Saavedra cancelled the election results. His party would not allow him to stay in power, though, and they demanded that Hernando

Siles, a popular party leader who had been exiled for trying to interfere in Saavedra's selection of his successor, be given the party nomination. Siles was elected president in an uncontested election in December 1925.[14]

Siles and the rise of the Nationalist Party (1925-1930) I will explore the Siles administration in more detail in Chapter 4 when I discuss the Kemmerer mission that took place during that time and led to the creation of the *Superintendencia de Bancos* (SB) and the *Contraloría General de la República* (CGR). To understand the collapse of the Bolivian oligarchy, however, it is essential to review certain aspects of Siles' tenure. For he undertook a new approach to the political struggle in Bolivia, refusing to be the pawn of traditional parties and attempting to build political support among unattached groups of young people in the army and universities. And yet, his reform efforts were mixed and observers agree that he never seemed fully conscious of what he was trying to achieve with the politicization of new groups. As his loyal assistant, Augusto Céspedes, wrote "the intention of Siles to create a party constituted as a counterpoise to the traditional *caudillaje*; his plan of destroying only the political apparatus of the Oligarchy, without touching its economic motor, was doomed to failure" (Céspedes 1956, p. 97). Another astute observer of Bolivian politics, Herbert Klein (1969), questions whether Siles was really rejecting the traditional party structure or if he was simply trying to replace those in power with new faces who would owe allegiance to him instead of to the old guard politicos. In any case, there is general agreement among scholars that, purposefully or not, by mobilizing these new elements Siles sparked a new political

[14] The election data provide an idea of how limited political participation was in early 20th century Bolivia. According to Carrasco (1961), 60,000 votes were cast in the 1925 presidential election, when Bolivia had a population of around 2.2 million. Even if we assume low voter turnout and accept Karasz's (1959) estimate that the country had 125,000 registered voters, that number constitutes only 5.6 percent of the

consciousness in a young generation of Bolivians and laid the groundwork for the development of the *Movimiento Nacional Revolucionario* (MNR), which would come to play a defining role in 20th century Bolivia.

Within a year of taking office, Siles broke with the Republican Party and created a new party called the *Partido de Unión Nacional*, or *Partido Nacionalista* as it came to be called. Its program followed the traditional liberalism of other Bolivian parties, but it adopted a "scientific" approach to reform that fit very well with the United States' Progressive Movement upon which many of E.W. Kemmerer's reform proposals were based. The Nationalists' platform called for modernization of the public administration, including professionalization of the foreign service, creation of a ministry of health, rationalization of the tax structure, and the creation of a totally government-owned Central Bank. There were also calls for more extensive social legislation and a large public works program (Klein 1969).

In the 1920s, neither the upper class elites nor the middle class intellectuals in Bolivia were ready to think about profound reform. The elite were trying to retain the old system of parties, while the more enlightened intellectuals and university leaders were interested in modernizing the existing institutional structure. Neither group was willing to challenge a system of government and society which for them was "well ordered, constructive, and above all fruitful. Only a complete breakdown of that society could alter their basic assumptions" (Klein 1969, 93).

That breakdown was beginning to loom on the horizon. This was not a radical split with the old ways, for the Nationalists still put forth a traditional platform and

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population. With a voter turnout of 60,000, 3 percent of the population participated in the 1925 presidential election.

welcomed the usual band of job-seekers to its ranks. However, the new party and the youthful Siles administration marked the first step in the termination of control over the political process by the veterans of nearly a century of *caudillo* rule in Bolivia. A new interest in government involvement evolved among young, intellectual, and somewhat left-leaning groups who belonged to or were close to the traditional elites, and thus held sway with that power structure. At the same time, Bolivia's labor movement began to develop, with the reorganization of socialist movements into the new Labor Party in 1927.

Meanwhile, the four traditional parties continued to control national political life and debate the same issues that had been under debate since the 19th century. In foreign relations, Bolivia continued to be embroiled in territorial disputes with neighboring Chile and Paraguay, and military expenditures remained high. Domestically, conflicts revolved around the battle of personal loyalties and the government's persistent interference in the electoral process. The most urgent concern, however, was the appearance of yet another serious economic crisis. With so much of its revenues going to pay its debt obligations[15], not only was the government having trouble completing its public works projects but it also lacked funds for everyday government operations. Siles resorted to increases in indirect taxes, as well as forcing local banks to lend the government money. The resources obtained were insufficient, so the government yet again turned to foreign lenders. In 1927 Bolivia obtained a US$14 million loan from Dillon, Read and Co. for work on three uncompleted railroad projects. Later that same year, the Siles administration negotiated yet another Dillon, Read loan, this time for US$23 million. This loan was used mainly to refinance a portion of Bolivia's international debt, so it contributed little in terms of railway construction or other government revenues that could be distributed to supporters.

Since the congressional elections of 1927, Siles had faced constant attacks from traditional parties in the opposition who objected to the changes he was introducing: the break with the old guard, which the Nationalist Party embodied; government interference in elections to ensure Nationalist control of Congress; and some of the public administration modernization measures Siles was pushing through the legislature. Siles' downfall came when national concern over the international tin crisis in the context of the Great Depression combine with his dictatorial tendencies. In May 1930 Siles indicated his intention to prolong his rule and temporarily handed presidential powers to a military council, which was supposed to ensure his reelection. A popular and military revolt drove the former president and his military supporters into exile, and in that same year Daniel Salamanca took over the presidency.

The Chaco War and the defeat of the Bolivian oligarchy (1930-1946) Under Salamanca, the economic situation worsened as the President defaulted on Bolivia's foreign debt in July 1931 and undertook a series of inflationary measures, including a spending hike on the already well-financed military. In fact, Salamanca contracted even more large foreign loans, from European banks, to pay for a heavy armaments and fortification program (Klein 1971). When a border incident occurred between Bolivia and Paraguay in 1932, "Salamanca deliberately provoked a full-scale Bolivian reprisal which inevitably led into open war between the two nations" (Klein 1971, 33). The war lasted until 1935, ending in a humiliating defeat for the Bolivian army.

[15] Thirty-three percent of national income in 1926 was spent on debt payments.

Bolivians were so outraged over the ineptitude of their army officers during the war that there was widespread rejection of the country's traditional party structure which had supported many of these officers. The younger members of the elite sought to support a left-leaning approach called "military socialism", involving new welfare legislation, policies that began to support import substitution, and an overall expansion of the scope of the state under the direction of a supposedly unifying actor, the military. The goal of these regimes was to mobilize a mass base from above, targeting literate working class white and mestizo populations.

But the oligarchy retained enough power that it would not die without a fight. A schism resulted as the elite pulled in one direction, while the rapidly mobilizing masses pulled harder in the other direction, so that no single leader or party was able to keep control of government. Between 1936-1946, the Bolivian presidency changed hands at least five times, controlled by civilian-military governments aligned with either the younger middle-class officers of the Chaco War who tended to support populist regimes, or the more established officers who belonged to and supported a continuation of the elite status quo.

With more and more actors arriving on the stage where political conflict was played out, human numbers became an important determinant of political power. The new challenge was how to organize these collectives and shape this new element of power. Malloy paints a vivid picture of the struggle: "intense mobilization within the narrow confines of the reality of delayed dependent development transcended the system's adaptational capacities, creating a situation where formal government authority began to collapse" (Malloy 1977, 463).

The MNR revolution (1946-1964)

The coming of the insurrection In 1941, the more moderate factions of Bolivian politics formed the *Movimiento Nacional Revolucionario* (MNR). Many of its founders had become involved in politics as members of the Nationalist Party under Hernando Siles (1925-1930). The MNR adopted a strong pro-labor and antigovernment position in opposition to the *Concordancia*, a coalition made up of the traditional parties and the mining elite. In reaction to the oligarchy's long-standing links to foreign actors, the MNR also developed a strongly nationalist position, attacking all groups with an international orientation.

Despite its stated commitment to electoral methods of obtaining power, in 1943 the MNR cooperated with a politically-motivated faction of the military to overthrow the Peñaranda government and install Colonel Gualberto Villarroel in power. Villarroel tried to enact some reforms, but the fascist elements in the military group that supported his administration soon provoked a popular revolt, and in 1946 his government was overthrown.

The short-lived MNR-military government was followed by six years of high inflation and unstable rule by two military and two civilian governments, all of whom tried to address the economic crisis and put down the labor movement. During this time, the MNR underwent an important internal transformation, trying to win the support, or at least the tolerance, of the middle class. The rapidly deteriorating economic situation attracted much of the middle class to the ranks of the MNR, even while the movement was adopting a more revolutionary platform.

At the same time it was trying to appeal to the middle class, the MNR also recognized that it had to abandon its elitist tendencies in order to achieve its goals. It needed to create a mass base, for which it turned to the now powerful workers' movement (Malloy 1971). Its focus was on winning the allegiance of both the mine workers' union (FSTMB) and the industrial workers' unions. Unlike the other unarticulated collection of small groups that the MNR won over, workers "were not directly available for mobilization" (Malloy 1971, 116). Thus, the MNR had to reach out to them indirectly, through the labor institutions that already existed (local shop, functional federation, and national confederation). The MNR accepted labor's revolutionary manifestos, and in turn the party "became…[organized labor's] chosen political instrument" (Malloy 1971, 116). The MNR ultimately became an uneasy cohabitation between the political committee dominated by the original elites, and regional and local groups directed by radical left union leaders.

So, although the MNR was successful at attracting a mass base of supporters, it reproduced internally the divisions in Bolivian society. Perhaps even more debilitating than the main division between the moderate bourgeois and the labor-left wings was the fact that each group that supported the MNR was factionalized within itself: they were not monolithic interests, but rather loose collectives internally divided along regional, occupational, or cultural lines. This lack of integration emerged as the fatal flaw of the MNR-led revolution: the MNR was able to prevail temporarily despite its weak structure, but only because of the simultaneous collapse of Bolivia's political, economic, and social structure. The revolution provided the stimulus for the organization and political mobilization of a wide range of new actors; the challenge that confounded Bolivian governments for the next thirty years was how to unify these components into a working entity that could support a central government authority.

Malloy (1971) identifies three different leadership groups in the MNR before the revolution. Most of the national political committee was controlled by a "right wing" group made up of the founding members who were reformist rather than revolutionary. The "left wing" was made up of organized labor groups who had a strongly revolutionary socialist perspective and were trying to radicalize the MNR from within. Finally, the "pragmatists", made up of older MNR members like Víctor Paz Estenssoro, were committed to the basic goal of national development. To achieve that goal, they were willing to accommodate the left wing's desire for power, though ultimately they favored domination of the development framework by the MNR elite.

The exiled MNR candidate, Víctor Paz Estenssoro, won 43 percent of the votes cast in the presidential election of May 1951, [16] a landslide victory by Bolivian standards. Since no candidate won an absolute majority, Bolivian electoral rules dictated that Congress was to decide who would hold the presidency. But under pressure from the military, incumbent president Mamerto Urriolagoitia handed the presidency over to a military junta, which annulled the elections and declared an end to civilian government. The junta soon fell under the weight of strong social opposition, disintegrating army leadership, a severe economic depression, and a popularly elected political party waiting in exile. On April 9, 1952, the popular insurrection began in La Paz under the leadership of Hernán Siles Zuazo (who had been elected Vice President in 1951). The MNR distributed weapons to civilians and workers throughout Bolivia and after two days of fighting the weakened military surrendered to Siles.

[16] Again only 125,000 votes were cast, this time with a total population of 3 million; as in 1925, only about 4 percent of the population were eligible to vote.

The insurrection stimulated an even greater expansion of political mobilization, particularly among rural indigenous peasants (*campesinos*). Between 1952 and 1953, weapons were made widely available and paramilitary citizen militia groups sprouted all over Bolivia, especially in the mining camps. These armed militias raised a formidable challenge for the MNR's national leadership, and can even be seen as a metaphor for the problems that later arose in the revolutionary MNR governments: once in office, the MNR had a very hard time controlling and organizing a well-armed and politically active population.

Revolution Phase One (1952-1956): authority vs. power The need to engage in constant bargaining and trading in order to retain power has characterized Bolivian politics throughout the 20th century. It became even more extreme during the revolutionary period, marked by dramatic growth in the numbers of people who posed potential threats to those in power and thus had to be satisfied. Even before Paz Estenssoro returned from exile on April 17, the MNR under Siles' interim control adopted what Malloy (1977) terms a "radical inclusionary" approach, a strategy of trying to assure broad-based support by pacting with all social groups except the oligarchy. The relationship between the MNR and organized labor is an extreme example of such power-sharing.

A few days after the insurrection, organized labor created the *Confederación Obrera Boliviana* (COB),[17] an extremely important group over whom the MNR's control was particularly tenuous. The COB immediately demanded and received a system of

[17] Juan Lechín created the COB a few days after the insurrection to be the singular voice of organized labor. The COB publicly announced its support for the MNR, but made it clear that continuation of this support depended on a rapid and profound overhaul of Bolivian society, not simply piecemeal reforms. A series of mass demonstrations led by the COB demanded nationalization of tin mines and comprehensive agrarian

"co-government" with the MNR. Under this arrangement, Siles awarded four key ministries to the COB for them to name their ministers: mines and petroleum, labor, public works, and peasant affairs. The COB was supposed to have government authority over these sectors, and named as minister a member of the functional elite from each of its main labor groups.

In the early days of the revolution, four crucial measures that would profoundly impact Bolivian politics were approved by the MNR: universal adult suffrage; nationalization of the Big Three mining companies; the reform of the military; and agrarian reform. The latter three provide examples of the struggle for control between the party's revolutionary left wing and its decidedly reformist central leadership[18] and show how, from the first years of the Bolivian revolution, the holding of formal authority came to be divorced from the exercise of genuine power. As it turned out, this problem hindered every leader who tried to govern Bolivia for the next three decades.

The emergence of the workers' militias that backed the labor-left's position in the MNR, combined with the downgrading of the military, were important contributing elements to the weakness of the Bolivian state. The ability to claim a legitimate monopoly on the capacity to use force is a key characteristic of the modern state, as defined by Max Weber, and the prevalence of armed workers undermined the efforts of national MNR leadership to enforce this. During the first phased of the revolution, the COB became a "government within a government", complete with its own three branches of government, "a defined area of authority and constituents; and, most importantly,

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reform. "In effect the COB was telling the MNR that, like it or not, there was going to be a revolution…" (Malloy 1971, 112).

[18] Several authors (Malloy 1970 and 1971, Alexander 1958, Mitchell 1971) point out that the MNR was essentially reformist, rather than revolutionary. The modern revolution is characterized by the total

armed forces" (Malloy 1971, 123). While the MNR assumed the formal authority of government, the COB amassed real power – with no concomitant accountability.

Rural Bolivia became another source of divergence between formal authority and true power, outside the control of both the MNR and the COB. The peasant communities organized themselves into *sindicatos*, supported by armed peasant militias. Although the peasant elite organized a national confederation and tried to attain the same status as the COB, the formation of a single voice for the peasantry never took shape. Instead, peasant political organization took place along regional lines, under the authority of indigenous *caciques* who controlled all the *sindicatos* in a given region.

The peasant *sindicatos* were also members of the MNR, but as in the case of labor unions, the national party organization exercised minimal control over these local groups. Instead, there emerged in the countryside another parallel system of government similar to the COB. Malloy (1971) provides a particularly vivid description:

> "The centrals and regional confederations…became sovereignlike units ruled by the princelike *caciques*. Through the militias they monopolized force in their areas. Some centrals established barracks manned by compulsory levies on individual *sindicatos*. The centrals mobilized financial resources by taxing their members, imposing fines, and extracting tribute from regional commerce. With these resources they bought weapons and maintained staffs. Within their *de facto* jurisdictions the *dirigentes* made rules and punished transgressors. Thus the rural revolution expanded the general process of the dispersion and localization of concrete power" (Malloy 1971, 128).

In January 1953, a center-left Paz-Lechín coalition was formed which would dominate the rest of Paz's term. Between 1953-1956, the left part of the center-left alliance forced the center to sign a series of pro-labor decrees. Wage increases, bonus payments, the hiring of thousands of miners, imposition of price ceilings for basic

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destruction of the political principles of the past and the construction of new ones, but the MNR assumed imported goods and price floors for domestically-produced goods, and the establishment of government-subsidized company stores at the mining camps all contributed to an enormous increase in popular consumption. At the same time, public investment, particularly in agriculture, increased markedly as the government tried to implement consumption and investment policies simultaneously. This was a risky course for Bolivia to follow, and before the government could get its policies firmly in place, the price of tin dropped, resulting in extreme inflation and a rapid decline in the Central Bank's foreign exchange reserves (Thorn 1971). Uncontrolled inflation was the last straw for the middle class, already frustrated by the rising influence of organized labor and the peasants: many defected from the MNR and joined the Bolivian Socialist Falange (FSB). Bolivia was on the brink of bankruptcy and the MNR's survival was at risk. In mid-1956, President Paz negotiated a stabilization package with the IMF and a United States economic advisory team led by George Jackson Eder.

Revolution phase two (1956-1960): winners and losers The MNR easily won the 1956 presidential elections with Hernán Siles Zuazo (center-right MNR) as presidential candidate and Ñuflo Chávez (COB leader and former minister of peasant affairs) as his running mate. Siles announced as his major goal the institutionalization of the revolution, relying on U.S. economic aid to achieve this goal. Both the U.S. and Siles recognized that the inflation must be controlled before an aid package could begin. In the hope of recovering the country's creditworthiness in the eyes of its creditors (the U.S. government and the IFIs), it fell upon Siles to implement the stabilization plan agreed to

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power on the basis of existing constitutional authority granted when they won the 1951 elections.

by President Paz. The plan recommended tight monetary policy, removal of price controls, and restriction in consumption power.[19]

Some groups of workers, especially the miners, were seriously affected by the plan. Since the miners' federation constituted the most important wing of the COB led by Juan Lechín, Lechín quickly asserted his absolute opposition to the plan. Siles, however, declared that he would implement the IMF program, and began to rally supporters for it.

Siles took several important steps to form a coalition that would support his decision. First, he managed to stir up an anti-Lechín group within the COB, generating the first serious split in that organization. Second, he reoriented his administration to replace the central-left alliance with a central-right one, replacing many pro-COB cabinet members with center-right MNR figures and, in the 1958 legislative elections, redesigned the lists to include more of his supporters in Congress. Third, he won some *campesino* support by naming an indigenous leader Minister of Peasant Affairs. Finally, Siles began to rebuild the military as a counterweight to the workers' militias. Though the Siles administration (1956-1960) was fraught with strikes and conflict, in the end his judicious strategy for winning supporters and dividing his opposition afforded him some space within which to implement the stabilization program. The on-going violence escalated in 1959, however, and Siles, perhaps fearing a civil war, felt obliged to finally yield somewhat in his drive to implement the full stabilization package.

[19] The Eder mission was skeptical of the value of U.S. aid to Bolivia, and placed at least part of the blame for the country's inflation on an excessively loose supply of U.S. funds. In a case study of Bolivia published in 1968, Eder criticized those who use Rostow's theory of the "big push" to support financial assistance for developing countries: "it will do little good to push a country to the take-off point unless that country has an engine in its plane. No foreign handouts can provide that engine, nor can they take the place of a country's own initiative, hard work, thrift, and push" (Eder 1968, 602).

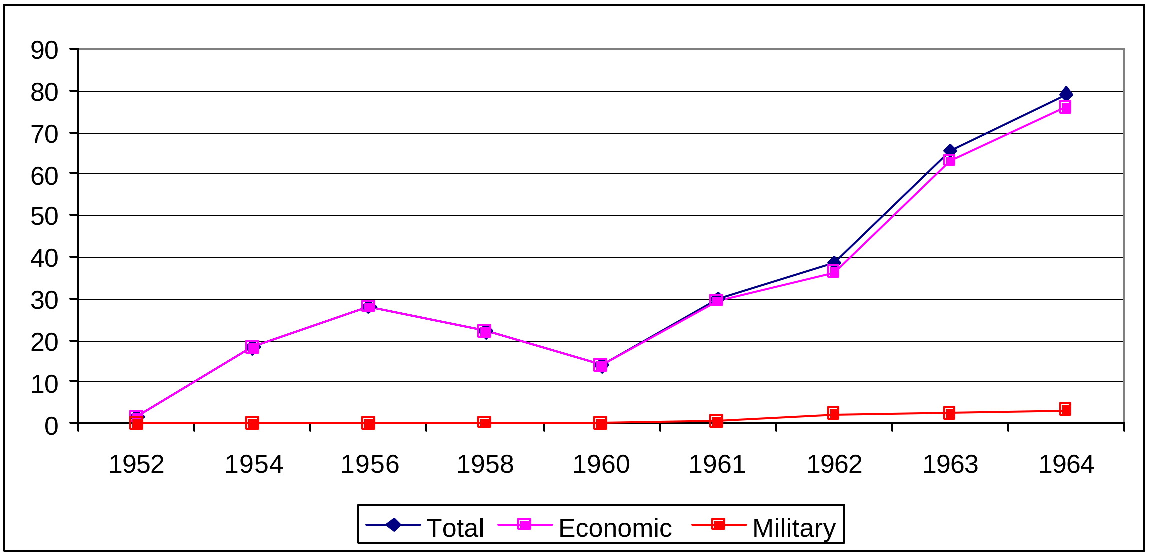
The circumstances of the first and second phases of the MNR revolution provide another example of how Bolivian governments have been forced to strike a balance between domestic and foreign actors in order to ensure their survival. Although the revolution flew the flag of anti-imperialism and national autonomy, the revolution actually increased Bolivia's dependence on both domestic and external actors. During the "inclusionary" approach of 1952-1956, a wide range of domestic interests over whom the MNR had little direct control could still be won over by the government's ability to distribute "pay offs" to satisfy their demands. But the tenuous nature of the MNR's authority meant that it had little capacity to increase its domestic resource base by raising taxes. Moreover, the nationalization of the mines sacrificed a primary source of government tax revenue. The inflationary pressures of the mid-1950s highlighted the limited sustainability of the government's initial approach. The country simply did not have the resources to finance these demands on its own; foreign aid was a crucial source of extra capital. However, foreign aid was not forthcoming unless the government rectified its economic situation. To do this, the regime needed to choose which of its multiple supporters would gain and which ones would assume the costs. Only by making this choice could the MNR continue to receive foreign resources (both public and private).

As Thorn (1971) points out, the injection of $25 million from the IMF and the U.S. saved the MNR from economic destruction, but it also marked the beginning of the party's political demise. A variety of factors -- runaway inflation, bureaucratic incompetence, corruption, and being forced to surrender to foreign actors the economic sovereignty it had won with the nationalization of the mines – all contributed to the MNR's loss of support. After a fleeting and superficial period of sovereignty, "the dominant role played by the tin barons in Bolivian economic life was now played by the more benevolent, but equally foreign, International Cooperation Administration of the United States…"; many Bolivians had "the impression that the United States…'bought' the stabilization program" (Thorn 1971, 184-185).

Revolution phase three (1960-1964) By the time the MNR convention was held to prepare for the presidential elections of 1960, all sides were eager to end the party's internal struggle. The left did not have to push hard to get Paz to run for president, though they demanded that he accept Lechín as his running mate. Paz's dependence on the left was so great that he was also obliged to promise them that Lechín would assume the presidency in 1964 (Malloy 1971). This was too much for the right wing of the party; following the lead of Walter Guevara Arze, the right abandoned the MNR and created a new party: the *Movimiento Nacionalista Revolucionario Auténtico* (MNRA).

Paz's inauguration as President coincided with John F. Kennedy's election to presidential office in the United States. Paz saw this as a great opportunity to gain U.S. support for his vision for Bolivian economic development: his goal was to create a state capitalist system, similar to the developmental state of Brazilian president Kubitschek, whereby the state would regulate the economy but would not completely dominate it. Shortly after coming to office, Kennedy announced the launching of the Alliance for Progress. The friendly relationship between the Paz and Kennedy administrations, combined with U.S. sympathy with the approach Paz proposed, may well have been factors in making revolutionary Bolivia the showcase of the Alliance. U.S. economic and military aid to Bolivia rose rapidly after 1960, peaking at a two decade high in 1964 (see Figure 1).

Figure 1. U.S. Aid to Bolivia (Selected years: 1952-1964) (millions of US$)



Paz recognized that the state capitalist model of development did not depend exclusively, or even primarily, on the availability of funds. Although considerable resources were flowing to his administration, he needed to break the economic and political gridlock that paralyzed the country before the funds could be used in the interest of development. Malloy (1971) argues that Paz had to address three major issues: 1) establish an effective national decision-making center to head a national development policy; 2) impose discipline on the unmanageable MNR party structure; and 3) generate an effective support coalition to impose the state capitalist model. These problems were especially tricky because since before the revolution, MNR's core leadership had almost consciously fostered a disjointed party structure as an instrument for creating a broad support coalition. In the short term this strategy clearly undermined the creation of a national authority with the power to exert influence over local communities; in the long term, it also produced a centrifugal force that tore support coalitions apart almost as soon as they were created.

Paz first turned his attention to breaking up the semisovereign centers of power that controlled the peasant communities across the country and eventually won the support of the favored *caciques* and their peasant followers. He then turned his attention to organized labor, which in his view as well as the eyes of the U.S. was one of the root causes of Bolivia's stagnated development. Under the 1961 Plan Triangular,[20] the Bolivian government promised to impose greater labor discipline in the mines, including layoffs of thousands of workers, wage cuts, closing of the company stores, and reorganization of COMIBOL to remove FSTMB representatives. When confronted with violent resistance from the miners, Paz called upon the revived military and the strongest *cacique*'s peasant militia to surround the Catavi Siglo XX mining complex. The moment when these units forced the miners to surrender "marked the waning of the Bolivian labor left and the emergence of the peasants and military as critical political forces" (Malloy 1971, 142).[21]

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[20] The Plan Triangular was formulated in 1961 as the U.S. response to the Soviet Union's proclamations during Khrushchev's visit to the United Nations in 1960 that they would provide substantial financial support ($150 million) to Bolivia for public works, strengthening the YPBF (state-owned petroleum corporation), and construction of a tin smelter. The Soviet promise fueled an argument that the Bolivians increasingly used to pressure the U.S. into providing additional revenues: that Communism was gaining a foothold in the Andes, and the MNR government needed funds to fight it. The Plan Triangular was at the core of a $37 million development loan from the Inter-American Development Bank, the U.S., and West Germany (Blasier 1971).

[21] One reason Paz mobilized the peasants and the military was to use them as a counterbalance for organized labor. It was clear by this time that the tin mines were too exhausted to provide sufficient revenues for Bolivian economic development; the country needed to develop other areas of its economy. Under the Alliance for Progress, Paz increased rural investment and shifted his focus to the country's interior, where presumably untapped oil reserves and fertile land lay waiting to be discovered. In the context of the Cold War, the U.S. also provided plentiful resources for Paz to strengthen the military's productive role, creating a program called *Acción Cívica* under which the military built roads ("lines of communication", in U.S. military jargon) and schools, and led the colonization effort to the east. Having presided over its disarticulation in 1952, Paz now followed Siles' initiative of restoring the military to its role as an instrument of national control, as well as reinforcing its role as an agent of economic development.

To create a more effective public sector to implement his reform programs, Paz also turned his attention to the problem of the enormous and inefficient bureaucracy that had grown to considerable proportions between 1952 and 1960. As part of the MNR's inclusionary strategy to maximize its support base, jobs had been given out routinely in exchange for swearing the party oath. A large part of the public sector consisted of public corporations charged with providing specific goods or services (national petroleum enterprise, national airline, state-owned development banks, etc.), which had been distributed among the leaders of different factions of the wide variety of MNR affiliates, who promptly turned them into particularized fiefdoms.

Under this arrangement, spending and personnel decisions were taken almost exclusively at the agency level, subject to minimal control by the center except perhaps budgetary constraints in some cases (though many of the state-owned corporations raised their own revenues). These organizations were nominally public, but in fact they belonged to the individuals who had been awarded absolute autonomy and had no accountability to the central government. Conditions were perfect for an uncontrolled ballooning of public employment numbers; "even with the defection of Guevara the huge and unwieldy MNR was by 1960 one of the major drains on the nation's meager resources" (Malloy 1971, 140).

Paz did not have the power to reduce the size of the bureaucracy, but he did try to create a corps of competent technocrats to drive the state capitalist model, as in Brazil and Mexico. He assembled his own team of young technical experts and placed them in key government and party positions, a move which drew sharp criticism from large sections of the party. He also created the *Instituto Tecnológico Boliviano* (ITB), a technical university staffed primarily by foreigners and established outside Bolivia's traditional public university system. Paz's attempts to use the ITB to create overnight a middle-class corps of technocrats, trained very differently than the classical lawyers produced by the Bolivian universities, became a rallying point of middle class opposition to his administration, with university students as the most vocal critics.

Paz's efforts at economic development seemed to work, and by 1963 the Bolivian economy was doing quite well. Constant flows of U.S. resources, booming sugar and rice production, and successful oil exploitation brought respectable GNP growth. But Paz was still performing a delicate balancing act to maintain support, and by 1964 an impressive range of dissatisfied groups (the entire labor left, the universities, the MNR factions excluded from jobs, and much of the urban middle class) were waiting for his term to end.

When Paz announced his decision to run again in the 1964 elections,[22] his opponents were outraged. At the MNR convention, party members who did not abandon Paz obliged him to name charismatic air force chief Rene Barrientos as his running mate. Barrientos was a native speaker of Quechua as well as a member of the officer class, and enjoyed strong support both in the military and among peasant leaders. The fact that these two groups were able to force Paz to run for president with Barrientos in place of his own choice of running mate indicates the considerable influence that they had gained within the MNR, and the power they had over Paz himself.

[22] Paz approved a constitutional reform in 1961 that allowed a second consecutive term. There is considerable debate about U.S. influence in Paz's decision to run in the 1964 elections. Several scholars (Blasier, Malloy) support the argument that Paz did take U.S. pressures into account when making his decision. Blasier cites several U.S. spokesmen who pointed out the damaging effect that the election of Juan Lechín (who had been promised the presidency by Paz in 1960 and was considered a dangerous figure by the U.S. government) would have on continued foreign assistance to Bolivia. Under these circumstances, according to a personal interview with Víctor Paz Estenssoro, "President Paz concluded that he himself was the only figure in the MNR capable of denying Lechín the office…Moreover he concluded that the only way to insure the continued flow of needed external resources from the United States and

In late summer of 1964, a miners' strike began. The teachers joined the miners, and then university students entered the demonstrations. With La Paz in chaos and the country paralyzed, Paz summoned the military and the peasant militias to restore order. But instead of obeying the command, Barrientos went to Cochabamba and declared a rebellion. Some groups actively supported Barrientos, others stood passively by (thus implicitly supporting Barrientos), and a few remained loyal to Paz, but no one obeyed the president's command. Instead, army chief of staff Alfredo Ovando asked Paz to leave the country, and he did so. The impossibly fragmented MNR collapsed, and Barrientos assumed the presidency.

Reforming the revolution: the rise of the neo-patrimonialist state (1964-1978)

Barrientos: the alliance of campesinos and military (1964-1969) The overthrow of Paz marked the arrival of a new political era in Bolivia, in which the labor left was effectively decapitated and military authoritarian government was favored by many Bolivians, who saw it as the only viable motor for the country's economic development. Although the labor left had played an important role in overthrowing Paz and installing the military in power, Barrientos shared the view of the United States and Paz that organized labor constituted a key obstacle to the country's ability to follow the state capitalist model. Soon after his government came to power, Barrientos cracked down on the unions, especially in the mining sector. His actions were rapid, decisive, and thorough.

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from the international agencies in which U.S. resources predominated was to continue as president" (Blasier 1971, 97).

One of Barrientos' first acts as president was to broaden the reforms that Paz had begun under the Plan Triangular, putting COMIBOL under the control of a military director. The miners reacted violently, and in May 1965 the military moved into the mines, smashed the strike, disarmed the militias, and sent major union leaders into exile. When other left-wing factions protested, the military exiled Juan Lechín and the rest of the union leaders, and destroyed the COB. In September 1965 Barrientos ordered permanent military occupation of the mines. All attempts at creating independent labor organization were squashed.

At the same time he was demobilizing organized labor, Barrientos was trying to cultivate a mass base with a view to eventual establishment of a civil government. He found three sources of support: the military, the *campesinos*, and the urban middle class. Unlike the more traditional, hierarchical military organizations in neighboring Chile, Peru, Argentina and Brazil, Bolivia's military had to deal with internal conflicts of both ideological and personal natures. The Barrientos regime set the tone for the rest of Bolivia's military interregnum: a series of semi-populist governments based on networks of alliances between the military and the *campesinos* and between large enterprises in the public and private sectors. Yet none of these groups provided a solid, reliable support base; true to the pattern of Bolivian politics, all had to be bought off continually by distribution of patronage, jobs, and rents, obliging Barrientos and his successors to focus most of their energies on seeking resources to maintain the delicate balance of power.

During the turmoil of the second and third phases of the MNR revolution, the military had begun to regain its role as an organized armed force which the state could use as a coercive instrument. Under Barrientos, the military gained political prominence, personnel, and budget resources. Officers were appointed to important posts in local, regional and national governments, and held managerial positions in state enterprises. The number of men in the military increased from 12,000 in the early 1960s to over 20,000 in 1968. Growing amounts of foreign and domestic resources flowed to the military. U.S. assistance nearly doubled between 1965 and 1968, rising from $1.9 million to $3.5 million, while domestic spending on the military multiplied more than 100 percent between 1964 and 1968. As the military grew stronger, however, Barrientos' control over it became increasingly tenuous, and he had to maneuver adeptly to ensure that his rivals did not overthrow him.

Barrientos also tried to generate support for his regime among the middle class. Having rid himself of the albatross that labor had represented for the MNR, he could pursue state capitalism with renewed vigor and much quicker results. During the second half of the 1960s, the Bolivian economy underwent some important changes, including the construction of a national highway network, increased government revenues from COMIBOL profits, the rise of mid-size mines, and a liberalized investment code which permitted partnerships between the Bolivian government and foreign investors in natural resource exploitation (natural gas and petroleum). The profits from tin and oil, as well as the sharp increase in foreign aid, generated an average annual growth rate of 5.6 percent between 1964-68, and a declining public sector deficit in 1964-66. Soon, however, the economic gains in the state mining and petroleum companies were offset by rapid growth in central government expenditures, as Barrientos struggled to fortify his hold on power.

Another way to gain support among the middle class was to create channels through which the political class could have access to government jobs. Barrientos called presidential elections for summer 1966, and in preparation for his candidacy he created a front of political parties called the *Frente de la Revolución Boliviana* (FRB). In addition to some small older parties, the FRB embraced a state-subsidized Christian Democratic movement (*Movimiento Popular Cristiano*, or MPC) created by Barrientos, whose main organizing cadres came from military officers personally loyal to Barrientos and from former members of the MNR's right wing. Together with the other parties of the FRB, the MPC constituted what Malloy and Gamarra (1988) describe as "a product of the dynamics of intraelite factional struggles over jobs and patronage that had long run through, and in a sense undermined, Bolivia's political life. This basic theme of personnel circulation was and is rooted in the structural nature of the Bolivian middle class" (23).

Thus, while peasant support unarguably constituted the third pillar of Barrientos' success, it was not through the MPC that that support was cultivated, nor was it rooted in a mass mobilization of the peasantry. Barrientos, who was from Cochabamba and whose mother was Quechua, was a popular figure among Bolivia's indigenous communities. His influence was primarily based on individual alliances with peasant leaders: it was direct and personal. Ironically, the very nature of these ties undermined Barrientos' efforts to mobilize the peasantry through a national party organization.

Barrientos pursued the state-capitalist model, but he was unable to consolidate an institutional structure that would form the foundation of a state strong enough to regulate economic development and to support the alliances upon which the model was based. Instead, intermediate political structures (independent political parties, labor unions, peasant militias) were destroyed during his regime, as Barrientos personalized his control over various segments of society. He was able to keep workers and *campesinos* under his thumb, but he did not have control over the sub-elites and elites. This was primarily due to insufficient patronage to distribute among the dependent urban middle class.

As I showed earlier, Bolivian leaders had always depended on their ability to distribute patronage and jobs to ensure their survival. But the Barrientos regime marked the beginning of an era of patronage at levels that Bolivia had never seen before. Malloy and Gamarra (1988) describe the mode of governance that began under General Barrientos:

> "…the distribution of the jobs and patronage generated by the state became the primary means by which Barrientos was able to cling to power. This kind of clientelism was nothing new in itself, but what was new was (a) the scale of patronage; (b) that it was becoming *the* primary mode of governing; and (c) that increasingly it flowed directly from the president and was not mediated by political parties or other institutions…Public authority in Bolivia began to degenerate from an abstract frame of rules and procedures to a personalistic and particularistic interchange…This development…[guaranteed] that in every sector, class and institution those not tied into the patronage net would become part of the general opposition seeking to undo the government" (28).

By 1968, Barrientos' rule was very shaky and the legitimacy of the military was undermined, largely by public allegations of corruption by high-level officials that were increasingly difficult to deny. Various powerful groups staged long-term strikes, and Barrientos found himself attacked from all sides. Throughout 1968-69, the government declared states of emergency and arrested, imprisoned, and exiled opposition leaders. Social turmoil escalated to seemingly impossible dimensions as Barrientos' authority crumbled.[23] Finally, the General was killed in a helicopter accident as he flew around rural communities in a last-ditch effort to rekindle his support among the *campesinos*.

Military populism (1969-1971) With Barrientos' death came two years of political turmoil, with five changes in government (one overthrown by a military coup and another by a military-civilian movement) and no administration ruling for longer than

13 months. The turbulence was a manifestation of Bolivia's on-going struggle to resolve the central issue of the 1952 Revolution: the establishment of an effective model of development. The most basic division was between the state capitalist and state socialist models. Within the state-capitalist model, there was a further division between the populist and anti-populist approach.

The two longest-ruling Presidents of the 1969-71 period were General Alfredo Ovando (13 months) and Juan José Torres (11 months). These leaders adopted the populist approach of the state capitalist model, provoking opposition from both the private sector and their international allies, as well as from the labor left, which wanted to follow the state socialist model. Both Ovando and Torres tried to establish governments that would revive the national revolution process begun in 1952. They staffed their administrations with civilians drawn from different sectors, in an attempt to move beyond partisan alliances, but these civilians did not constitute a power bloc within government in the sense of representing an important element in Bolivian society. Unlike the mass mobilization of the 1950s, both the Ovando and Torres regimes tried to re-launch the revolution from above. Ovando, and to a lesser extent Torres, saw the military as providing the capacity to rule while the civilian cabinet shaped the program to be implemented.

The military populist regimes of Ovando and Torres provoked strong opposition among important domestic and international actors for a variety of reasons. The urban middle class and the private sector opposed the governments because of diminished access to patronage (in large part due to withdrawal of external financing). Regional

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[23] See Malloy and Gamarra (1988), Malloy (1977), Malloy (1971), and Klein (1992) for excellent analyses of the Barrientos regime.

groups (especially in Santa Cruz) were upset because of the nationalization of the oil and gas sectors, as well as an influx of migrants from the *altiplano* who were encouraged to invade regional elites' landholdings. International allies (primarily the U.S.) were concerned about the socialist threat from the increasingly powerful Left, and were upset at the dismantling of U.S.-supported economic policies under the MNR and Barrientos. The U.S. became very concerned when the Torres government accepted Russian and Eastern European financial aid for COMIBOL, and simultaneously launched an attack on U.S. support.[24] The combined domestic-international opposition eventually crushed the populist regimes because they were incapable of developing a stable base of power to counteract it.

The lesson of this turbulent period was that the left could survive but was unable to define and sustain a regime, while the right could put in place its anti-populist state capitalist development model only through the establishment of a military-based authoritarian regime backed by significant foreign aid, forcing popular sectors into submission. Neither option provided the basis for long-term rule. The Ovando and Torres regimes were sandwiched between large opposition groups on every side, all of whom had demands that were essentially incompatible with each other; no matter whom they tried to please, the generals could not win.

The Banzerato (1969-1978). Phase 1: Dividing the spoils Colonel Hugo Banzer[25] came to power on August 23, 1971. His regime was the longest unbroken presidential term in Bolivian history, and was marked by what appeared to be a considerable degree of political stability and economic growth. In retrospect, however,

[24] Torres annulled a U.S. mining company contract with COMIBOL and the contract for U.S. Steel to run a Bolivian zinc mine, and he expelled the Peace Corps program from the country. For the first time since

some observers concur that neither the political equilibrium nor the economic progress were genuine. First, "during the 1970s Bolivia…went through a process of political decay…[T]he Banzer government continued and in a sense completed the process that began in the early 1960s. By the late 1970s, the substance of the institutional infrastructure of Bolivian public life had all but disappeared" (Malloy and Gamarra 1988, 72). On the economic front, the crushing economic crisis of the early 1980s was the legacy of the boom of the early 1970s. As Malloy and Gamarra (1988) point out, the economic development strategy was based on the trickle down theory, but "by the late 1970s, the economy had little more to show than exhausted mines, depleted petroleum reserves, declining agricultural outputs, stalled construction projects, and a massive foreign debt…[W]hen the boom faded there was precious little to trickle down except more costs" (72).

Banzer came to power amidst some of the most extreme fragmentation Bolivia had seen since the 1950s. Initially, he founded his government on one of the broadest civilian-military coalitions in the country's history. The coalition stood on three shaky pillars: the military; a political coalition called the *Frente Popular Nacionalista* (FPN) made up of the MNR and its archenemy the Falange Social Boliviana (FSB); and a group of so-called independents from the private sector. The military – through the threat of force -- was the glue that held this coalition together. Even more important than gaining leverage in the policy-making process, coalitions in Bolivia mean gaining patronage that can be distributed among each group's supporters. Accordingly, cabinet and subcabinet positions were carefully divided up and distributed equally among the military, the MNR,

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1952, the U.S. was totally estranged from the Bolivian government.

[25] Colonel Banzer was later made a General.

the FSB and the independents. By bringing the leaders of these groups into the regime and allotting them a portion of the state to distribute to their followers, Banzer ensured the cooperation of a significant portion of the population.

At the same time he was building a coalition regime, Banzer was crushing the Left (social and church activists, student leaders, and labor leaders). Ironically, the multiple groups, factions, and tendencies represented in Banzer's coalition caused it to begin to fall apart as soon as the threat of their common enemy – the Left – receded. All three pillars of the coalition were very fragmented internally, and their larger goals and purposes contradicted each other. The cracks in the coalition became increasingly evident after the Left was subdued. The MNR and the FSB began to fight within and between themselves for control over ministries, public corporations, and programs.

Banzer tried to manipulate the coalition members by keeping them off balance with periodic calls for presidential elections, which he would later postpone. He kept the hope alive among the FPN members that elections would eventually be held, in order to sustain the formal structure of his administration. Both the MNR and the FSB believed that they would be better positioned to win an election if they already held public office.

Eventually, the growing polarization of positions within the FPN and the military, as well as between the two groups, rendered the situation unsustainable. The MNR was undergoing yet another internal division,[26] as Paz began to manifest his disagreement with other high-level party members who were still loyal to Banzer. The FSB was also

[26] Malloy and Gamarra (1988) liken the MNR in the 1970s to "a great tree with myriad branches of various sizes springing from the trunk…. [M]any of the branches had fallen off and the remaining ones were claiming to be the trunk" (p. 81). The main formal split was between the Right and Left interpretations of the 1952 Revolution: Hernán Siles led the Left (populist) wing, while Paz was at the head of the Right (realist) wing that wanted to curb populism and promote the state capitalist model. According to Malloy and Gamarra, this was the programmatic difference, but "other more patronage-motivated divisions were to develop between Paz and his principal subchiefs…" (p. 81).

showing clear signs of internal division, and in August 1973 a faction of the FSB split off from the main party and tried to nominate Banzer as its candidate for the elections planned in 1974. The military balked at this move, accusing the political parties of converting the ministries under their control into "feudal" domains (Malloy and Gamarra 1988). The military pressured Banzer not to hold elections in 1974 and to eliminate the civilian elements from his administration.

Soon, though, Banzer hinted that he would in fact be willing to run in the 1975 elections. The center-right parties (right wing of the MNR, FSB, and Christian Democrats) were outraged. The civilian parties that had originally supported Banzer were now aligned against him; he had nowhere to turn for support except the military. The turning point came with a coup attempt on November 7, 1974 in Santa Cruz. There is some debate in Bolivia about whether this was a real coup attempt, or an "*auto golpe*" staged by Banzer to justify the measures he planned to take. In any case, after the coup failed Banzer purged his cabinet and exiled many MNR and FSB members, as well as military dissidents.

The Banzerato (1969-1978). Phase 2: An attempt at bureaucratic authoritarianism.

> On November 9, "a dramatic formal regime shift occurred: all pretense at ruling through the FPN and the traditional civilian parties of the center Right was dropped. By decree the military assumed full political and administrative control of the state and the government. The decree declared that the military…was to oversee a complete reorganization of the political system so as to realize a 'new Bolivia.' It also declared the military's intention to carry out a structural transformation of state-society relations and to create a new set of government institutions." (Malloy and Gamarra 1988, 91).

After the failed attempt at creating a joint administration of military and civilian groups, the second period of Banzer's regime tried to imitate the prevalent "bureaucratic authoritarian" regimes that had sprung up in Latin America after the Brazilian military coup of 1964. The November 9 decree created a government based on centralized and authoritarian control of state-society relations. All political parties were banned, and the de facto suppression of labor unions was broadened and legalized. At the same time, the regime tried to create a military-civil technocrat alliance by placing "independents" from the private sector in key policy posts, particularly in the economic sector.

During this period, the regime alleged that one of its most important activities would be the elimination of corrupt, patronage-based public employment and its substitution by a modern, professional, merit-based civil service. It did pass some decrees to this effect, and prominent entrepreneurs were put at the head of state-owned enterprises and other economically important agencies, which were then staffed with civilian technocrats.

Many other positions of power were filled with military men. As in Brazil, the government tried to present a military-based administration as the answer to Bolivia's development problem. It wished to portray the armed forces as a national institution that was above the partisan politics and interest group and factional struggles that had turned Bolivia into a fragmented, conflict-ridden society. The military would implement a five-year development plan that would benefit the national interest and unify the divided country. However, the resemblance to the technocratic nature of bureaucratic authoritarian regimes in Brazil, Argentina, and Chile was "superficial and masked a fluid personalistic regime that is better characterized as…neopatrimonial…", and the "sense of coherence and permanence projected by the plan was…to prove most illusory" (Malloy and Gamarra 1988, 92-95).

Since the 1952 Revolution, the state had been playing an increasingly active role in Bolivia's development. As in other Latin American countries, it became the primary generator of capital and mediated the flow of capital into the private sector. It was also a producer in its own right, especially through public enterprises. Banzer used the state as an instrument for establishing order (i.e., disciplining labor unions) in hopes of attracting private (especially foreign) investment. His economic team designed policies that would stimulate investment and reduce consumption, including devaluations, removal of subsidies from basic goods, and price increases without compensatory wage increases. The regime also reformed the legal framework, decreeing a general investment law and a law on hydrocarbons.

The state's most important task in the economic development model was capital investment, through infrastructure projects, state corporations, and credit policies. Despite the pro-investment environment, very little private capital (domestic or foreign) was invested. In the 1970s, over two-thirds of total investment came from the state, a large part of which consisted of direct transfers to the private sector. This trend represented a continuation of the tendency since the 1952 revolution, when the state undertook to create a modern capitalist class. By the 1970s, however, Bolivia's national bourgeoisie had not been weaned of its dependence upon the state. Firms did not compete with each other in a market economy, they competed in a political marketplace where the state was their only client, as well as their most important patron.

Banzer had to find a way to finance the public investment. He found three main sources: indirect taxation (especially on mineral exports);[27] government deficits (including public corporations) which were financed by printing money; and foreign borrowing (from commercial banks as well as IFIs). As a result, the mining sector was

[27] The growing income received from taxation on mineral and hydrocarbon exports resulted from a sharp rise in world prices for these commodities. Mineral production did not increase during this period, and tin

undercut, inflation rose, and Bolivia acquired a massive foreign debt (Malloy and Gamarra 1988).[28]

The biases in the implementation of the state capitalist model in Bolivia shows how politicians used the state's dominant role in economic development as a mechanism for distributing patronage. For example, the government favored both public and private sector corporate enterprises at the expense of smaller, traditional activities, especially traditional peasant agriculture. Even as agriculture as a share of total GNP dropped from 58 to 46 percent between the 1960s and 1970s, agro-industrial enterprises in Santa Cruz were growing rapidly, meaning that the overall decline came from the massive *campesino* sector.[29] Large companies, whether state-owned or private, were attractive beneficiaries because they allowed the government to distribute jobs, contracts, and licenses to considerable numbers of people, shoring up support for the government of the day.

Another important example lies in the government's use of development funds to "buy off" parts of the country that posed a potential threat to national unity. Banzer's government ceded Santa Cruz (Banzer's home department) the right to control directly 11 percent of tax revenue from the hydrocarbons the department produced, as well as providing excellent access to credit from state banks on almost concessionary terms (much of which was "lent" under the understanding that it would not necessarily be paid back).

In addition to the state's broad range of activities in the Bolivian economy, its size (measured in expenditure as percentage of GDP, number of agencies, and number of

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production actually fell. Petroleum production did rise, but at the cost of using up reserves: by the end of the 1970s, Bolivia was in danger of becoming an oil importer.

[28] By the time Banzer left office, the Bolivian state (with a population of 5 million people) owed $2.5 billion, mostly to foreign commercial banks.

employees) also grew enormously under the Banzer regime, contributing to the growing deficit. While the size of the state had stabilized under Barrientos, Banzer provides a clear example of the return to the pattern established during the MNR years, whereby expansion of the state apparatus was used as a way of distributing patronage:

> "By the late 1970s the state was accounting for some 70 percent of the economy… Behind this was the tremendous expansion in…state agencies and public corporations, for by then the state had 120 public agencies and over 50 public enterprises and financial institutions…. The Banzer government created at least 24 public agencies and corporations, [providing] lucrative public employment…. Between 1971 and 1975 government employment grew at an annual rate of 9.9 percent, or three times the growth rate in the total labor force….under Banzer total central government employment doubled. A large portion of that was in state enterprises, but the number of employees in the…central administration alone went from 49,127 in 1970 to 88,811 in 1978…The public bureaucracy swelled from some 66,000 employees in 1970 to close to 171,000 by 1977" (Malloy and Gamarra 1988, 100-112).

Banzer's regime was far from unique, both in Bolivia and in the region, in its use of public employment as a political survival tactic. But as I argue in this thesis, Bolivia offers a particularly extreme example of patronage distribution as a way of holding together a divided nation. Under Banzer, a sense of desperation developed among the political class as the military pushed it out of power and the groups that enjoyed the spoils of the state became smaller. Moreover, as the state expanded in size and played a greater role in the economy, it became increasingly important to be "on the inside". People who did not have connections encountered difficulties even in basic activities (getting an identity card, obtaining a loan, registering property, etc.), while those who held public jobs found that their scope of power grew considerably.

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[29] The share of production of traditional (altiplano) agriculture fell from 21 to 17.5 percent between 1965 and 1979, whereas the share of modern (Eastern lowlands) agriculture rose from 24.3 to 32 percent.

As I discussed earlier in this chapter, Bolivia's urban middle class has always depended on the public sector to provide jobs, contracts, concessions, etc. Until the MNR revolution, the middle class had been so small that it was not too difficult for many of its job-hungry members to find public employment and, once inside, to offer benefits to other members of the bourgeoisie. Since the 1950s, however, the urban middle class had been growing steadily, and by the 1970s it constituted an important group (close to 30 percent of the economically active population). This sector of the population suddenly found itself shut off from access to state resources, as the military and its civilian allies from the private sector took over.

Ironically, the tactic that initially seemed to work well for the MNR in building broad-based support at the time of the revolution eventually led to Paz's ouster in 1964, and later to the party's near disintegration in the 1970s under the FPN. As described in earlier sections, the MNR was never selective in its membership but instead welcomed everyone into its ranks in exchange for an affirmation of party loyalty. When it constituted the only instrument for obtaining jobs and other patronage benefits, it was easy for people to swear allegiance, but that allegiance was often only given in exchange for a job or a favor. Not only did the MNR end up absorbing into itself groups with very different priorities and preferences who were loyal to different party subchiefs, it also brought these factions into the state, pieces of which were captured by powerful factions and converted into personalized "fiefdoms", which eventually proved to be the MNR's downfall:

> "this situation began to undercut the capacity of the state to govern. Moreover, because the state's capacity to grow enough to meet the patronage demands of all the factions was limited, the logic of 'ins' and 'outs' assured that the party began to generate anti-MNR government opposition from within itself" (Malloy and Gamarra 1988, 107).

Other political parties in Bolivia have developed along similar lines. Even today, to a large extent (though there are some indications that this is beginning to change), the competition between Bolivia's political parties is not based primarily on programmatic differences, but rather on competition for control of state resources. The Banzer regime's attempt to build an administration based on the FPN eventually fell apart, as its main components (the MNR and FSB) disintegrated. Banzer realized that he was relying on small factions of the MNR and FSB whose main purpose was to channel patronage flows to their followers.

Under this system, support for Banzer came only indirectly; the direct loyalty was to the "patron", in this case the party elites who played the intermediary role (Malloy and Gamarra 1988, Martz 1997, Geddes 1994): "while they drained resources, the parties offered little by way of support and actually helped produce opposition" (Malloy and Gamarra 1988, 109) because party factions that were not "in" would oppose the government. This is one of the key reasons why Banzer outlawed political parties, so he could concentrate the distribution of patronage in his own hands and ensure direct loyalty from the beneficiaries:

> "In so doing, he affirmed that beneath the surface the primary mode of rule in Bolivia lay in the Byzantine manipulation of clientelistic networks…The logic of clientelism was such that the Banzer regime, despite its modern veneer, was for all practical purposes a contemporary version of the traditional mode of rule that Weber called patrimonialism" (Malloy and Gamarra, 1988, 110).

Eventually, however, Banzer's regime also became unsustainable. His efforts after 1974 to base his regime on a military-private sector alliance ultimately suffered the same fate as previous attempts to find a stable political formula. But this time, Bolivia's political institutions were in such an advanced state of decay that the collapse was followed by an explosion of near-anarchy and Bolivia's very survival was endangered.

Decay and chaos (1978-1982)

In November 1977, Banzer once again announced his intention to hold elections in July 1978, and stated that he would not run as a candidate. This time, the election did take place, with at least eight candidates. There were no unified parties to speak of. Instead, there was a proliferation of small, personalized factions of the main political parties (the MNR had split into at least four groups, the FSB was also fragmented, and even newer parties like the *Movimiento de Izquierda Revolucionaria* (MIR) contained internal tensions along ideological lines), which joined together in electoral fronts and submitted joint candidacies. All told, around 50 parties or movements participated in the election. This situation promised continued fragmentation, no matter who won.

The military candidate, General Pereda, declared himself the victor. But it was obvious that the election had been fraudulent,[30] and popular fury was such that Pereda had to call on the electoral court to decide who had won. Banzer stated that he would turn over the government as planned on August 6, but he warned that the confusion over who had won the election must be sorted out by then, otherwise he would give the government to a military junta. Seeing his chance at victory slipping away, Pereda organized a coup and was able to force an extremely weakened Banzer to turn over the presidency.

The elections of 1978 marked the beginning of one of the most unstable periods in Bolivian history. In the four years between 1978 and 1982, Bolivia had nine different presidents, two of whom were overthrown by coup d'etats. The one to hold office longest (just over one year) was Luis García Meza, an extremely repressive and corrupt general with proven ties to drug trafficking. Most of those who passed through the presidential palace during those years were only in office for a few months.

Not only was this a period of extreme political instability, it was also a time of severe economic crisis. Growth rates declined, the deficit grew, there was an increasing trade imbalance, and a large portion of the massive foreign debt was held in short-term, high interest notes. Although the IFIs called for austerity plans, the extremely weak governments refused to implement such policies and so the crisis was practically ignored. It worsened.

The military governments that ruled Bolivia from 1978-1982 (there were two ineffective civilian-led governments, both the result of short-lived compromises among the main political parties) had no incentive to assume the costs of imposing economic austerity policies on the population. The military leaders were primarily concerned with limiting people's disdain for the military as an institution, rather than with winning electoral support. In fact, Malloy and Gamarra (1988) make a plausible argument that "many in the military, especially the institutionalists, sincerely wanted to withdraw from open exercise of power, [but] the inability of the civil political class to generate a base of support for a government created a situation that continued to draw the military into the central political drama" (133). The military was also concerned with not allowing the Left to gain too much political and economic prominence, and there was concern both within the military and the increasingly well-organized private sector that this could occur with the arrival of democracy. Finally, the military wished to avoid a situation

[30] For example, 50,000 more votes were cast than voters registered.

where its members (including Banzer) could be investigated and punished for crimes committed during the dictatorship.

Despite a superficial attempt at holding democratic elections in 1979, the highly fragmented actors in Bolivia's political scene were engaged in the most naked of conflicts with the exclusive goal of capturing and holding onto power, through any means necessary. Once they had grabbed power, they would rewrite the rules in a way most favorable to themselves. This was the logic behind several important events during this period: the agreement to appoint Walter Guevara Arce and later, Lidia Gueiler, as interim presidents, and the formation of a civil-military coup coalition that plotted to unseat Guevara. Bolivia found itself in an extreme case of political paralysis, in which none of the main civilian political parties wanted to take a step toward democracy. By their past behavior, all had demonstrated that they were most interested in rapid access to power, and each party believed that it could not allow any other party to reach power first, lest it suppress and marginalize the opposition. This fear was based on what each party knew about the others' past behavior, as well as a projection of its own intentions on its rivals (Malloy and Gamarra, 1988).

Under interim president Lidia Gueiler, the economic crisis became so dire that she had to act, adopting an IMF-backed austerity plan by executive decree. Not surprisingly, the package sparked broad protests among labor and peasants. However, the COB showed enormous restraint in not attacking the executive to the point of endangering the government's survival. It recognized that if Gueiler's government fell, the military would fill the vacuum, and that would be much worse for labor than a right-wing civilian government. Accordingly, the COB invested its energies in supporting the celebration of elections scheduled for June 1980, in the hopes that this would result in a left-leaning government.

But the military, led by army commander General Luis García Meza, was already undermining the upcoming elections. He attacked Gueiler's administration and prominent left-wing politicians, and mounted an intimidation campaign against political groups in order to disrupt the electoral process. The elections were held as planned, with Hernán Siles (Unión Democrática y Popular candidate) emerging as the victor. On July 17 1980, as Siles prepared to assume the presidency, García Meza led a successful coup and came to power at the head of a military junta.

The thirteen months of García Meza's regime were the most brutal and corrupt that Bolivia had seen in the 20th century. Its strategy was not only to crush any hint of opposition, but also to terrorize the entire Bolivian society. Its willingness to go to any lengths of repression made it remarkably successful.[31] On the other hand, by alienating all groups, classes and regions, the regime finally provided Bolivian society with a way to put aside their many differences and unite against a common, much-hated enemy.

Adding to the population's extremely negative perception of García Meza was the fact that the United States, the IMF and the World Bank cut off all financial support during this time. Bolivians recognized that international assistance was crucial to the resolution of their economic crisis, and they perceived García Meza as an obstacle to obtaining that assistance. By early 1981, civil society began to organize strikes and other forms of protest.

In July 1981, in an attempt to improve his government's image, García Meza made the mistake of supporting a development project based on sugar production in the department of La Paz. This posed a direct threat to the sugar producers of Santa Cruz, and sparked a strong reaction by the powerful Santa Cruz development corporation and the business community rooted in that department. García Meza's opponents in the military took advantage of this opportunity and launched a coup attempt from Santa Cruz; García Meza's supporters in La Paz resisted. Before the conflict degenerated into civil war, the military worked out a deal whereby García Meza would relinquish the presidency and be replaced by General Celso Torrelio (perceived as weak relative to other high-level officers).

Other actors, including the COB, the Catholic Church, and the U.S. Embassy joined together around the common goal of achieving formal democracy. On the economic front, however, unity was as distant as ever: Torrelio's government finally fell as it attempted to respond to the economic crisis. In early 1982 the government decreed two austerity plans that generated the usual resistance from the COB. After a brief struggle within the military, the high command turned the presidency over to General Guido Vildoso, a member of the military faction that wished to save the institution by getting the military out of the government and ceding governing responsibility to civilians.

As the military no longer had the ability to manage the transfer of power, civil society had to decide how to handle it. Ultimately, upon the suggestion of key members of the leading private sector organization -- *Confederación de Empresarios Privados Bolivianos* (CEPB) -- the Congress elected in 1980 was convoked under the agreement that it would elect Hernán Siles Zuazo (UDP) to the presidency. On October 10, 1982 Siles was sworn into office.

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[31] See Malloy and Gamarra (1988) for a detailed description of the García Meza period.

Summary

Bolivian governments have always been precarious, and the ability to distribute patronage has been an essential instrument for political survival. In the early part of the 20th century, leaders based their rule on support from small elite and urban middle classes, so patronage distribution was fairly small-scale and could be managed by a handful of top-level officials.

After the 1952 revolution, however, this strategy could no longer result in a viable government. In a praetorian society such as Bolivia's, characterized by "the absence or weakness of effective political institutions in the society...capable of mediating, refining, and moderating group political action." (Huntington 1968, 196), the increasing number and complexity of forces worsened the tensions and conflicts among groups: "The participation of new groups...multiplie[d] the resources and methods employed in political action and thus contribute[d] to the disintegration of the polity" (Huntington, 198). Political patronage, the strongest currency for buying political support in Bolivia, had to be distributed much more broadly in order to ensure cooperation by the mobilized masses of *campesinos*, workers, and the growing middle class. As patron-client networks expanded in size and complexity, the Bolivian state was further debilitated, becoming almost entirely a patrimonial resource rather than an abstract expression of nationhood or a means to produce public goods.

A precondition for the distribution of political spoils is the ability to obtain resources for the state. In Bolivia, the extreme scarcity of surplus capital (for development and/or patronage purposes) has forced every government to look to foreign sources of revenue. This dependency has given international actors considerable leverage in Bolivia's domestic affairs. International influence has changed over the 20th century.

When Bolivia relied on private lenders for its external funding (1900-1929), international actors exerted direct influence on economic policymaking and implementation (e.g., the creation of the Permanent Fiscal Commission in 1922; the requirement to hire foreigners to head the Central Bank and other agencies created in 1927-28 upon the recommendations of the Kemmerer mission). When it received technical assistance from the United Nations in 1949-1955, foreign experts were hired as advisors and to assist in the reorganization of several ministries and agencies.[32] When its primary source of foreign funds was U.S. government bilateral aid (1952-1970), there was considerable diplomatic pressure on political and economic issues, always under the overriding concern with ensuring that Bolivia was aligned with the U.S. fight against Communism. Finally, as Bolivia has come to rely increasingly on funding from international financial institutions, most conditionalities have set quite specific targets related to individual policies or projects.

From the beginning, international actors have been concerned with the capacity of the Bolivian bureaucracy to carry out critical tasks being funded with foreign resources. The primacy of political criteria in selecting all types of public employees, as well as the standard practice of replacing most of the public agency's employees with each change in agency leadership,[33] prevented the development of a technically capable public bureaucracy. A 1951 United Nations report on Bolivian public administration affirmed, "Bolivia would probably have the potential of producing enough for her population if she had able, and even more important, stable administrators to help direct the destinies of the

[32] United Nations "administrative assistants" worked in the Ministries of Finance, Labor, Agriculture, the Central Bank, and the CGR (Karasz 1959).
[33] The factional nature of Bolivian political parties and the military leads to frequent changes in agency leadership even during the same administration. For example, each year there is a "crisis de gabinete", in which many agency heads are changed (and, as a result, many of the agency's employees change as well).

country" (Karasz 1959, 264). The weakness of the Bolivian bureaucracy has often led international actors to link disbursement of funds to the establishment of an insulated entity to oversee spending of the funds. The shape these agencies take varies: the most common is the temporary Project Implementation Unit (PIU) used by the international donor community to administer projects; other forms include permanent technical units within ministries (e.g., UDAPE, the economic policy analysis unit created with funding from USAID), semi-autonomous agencies with some degree of formal dependence on a parent ministry (e.g., the Servicios created by the predecessor to USAID in the 1950s and 1960s), and fully autonomous agencies (such as the case studies in this thesis) that conduct functions such as regulation or certain kinds of policy formulation (e.g., Central Bank, SBEF, CGR).

As I have shown in this chapter, Bolivian politicians are under enormous pressure to use public (including foreign) resources to garner societal support: their political survival frequently depends on their ability and willingness to do this. Not surprisingly, fundamental tensions emerge between foreign actors and Bolivian politicians because often the tasks that the former wish to ensure are insulated from politics are the same areas where political interference is most important for the latter. This is a somewhat different version of Geddes' (1994) "politician's dilemma".

Bolivia is certainly not the only Latin American country to have encountered the tension between wishing to create competent public agencies and at the same time receiving strong pressures to continue political use of the bureaucracy. In the next chapter, I review literature that discusses why politicians delegate responsibilities to autonomous agencies (the politics of delegation, credible commitment theory, and regulatory theory) as well as public administration literature which discuss the organizational and political characteristics of autonomous agencies. In light of the two case studies I will develop later in this dissertation, the next chapter focuses especially on autonomous oversight (supervision) agencies. Drawing on the literature on autonomous agency creation, I identify conditions under which three variables (external actors' ideas and interests, key domestic actors' preferences, and politicians' survival priorities) may explain the decision to create agencies that are insulated from political interference. In Chapter 4, I will test these hypotheses in the Bolivian case.

Bolivian Presidents since 1904[34]

President	Party	Time in office
Ismael Montes	Liberal	1904-1909
Eliodoro Villazón	Liberal	1909-1913
Ismael Montes	Liberal	1913-1917
José Gutiérrez Guerra(a)	Liberal	1917-1920
Bautista Saavedra	Republican	1920-1925
Hernando Siles	Republican	1925-1930
Daniel Salamanca	Republican	1930-1934
José Luis Tejada	Liberal	1934-1936
David Toro	Military Socialist	1936-1938
Germán Busch	Military Socialist	1938-1939
Carlos Quintanilla	Concordancia(b)	1939-1940
Enrique Peñaranda(a)	Concordancia(b)	1940-1943
Gualberto Villarroel(a)	RADEPA-MNR	1943-1946
Junta de Gobierno	PURS-PIR	1946-1947
Enrique Hertzog	PURS-PIR	1947-1949
Mamerto Urriolagoitia	PURS-PIR	1949-1951
Junta Militar	Military	1951-1952
Víctor Paz Estenssoro	MNR	1952-1956
Hernán Siles Zuazo	MNR	1956-1960
Víctor Paz Estenssoro(a)	MNR	1960-1964
Gen. René Barrientos	Military	1964-1969
Luis Adolfo Siles(a)		April-September 1969
Gen. Alfredo Ovando(a)	Military	September 1969-October 1970
Gen. Juan José Torres(a)	Military	October 1970-August 1971
Gen. Hugo Banzer	Military	August 1971-July 1978
Gen. Juan Pereda(a)	Military	July-November 1978
Gen. David Padilla	Military	November 1978-August 1979
Walter Guevara Arce	Interim	August-November 1979
Col. Alberto Natusch	Military	November 1-16 1979
Lidia Gueiler(a)	Interim	November 1979-July 1980
Gen. Luis García Meza	Military	July 1980-August 1981
Gen. Celso Torrelio	Military	August 1981-July 1982
Gen. Guido Vildoso	Military	July-October 1982
Hernán Siles Zuazo	UDP	October 1982-August 1985
Víctor Paz Estenssoro	MNR	August 1985-August 1989
Jaime Paz Zamora	MIR	August 1989-August 1993
Gonzalo Sánchez de Lozada	MNR	August 1993-August 1997
Hugo Banzer	ADN	August 1997-present

(a) Overthrown by military coup d'etat
(b) Concordancia was a coalition of traditional parties supported by the tin barons.
PURS = Partido de la Unión Republicana Socialista (founded 1946)
PIR = Partido de la Izquierda Revolucionaria (founded 1940)
MNR = Movimiento Nacionalista Revolucionario (founded 1942)
UDP = Unión Democrática y Popular (founded 1978)
MIR = Movimiento de Izquierda Revolucionaria (founded 1971)
ADN = Acción Democrática Nacionalista (founded 1979)

[34] From Klein (1992) and Malloy and Gamarra (1988)

Chapter 3. Deciding to delegate

Introduction

I showed in the last chapter how Bolivia faces a persistent problem of scarcity, rendering it extremely dependent on external sources of revenue. A prominent view among academics studying Bolivia (Malloy 1970, 1971 and 1988, Zondag 1982, Wilkie 1969 and 1982, Morales 1991) holds that, because of this external dependence, foreign actors routinely exert strong influence on Bolivian policymakers. This influence, for example, can require political leaders to impose costs on certain groups (e.g., by eliminating subsidies). It can oblige the state to undertake certain functions (such as the creation of state development corporations), and it can also shape the way these functions are undertaken. An example of the latter is the creation of autonomous public agencies to provide a particular function deemed important by external actors.

But while it is not possible to explain Bolivian governments' adoption of autonomous agencies without considering the role of external actors, external actors alone do not provide a complete explanation for the autonomous agency creation decision in Bolivia. The external actor explanation is especially incomplete when we try to understand cases where autonomous agencies develop into something more than a law that can be held up as "proof" of compliance with externally imposed conditions for foreign funds: in these cases, we must consider factors internal to Bolivia that affect the agency's evolution.

Even in very dependent environments such as Bolivia's, governments face a range of constraints to accepting externally imposed reforms. Sometimes, even when leaders wish to comply with the demands of external actors, this is not possible. Bolivian history provides several examples of: a) external actors' demands for autonomous agency creation that were not met by the Bolivian government, and b) autonomous agencies that were created but were fundamentally transformed into politicized entities because of internal pressures against insulation.

Recent research in political science and public administration has devoted considerable attention to the issue of the conditions under which politicians take the apparently counterintuitive decision to delegate responsibility for policymaking and/or execution to other parts of government.[35] In this chapter, I review several strands of literature that explore factors which help explain the decision to delegate in a bureaucratic agency insulated from political interference.

In exploring the issue of independent agency creation, I consider two basic questions. One has to do with factors that cause politicians to make the *decision* to delegate in the first place: in the cases I examine, why does the president decide to give rule-making and supervision authority to a group of unelected, politically neutral bureaucrats? The other has to do with the *shape* of delegation: in my cases, why does he choose the autonomous agency model, rather than a less independent or less permanent design?[36]

[35] Political scientists have concentrated on several forms of delegation in studying this question: Kiewiet and McCubbins (1991), Wilson (1980, 1989), and Carey and Shugart (1992) study legislative delegation to the president or to independent commissions in the bureaucracy, while Geddes (1994) and Willis (1996) focus primarily on presidential delegation to the bureaucracy. Given Bolivia's institutional environment at the time the agencies I study were first created, it is most appropriate to focus on explaining the executive's decision to delegate to bureaucratic agencies, since Congress was not a strong player in the 1920s. However, during the second creation period, I will focus on the role of both the executive and the legislature, in light of the increasingly fragmented party system and the growing role of the National Congress.

[36] The Bolivian bureaucracy contains several possible models for insulating certain policy areas from the traditional administration: highly professionalized and insulated teams charged with providing analysis and recommendations in a specific policy area in a line ministry (e.g., UDAPE, UDAPSO or ETARE, the Ministry of Education reform team); presidential level policy-making committees (e.g., CONSAFCO); semi-autonomous agencies that shape a policy area by proposing and enforcing rules for implementation, under the oversight of a "parent" ministry; and fully autonomous rule-making regulatory agencies (also called "decentralized agencies") such as the SBEF and SIRESE agencies. I include the CGR in this category, even though it is technically part of the central administration, because the CGR is legally distinct from the Executive (see Table 1 for details). Some of these entities have no permanent formal status –

Table 1. Bolivia has various arrangements for insulating policymaking and implementation

Type	Creation requirements	Permanence	Example
Policymaking team within line ministry	Ministerial initiative	Minister can create and dismantle the team: no formal permanent status	UDAPE (began in Planning Ministry, now reports to government economic team), ETARE (Education Ministry)
Presidential policy-making commission	Presidential initiative	President can create and dismantle the commission: no formal permanent status	CONSAFCO (SAFCO advisory committee)
Semi-autonomous dependent on parent ministry	Created by law as a core part of the Executive; no legal identity separate Executive	Would require Congressional approval to dissolve: formal permanent status	Servicio Nacional de Caminos Servicio Nacional de Aduanas
Autonomous agency	Created by specific legislation (legally distinct from Executive) or by Constitution	Would require Congressional approval to dissolve, or Constitutional amendment: formal permanent status	SBEF (Supreme Decree 21660, 1993 Banking Law) CGR (Constitution) National Electoral Court (Constitution) Central Bank (1995 Central Bank Law)

In the Bolivian case, pressure by external actors is clearly an important factor in answering these questions, but it does not provide the only explanation. Without also taking into account the relationship between political leaders and other domestic actors, it is impossible to explain the decision to delegate.

Autonomous agencies: definitions and designs

Before looking at the main factors that influence Bolivian decision makers to create autonomous agencies to carry out certain state functions, it is important to probe more deeply into which problems this organizational model is expected to solve, and under what circumstances the model is seen as a solution (whether temporary or permanent). I start by addressing some very basic questions: What do we mean when we refer to an "autonomous agency"? Is there more than one type? How do they differ? And, how can we determine

theoretically, they could be dismantled without congressional approval (although a policy analysis unit whether or not an agency is autonomous? In the following pages, I briefly review the history of interest in "autonomy" as a characteristic of a state, policymaking area, or government agency. I then consider some definitions of autonomy drawn from the political science and public administration literature. Next, I develop a typology of autonomous agencies. As a starting point, I draw on work done by the World Bank to classify autonomous agencies into two broad categories with a greater or lesser degree of institutionalization.[37] I give particular emphasis to the special challenges facing the creation and sustainability of one of these, autonomous oversight agencies (AOAs). Finally, I set out the four dimensions of autonomy that I will use to operationalize my objective of explaining how AOAs are created.

State versus agency autonomy Autonomy is a slippery concept, since its existence cannot be observed directly. Interest in what has been termed "relative autonomy" began in the 1970s, when development scholars began to focus considerable attention on states that adopted policies which hurt powerful social and economic interest groups, and benefited poorly organized, economically weak sectors of society. Throughout the industrialization period of the 1950s and 1960s in many Latin American countries, governments managed to adopt economic policies without the support of important interest groups. For example, most Latin American governments, including Bolivia's, initiated policies supporting industrialization before the industrial sector had gained its own economic power (Geddes 1994). In Southern Cone countries, authoritarian governments adopted policies that hurt large popular sector organizations in order to promote the second stage of import substitution industrialization (Gereffi and Wyman 1990). This trend

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such as UDAPE has enough prestige to award it de facto stability).

[37] See www.worldbank.org/publicsector/civilservice/autonomous.htm.

continued in response to the debt crisis of the 1980s, when several Latin American governments (such as Colombia, Chile, Venezuela, and Bolivia) were able to adopt austere monetary and fiscal policies that had negative effects on powerful domestic actors.[38]

Standard political theories rooted in Marxism and the realist international relations model assume that policies are determined by confrontations of conflicting interests in which the most powerful win. Based on this assumption, many political scientists and economists have argued that states are likely to be "captured" by those whose interests they affect,[39] and that once capture has occurred the states will no longer be independent in the formulation and implementation of policies.

However, these perspectives fail to account for government decisions that hurt strong groups and favor weak ones. Nor do they explain why governments that rely on patronage distribution for political survival sometimes choose to reduce the amount of patronage at their disposal, either through a reduction in the size of the central government (e.g., privatization or decentralization[40]) or by "carving out" certain parts of the state for professionalization.

Once social scientists identified instances where governments managed to undertake policy shifts that hurt strong, well-organized groups and conferred benefits on weak or inarticulate sectors of society, the focus shifted to studying *how* the state was able to bring about these reforms. In the 1970s, researchers such Poulantzas (1973, 1976) suggested that

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[38] See Stallings and Kaufman (1989) for a discussion of the selection of policies to deal with the debt crisis. In countries such as Bolivia and Chile, which relied heavily on IMF and World Bank assistance to implement stabilization programs, support by external actors is clearly a key variable in explaining the degree of state autonomy. In other cases, however, countries such as Colombia and Venezuela refused to deal with the IMF and yet still managed to implement unpopular policies.

[39] A similar argument is applied to public agencies. Economists (Stigler 1975) and political scientists (Edelman 1964 and Lowi 1969) developed theories that assume economic groups wield exceptional political power and will use this power to control the behavior of the bureaucracy. Wilson (1980) provides a concise overview of these theories.

there existed some autonomous force located within the state which at certain times was able to overpower classes and other economic and social groups.

Interest in the relative autonomy debate waned in the 1980s, as theorists grew frustrated with the difficulty of developing a general theory in this area. Scholars such as Skopcol, Gourevitch, Katzenstein, and Malloy shifted their attention away from the "relative autonomy" concept, and instead focused on historical studies of policymaking. These researchers found that the state's ability to impose policy decisions on domestic actors depends on the interaction at a particular point in history between particular individuals and/or actors who represent the state (e.g., bureaucrats, politicians in the Executive Branch and in the legislature), and social interest groups (organized labor, business, etc.). Conaghan and Malloy (1994) summarize the "historical-institutional" criticism of relative autonomy: "the problem with the relative autonomy approach is that it pulls the state out of the manifold of societal relations and looks at 'the state' as a free-standing entity with definable boundary conditions…. In our view, the state acts only through groups of human beings…who have the capacity to act in the name of the state either because they are authorized to do so by rules or because of their de facto appropriation of the symbols of the state (or some mixture of both)" (14).

Since the early 1990s, two areas of scholarship have recently begun to revive interest in questions related to autonomy. One group, made up of rational choice development theorists, goes back to the question that originally intrigued researchers in the 1970s: why do governments decide to adopt reform programs that hurt powerful groups and jeopardize politicians' traditional means of political survival, and how do they gain support from other

[40] See Grindle (2000) for a study of why governments decentralize large parts of the administration to municipalities, even when citizens are not demanding this reform.

political actors? Unlike in the 1970s, these researchers make explicit their assumption that "the state" is never a unified entity; it is a "complex organization with various ministries, public officials, technocrats, and state enterprises" (Gereffi and Wyman 1991, 372). Still, this branch of the literature is concerned primarily with autonomy at the "macro" level: the capacity of politicians in positions of power to carry out broad-based reforms. Research in this tradition tends to be more interested in the process by which politicians are able to design reform programs and win approval for them, rather than with the long-term implementation of that reform (including evolution of the organizational structure that will be required for implementation).

The second group consists of public administration experts and organizational theorists who focus on experiments with *agency* autonomy as a way of improving public sector performance in particular areas. Organizational models with autonomy as a principal characteristic have caught the attention of scholars interested in public management trends in OECD countries (Hood 1991, Osborne and Gaebbler 1992, Schick 1996, Pollitt and Bouckaert 2000) as well as those who study public sector reforms in developing countries (Tendler 1997, Hilderbrand and Grindle 1994, Grindle et al 1997, Willis 1996). These researchers place bureaucratic behavior and organizational arrangements at the center of their explanations for agency autonomy. They generally pay less attention to the political consensus required for creation (how political leaders agree to award agencies autonomy in the first place), focusing instead on explaining why the agency's autonomy evolves the way it does.

Both state and agency autonomy are commonly described as manifesting themselves when political or agency leaders' decisions seem to oppose those preferred by the groups that pose the primary threat to the state's or agency's independence, responding instead to the interests of government officials or some undefined “national interest”. As Nordlinger (1981) points out, and as I show in later chapters, this does not mean that autonomy only exists when states or agencies take decisions that differ from interest group or other political actors’ preferences: policymakers and interest groups could have identical preferences, “as long as the preferences of state [or agency] actors did not *derive* from societal preferences” (Geddes 1994, 5, emphasis mine).

Researchers concerned with state autonomy analyze broad policy decisions, while those exploring autonomous agencies tend to be more concerned with agency-level implementing regulations or day-to-day managerial decisions (in personnel or financial management). Both approaches acknowledge that it is common for either a state or an agency to be able to act independently in some instances and/or areas, but not in others. Authors such as Gereffi and Wyman (1992) and Durand and Thorp (1998) emphasize the stark contrasts that exist between different spheres of government. Durand and Thorp’s description of the “modern” and “traditionalist” parts of the Peruvian state applies to Bolivia as well:

> “Within the state, we find a ‘segmented’ apparatus with different standards of bureaucratic capacity (Evans 1989). ‘Modern’ branches, ‘islands of efficiency’ (recruited on merit, efficient and well funded) coexist with traditional branches (recruited on clientelistic lines, overstaffed and underfunded)… The ‘traditional’ bureaucratic culture was an arbitrary one, accustomed to the use of public resources for private purposes and to hiring personnel amongst relatives, friends or party supporters. The ‘modern’ bureaucratic culture involved professional recruitment and promotion, much greater efficiency and a stronger sense of the national interest” (210).

Casual observation suggests that in most Latin American countries, agencies within the so-called “modern” branch of the state are almost always vested with some degree of formal independence from the central administration; this is certainly true in Bolivia.

Defining autonomy   Before we can analyze how a particular agency's autonomy is created and sustained, we must first define the term and then operationalize the concept of autonomy by breaking it down into observable dimensions. In this section, I review the existing literature to find working definitions and key aspects of agency autonomy.

A common starting point for the definition of agency autonomy is to understand the agency's position vis-à-vis the ***environment*** in which it exists. Simon, Smithburg, and Thompson (1950) defined autonomy as an organization's ability to reach and execute decisions independently of other entities. Selznick defined autonomy as "a condition of independence sufficient to permit a group to work out and maintain a distinctive identity" (Selznick 1957, quoted in Wilson, 182).

Among the earliest in-depth analyses of an autonomous agency was Selznick's (1966) study of the Tennessee Valley Authority (TVA). Selznick emphasized that when the TVA was created in 1933, its autonomous status represented a new approach to the role of the federal government: "the TVA was not appended to any existing department, but was given freedom of action and a substantial measure of autonomy, subject only to the direct control of the President and Congress. The TVA Act…was so framed as to give the Authority the power to make its own decisions… [It was] to be permitted wide corporate freedom in the exercise of such managerial responsibilities as the selection of personnel, procurement, and disposition of operating funds" (27-28).

Researchers were also interested in understanding *why* some organizations were more independent than others, and began to look for distinctive features ***inside*** organizations that made them more autonomous. Simon et al (1950) hypothesized that more autonomous agencies typically possess "an organization goal that is thought of by many people as a worthwhile activity in its own right" (268).   Wilson (1989) suggests that an agency's autonomy can be evaluated in terms of both external and internal aspects. While external aspects are related to the organization's relationship with its environment, internal autonomy has to do with the level of acceptance and shared understanding within the agency of the organization's central tasks.

Later work on agency autonomy has placed growing emphasis on identifying different dimensions of autonomy (suggesting a more nuanced view of autonomy, rather than presenting it as an attribute that either exists or does not exist), and focused on the importance of assessing informal autonomy. Christensen (1999) is primarily concerned with the oversight structures to which a particular agency (and its chief executive) is bound. He defines "bureaucratic autonomy" as "the formal exemption of an agency head from full political supervision by the departmental minister" (9). Christensen specifies three dimensions of formal autonomy: structural ("the insertion of either an alternative or a competing level of political supervision"); financial ("the exemption of the agency from…budgetary constraints"); and legal ("the authorization by law of the agency head to make decisions in his own capacity, thus forbidding ministerial intervention") (9). In determining environmental (exogenous) factors that contribute to autonomy, he takes into account the political contingencies that help determine whether or not politicians (he focuses on ministers) delegate authority on a specific matter to an agency that enjoys some degree of formal autonomy.

Khademian (1996) has written one of the most thorough comparative agency studies on autonomy, considering both formal and informal aspects of autonomy in her analysis of three U.S. federal agencies responsible for financial sector oversight. True to the environmental tradition, Khademian defines formal autonomy as "the structure that technically determines an agency's exposure to oversight by the executive branch, Congress, the courts, and constituent organizations…[and] the formal dependence of an agency on other organizations for enforcing its mandates or approving its regulations (Khademian 1996, 87). She goes further by identifying specific parts of the agency's scope of action where scrutiny by political overseers and imposition of restrictions by other organizations can occur: operational decisions, personnel decisions, naming of agency heads, access to funding, etc. These reflect different dimensions along which to assess the type and degree of formal autonomy an agency has.

Khademian goes beyond the concept of formal autonomy by considering a range of endogenous and exogenous variables that affect the agencies' informal independence: clarity of the agency's mandate, political consensus in support of the mandate, political principals' respect for the agency's technical expertise, and clear performance measures for judging success. She argues that these variables also play a key role in determining how much oversight an agency will be subjected to (for example, an agency without clear indicators for evaluating success will usually face more congressional investigations than one with very clear -- generally quantitative -- performance measures).

Echeverri-Gent (1992) defines autonomy as "the ability of an agency to formulate and pursue objectives regardless of the preferences of other actors in its environment" (342). He emphasizes the importance of access to key resources as a determinant for the degree of agency autonomy. He argues that the greater an organization's dependence on others in its environment (other organizations, interest groups, politicians, etc.) for access to key resources, the lower its degree of autonomy. These later works on agency autonomy lead to discussions of the strategies agency leaders can adopt to maximize their organization's autonomy, which is the subject of Chapter 5.

There are surprisingly few recent studies of autonomous agencies in Latin American countries, despite the prevalence in the region of variations on this organizational model. Willis (1996) authored one of the most famous articles on this subject, and it was she who introduced to academia the term "pockets of efficiency" in the context of autonomous agencies. Her study is concerned primarily with understanding how Brazil's BNDE (*Banco Nacional de Desenvolvimento Econômico*) obtained what Willis calls "bureaucratic independence", which she argues is vitally linked to the state's ability to carry out policies. She assesses bureaucratic independence based on the degree of agency control over personnel decisions, on its ability to obtain financial resources, and on how much control it exercises over loan allocation (its primary activity). Willis makes an important contribution to the study of autonomous agencies in politicized bureaucracies, since in examining the different dimensions she considers both formal and informal aspects.

Taliercio (2000), in a paper on Latin America's experiences with semi-autonomous tax agencies, divides bureaucratic autonomy into two broad dimensions: governance mechanisms (who are the principals and what are the reporting requirements) and managerial issues (budget, personnel and procurement rules). He develops a complex theory in which he argues that several causal variables will determine whether or not the executive will create this kind of agency, including the politician's discount rate, resource control factors, patronage costs, political control of tax administration, and tax policy control.

In my study, I define autonomy as an agency's ability to carry out its legal mandate without interference from other actors in its environment. This definition is broad enough to allow me to incorporate an analysis of the informal aspect of autonomy, in addition to the formal, since informality is such an outstanding characteristic of the Bolivian bureaucracy.

Also, I apply Echeverri-Gent's hypothesis about the degree of agency reliance on the task environment, since one of the hallmarks of informality is the tendency for powerful agencies to overstep their boundaries and exert influence on other parts of the bureaucracy (either in direct violation of formal rules or because of excessively vague formal rules).

A typology of autonomous agencies One thing that quickly becomes clear when one begins to study autonomous agencies is that different people are talking about different things. The broad term "autonomous agency" encompasses several different categories of organizational model, and the definition of the term as well as the dimensions used to gauge the degree of autonomy depend in the first instance on the type of autonomous agency under discussion. For example, there are clearly big differences between a semi-autonomous tax collection agency, an insulated presidential-level policy advisory commission, a regulatory agency, and an independent central bank. And yet, autonomy is a prominent characteristic of all of these. Before developing further the dimensions along which I have operationalized the concept of autonomy, it is useful to refer to a typology of autonomous agencies which helps define better my object of study (autonomous oversight agencies) and differentiates them from other types of autonomous agencies.

The typology presented in Table 2 follows from a single variable: the agency's position vis-à-vis the Executive. The two possible variations are: 1) the agency acting *on behalf of* the Executive (to implement policy), or 2) it is acting to *restrain* the Executive.

Table 2. Typology of autonomous agencies

	Type 1 (operational efficiency in service delivery)	**Type 2** (statutory independence for policymaking and quasi-judicial/regulatory functions)
Institutionalized	Comprehensive set of executive agencies created as part of an overall approach to reforming public service delivery (e.g., U.K.'s Next Steps agencies or New Zealand's Crown entities)	Independent central bank Supreme audit institution Comprehensive system of independent regulatory agencies/commissions (such as U.S. regulatory commissions, or Bolivia's natural monopoly regulators, SIRESE)
Ad hoc	Semi-autonomous agencies created individually by a government to address an immediate political problem or to bypass low capacity of main bureaucracy in a priority area (e.g., Bolivia's SNC, Peru's tax administration under Fujimori)	Peru's competition and intellectual property rights protection agency (INDECOPI) Jamaica?

Source: World Bank 2000.

In this typology, the World Bank draws a distinction between more institutionalized autonomous agencies which "are subject to more deeply entrenched checks and balances", versus *ad hoc* autonomous agencies created as responses to an immediate problem or priority which tend to be controlled by their creator (usually the Executive, under the presidential systems that exist in Latin America).

The implication of this distinction is that "institutionalized" autonomous agencies are both less vulnerable to autonomy violations and more accountable (because of the presence of more than one veto player[41]) than *ad hoc* agencies. This is certainly true in most cases, but it is important to underline that the existence of formal checks and balances alone

[41] See Kiewiet and McCubbins (1991) for a discussion of the effects of multiple veto subgroups that act as checks on agencies' ability to take actions: "checks…inhibit the ability of agents to take actions that the principal considers undesirable, but necessarily retards agents from taking desirable actions as well:

will not necessarily result in more consistent autonomy or accountability. The strength of governance arrangements, whatever these may be (see Table 3) is consolidated over time, depending on a number of exogenous factors (agency performance, electoral outcomes, citizen demands, etc.).

Contrary to the impression conveyed by the World Bank's typology in Table 2, many autonomous agencies in OECD countries were originally created as *ad hoc* responses and only became institutionalized after many years.[42] In the Bolivian case, some of the more *ad hoc* autonomous agencies (for example, the SNC until the 1980s, and the SBEF after 1987) saw their independence and accountability consolidated more solidly than other "institutionalized" entities (such as the Central Bank and the CGR). Thus, while the distinction between *ad hoc* and institutionalized agencies is important for describing an agency's *creation* process, it is not an accurate predictor of the sustainability of the agency's autonomy or of the potential for establishing accountability mechanisms.

Several other differences between Type 1 and Type 2 autonomous agencies stem from the variations in the agency's position vis-à-vis the Executive, helping to further refine the typology, as presented in Table 3.

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security comes at the price of flexibility" (34). See Keefer and Stasavage (1999) for a discussion of how the presence of multiple principals can promote independence.

[42] For example, see Skowronek (1982) for a discussion of the U.S. experience with the Interstate Commerce Commission.

Table 3. Variations in autonomous agency arrangements[43]

Agency Type	Why Autonomy?	Governance arrangement
Type 1	Improve operational efficiency by releasing the agency from rigid centralized management rules and/or clientelistic hiring practices.	Agency head reports to minister (single principal) and in exchange for managerial discretion is held accountable for clearly defined agency outputs/outcomes.
Type 2	Prevent arbitrary rule-making/ rule enforcement and/or unsound long-term policy decisions due to short-term pressures	Regular reporting requirements to Executive and Legislature (multiple principals provide checks and balances).

Autonomous oversight agencies Oversight agencies (Type 2) are charged with monitoring compliance with technical rules in a non-arbitrary, impartial manner. These agencies generally have some degree of discretion in the instruments they use and the extent to which they enforce regulations. Their leaders exercise some measure of judgment in the application of policies and rules to the supervised sector, and may have some degree of influence on the government's policy decisions (although AOAs do not play a formal policy-making role). The credibility of government regulations depends on society's conviction that oversight agencies' decisions will be taken based on objective, professional criteria rather than political preferences, and that the rules will be applied equally to all.

Oversight agencies' legitimacy depends in part upon the public's perception that they are technically competent organizations. "Faith in the power of technical expertise as an engine of social improvement – technical expertise which neither legislators or courts nor bureaucratic generalists presumably possess –" (Majone 1996, 15) was one of the driving forces behind the creation of U.S. oversight agencies upon which the two case studies in this thesis are modeled. The principal (whether executive or legislative) who creates and then delegates to the oversight agency must also be able to ensure that the agent will uphold the

[43] This table is based on ideas shared with me by Yasuhiko Matsuda, Geoffrey Shepherd, and Nick

spirit under which the agency was created and charged with responsibility for designing and/or supervising government rules.[44]

AOAs must strike a difficult balance between executing their main mission (rule enforcement) without sacrificing important political support. When AOAs anger key constituents, for example by imposing a sanction for a rule violation, they may find themselves under attack by politicians at the highest level. Complicating matters still further, there are often different parts of the state (typically the legislature vs. the executive) in conflict over the degree of oversight to be exercised, and how strictly. In Bolivia, for example, the regulatory system charged with overseeing natural monopolies faces "an executive and legislature that are often unhappy with its powers and privileges" (World Bank 2000, 76).

Many oversight agencies have especially precarious autonomy because they are created by what Wilson (1980) calls *entrepreneurial politics*. Wilson describes how a policy entrepreneur sometimes proposes a policy "that will confer general (though perhaps small) benefits at a cost to be borne chiefly by a small segment of society" (370). Wilson predicts that the regulated industry will react with hostility to the proposed policy, and argues: "since the incentive to organize is strong for opponents of the policy but weak for the beneficiaries…it may seem astonishing that regulatory legislation of this sort is ever passed" (370). According to Wilson, *entrepreneurial agencies* (agencies created under this sort of initiative) are especially susceptible to capture by the regulated or supervised industry, or simply to being rendered irrelevant because "when the zeal of…early allies flags, [the agency] may find itself confronting an environment where much of the

Manning of the World Bank.

information it needs and many of the political resources to which it must respond will be in the hands of an interest fundamentally hostile to its purposes" (Wilson 1989, 78).

As an example, Wilson cites the United States Food and Drug Administration (FDA), charged with approving new drugs for distribution. The FDA was created by Congress in 1905 with strong support from outraged consumer groups and the medical community who pointed to the deaths and injuries caused by unsafe pharmaceuticals. After the indignation wore off, however, these groups lost interest in the FDA. The pharmaceutical industry that was regulated by the FDA, on the other hand, never lost interest: its profits depended on speedy approval of new drugs. FDA employees dealt with industry representatives on a daily basis, but rarely with consumer advocates; researchers have found that "in the late 1950s and early 1960s the FDA had the reputation of being rather passive, perhaps even pro-industry, in its outlook" (Wilson 1989, 80). Paul Quirk (1980) found that the regular exposure to drug industry representatives "creates an imbalance of information and analysis – arguments favorable to a drug approval will be discovered and articulately put by company representatives while criticisms must be discovered by the reviewer unassisted" (211).[45]

Another example of agency capture after original support faded is Brazil's *Departamento Administrativo de Serviço Público* (DASP). The DASP was created under Getulio Vargas' *Estado Novo* in 1937, to realize the President's priority of creating a professionalized bureaucracy. The DASP was set up as a superministry charged with

[44] For a review of the principal-agent model applied to public administration, see Moe (1984), Horn (1995), Weingast and Moran (1983), McCubbins and Schwartz (1984), and McCubbins, Noll and Weingast (1987, 1989).
[45] In recent years, the FDA responded to criticism from the pharmaceutical industry that it was too slow in approving drugs by creating a "fast track" approval process. However, the increase in approvals has led to the marketing of some drugs with deadly side effects. With several scandals emerging (including the

upgrading the civil service and overseeing public procurement. The DASP was "accountable directly to the president, with branches in the other ministries to ensure their compliance" (Geddes 1994, 53). In order to eliminate the perception of public employment as a sinecure, the DASP established rigid controls over all aspects of personnel management. One of the most important civil service reforms carried out by the DASP was the introduction of an entrance exam for permanent functionaries, which included about 25 percent of all public employees.

DASP was responsible for overseeing line ministries' personnel management and procurement processes. In conducting this task, it faced considerable resistance from the bureaucracy, but was able to prevail because it had Vargas' full backing. Vargas insulated the DASP from political or "industry" (i.e., bureaucratic) interference, converting it into an important administrative agent. He charged the DASP with more and more functions, including drawing up the national budget, taking away this responsibility from the powerful Ministry of Finance.

As long as Vargas was in office, he protected his instrument from being captured by those it oversaw. This protection ended abruptly when Vargas was overthrown and Brazil returned to a democratic regime. As soon as Vargas was no longer able to guarantee DASP's insulation, bureaucrats and political elites at both national and local levels, whose enmity DASP had aroused, overtook the agency. They stripped DASP of many of the oversight functions that had most irritated bureaucrats. While the agency retained some functions, its ability to enforce regulations was severely limited: "although the DASP

"phen/fen diet drug"), the FDA has come under careful scrutiny. Former FDA employees say that they were pressured to revise their reports to make them "more neutral" regarding potential side effects of drugs.

continued to exist and occasionally played a role in succeeding administrations, it could no longer initiate major reforms" (Geddes 1994, 55).

Operationalizing autonomy: four dimensions As I discussed earlier in this chapter, "autonomy" as a general concept is difficult if not impossible to observe. It becomes a feasible concept for research only when we operationalize it, that is, when we find concrete (observable) dimensions along which the concept of autonomy manifests itself. I have identified four areas where an oversight agency's autonomy from political and industry interference can be observed.

- **Structural**: the statutes that define the agency's location within government and determine formal political supervision arrangements
- **Personnel**: rules determining how the agency head is selected and removed, as well as legally-defined procedures for recruiting, selecting and dismissing staff
- **Financial**: how the agency is financed (both in determining its budget and in the way it receives budget allocations)
- **Technical**: the authority to take mission-related operational decisions without political interference

It is useful to consider each of these elements as having both a formal and an informal side, particularly in a context such as Bolivia's, where institutional arrangements are characterized by a high degree of what a recent World Bank study (2000) has termed "informality."[46] In an institutional environment where adherence to formal rules is the exception rather than the rule, it is especially important to look at the same dimensions on

[46] According to the World Bank (2000) "the problem of 'informality' exists when there is a significant gap between 'ideal' or 'desirable' behavioral patterns prescribed in a set of formal institutions (i.e., laws, rules, and organizational norms) on the one hand, and actual behavioral patterns that obtain without following the letter and the spirit of the existing formal rules on the other (vi).

both the formal (what the law says) and informal (actual behavior and/or other pieces of legislation that determine how and whether the law is actually implemented) levels.

Not all types of autonomy are necessarily present at the same time in a given agency. It is common, especially in developing countries, for agencies to be granted some degree of structural autonomy though in fact they are not really independent. For example, the Bolivian Central Bank was nominally autonomous (a strong Central Bank Law was even passed in 1995) but until only a few years ago its Board of Directors was notoriously politicized. The *Servicio Nacional de Caminos* is another agency that is a formally semiautonomous service delivery agency, but was selected as the second most politicized public agency in a 1999 World Bank survey of public officials. For this reason I found it interesting to consider more than one dimension of autonomy in my case studies, and to pay special attention to evidence of informal violations of autonomy.

Technical autonomy cannot be maintained without at least some degree of autonomy in personnel and budgetary management. However, as I will show in the case studies in Chapters 4 and 5, technical autonomy – which the literature agrees is the most important for oversight agencies -- does not automatically result from the other three dimensions. An agency may be formally outside the public bureaucracy, and it may be allowed to manage its own human and financial resources, but it may still experience interference when it tries to take technical decisions that differ from those of politicians and/or interest groups. Does this mean the agency is not at all autonomous? Not necessarily. I argue throughout this thesis that autonomy is not "black or white": it has many shades of gray, and it can fluctuate. This is one reason it both difficult and interesting to study. Furthermore, technical autonomy does not guarantee sound decisions: an agency may have high levels of autonomy along any or all of the four dimensions, but may still make its own technically unsound decisions.

Autonomy and accountability: the essential tension Democratic government requires bureaucratic accountability: no one, no matter how expert, can make important choices free of any legal and administrative constraints. Delegation of authority while retaining effective accountability arrangements has been an on-going puzzle. Kiewiet and McCubbins (1991) describe what they refer to as "Madison's dilemma", cast in terms of a principal-agent problem: "The essence of the problem is that resources or authority granted to an agent for the purpose of advancing the interests of the principal can be turned against the principal…Madison's dilemma is not a consequence of agents taking hidden action or acquiring hidden information…Rather, it arises from agents exploiting the favorable strategic situation in which they have been placed" (26).

Control after delegation. The tension between allowing an agency to act independently and at the same time holding its managers accountable for their decisions has been a prominent theme for many economists, political scientists and public administration experts. There is also a debate about the most effective and least costly solution. Max Weber's bureaucratic model was designed to address information asymmetries between principals and their agents through a complex hierarchy of rules and procedures. Principals could ensure that the agent's task was conducted properly by ensuring that bureaucrats followed these rules and procedures. As government work has become increasingly complex, however, citizens, politicians, and public employees themselves have become critical of excessive "red tape" that leads to public sector inefficiency. Kiewiet and McCubbins' (1991) work on the issue of delegation and oversight identifies four main types of control mechanisms to increase accountability: contract design (adjustments in compensation and sanctions to provide certain incentives); careful screening and selection of the agent; monitoring and reporting requirements; and institutional checks (introduction of various "veto" groups within an agency, for example).

At the same time, an on-going tension has emerged between trying to balance "immediate responsiveness to public and political concerns and the need for a stable, consistent approach [to an agency's mission] that is not as heavily influenced by changing political priorities" (Khademian 1996, 183). A long-term approach free from frequent and marked policy shifts based on political priorities is especially important in certain types of state activities, including many of those carried out by oversight agencies. Just imagine how much damage could be done to a country's economy, for example, if every new administration brought with it new requirements for banking institutions' capital adequacy or liquidity. Or how much uncertainty and confusion would be generated in the public sector if managerial system compliance requirements changed significantly with power shifts among political actors. This would be even more disruptive in an environment such as Bolivia's, where fragile coalitions mean that political actors continually fluctuate in power and it is enormously difficult to predict even from one year to the next who will come out on top.

But as Khademian (1996) observes, "autonomy does not…guarantee successful management of regulatory efforts. There is an important role for political scrutiny" (185). Effective supervision by an agency's political principal(s) can stimulate the agency to improve its performance. Khademian gives the example of how the Federal Deposit Insurance Corporation (FDIC), subjected to intense Congressional scrutiny after the 1980s banking crisis that threatened to cause a deficit in the deposit insurance fund, improved its management substantially and today is a much more effective supervisor and insurer of the fund.

In countries such as Bolivia, however, political scrutiny is rarely exercised to make an agency work more effectively towards the public interest. As I showed in the last chapter, pieces of the Bolivian bureaucracy are "auctioned off" to coalition partners, and power is concentrated in the hands of top administrators in what some authors have referred to as a "feudalistic" arrangement. Thus, the status quo is that public accountability mechanisms are weak, in the sense that managers are rarely held responsible for inefficient, inappropriate, or illegal actions.

At the same time, private accountability (to political patrons) is enforced: generally, if a bureaucrat is awarded a job and fails to comply with his patron's wishes, he will be dismissed. According to a 1999 World Bank survey of public officials, over half the respondents from ministries, national institutes, and prefectures (regional governments) reported that when bureaucrats fail to comply with political pressure they are likely to lose their job (World Bank 2000). Political oversight is exercised as an instrument of destruction when members of the political or economic elite wish to damage an individual.

This pattern has three direct negative impacts. First, those who hold the power to conduct oversight are often vindictive in wielding it. For example, the head of the Finance and Banking Committee in the Bolivian Congress is the owner of a bank that was liquidated by the SBEF for poor management and fraudulent lending practices. In his role as committee chairman, the Congressman's behavior towards SBEF management could be accurately described as personal harassment (during the SBEF investigation agency managers were repeatedly called to testify before the committee about their investigative practices; the Intendent for Investigations was arrested and jailed for a short time; and some managers received threatening letters and even death threats). Second, there is a pervasive fear among Bolivian public officials, and a belief that oversight is something to be avoided at all costs. This makes it especially difficult for oversight agencies to obtain the information they need to do their jobs. Third, citizens and many politicians are justifiably mistrustful of autonomous agencies.

Thus, in an environment where managers can rarely be held accountable in return for greater autonomy; where scrutiny commonly is used to destroy political opponents; and where creation of autonomous agencies is often perceived by the electorate as a mechanism for politicians to give themselves more freedom to engage in corruption, it is surprising that politicians would willingly delegate power by creating agencies with formal autonomy, particularly to those charged with important oversight functions. In the following sections, I review the history of autonomous agency creation in Bolivia. I then review the main strands of literature about the decision to delegate authority. I identify variables, including the influence of external actors on delegation decisions in Bolivia, that appear to help explain why under certain circumstances Bolivian politicians do decide to delegate to autonomous agencies. Finally, I end this chapter with a formal statement of my hypotheses regarding autonomous oversight agency creation.

History of autonomous agency creation in Bolivia

There have been three distinct periods during which autonomous agency creation has been most frequent in Bolivia: the Kemmerer mission (1927-28); important aid transfers from the U.S. (1952-1967); and during consolidation of the New Economic Policy (1985-

1995). During these periods, autonomous agencies were put forth by external actors as one preferred solution to what Hirschman (1963) referred to as a "privileged problem"[47]: the inability of Bolivia's politicized bureaucracy to undertake effectively certain key state functions.

In Bolivia, as in many developing countries, the autonomous agency model has been adopted for both philosophical and practical reasons. At different times in the country's recent history, the autonomous agency model was seen as an end in itself, or as a means to an end. On the philosophical side, there is broad consensus that certain areas such as monetary policymaking are best managed by an independent Central Bank. Most countries have some version of this arrangement, because there is wide agreement on the wisdom of ensuring that policymakers in this area be able to operate with a long-term perspective. In other areas, there is no consensus on "one best way" of organizing tasks, but on a practical level the bureaucracy's low capability makes the creation of a separate agency to do the job an attractive option. Roads maintenance is one example: there are many different organizational arrangements for agencies responsible for roads maintenance, but in Bolivia this task was delegated to a semiautonomous agency as a way of avoiding the bureaucratic inefficiencies and corruption that affect line ministries.

Autonomous oversight agencies are an example of a mixed philosophical-practical purpose. Philosophically speaking, there is general agreement that agencies charged with supervising private or public sector activities must maintain an arm's length relationship to

[47] Hirschman (1963) recognizes the important role that external actors can play in generating governmental and citizen concern about a particular problem. He also emphasizes the tendency to convert intractable problems into "technical" ones, or to focus only on the technical side of a problem that also has a strongly political nature (such as high inflation or the poor performance of a public agency), in the hope that "somewhere there is an international expert who will prescribe a cure" (163). The same could be said for international experts and IFIs themselves, who frequently define the host country's problems in such a way as to be able to offer a solution from the available repertoire.

those sectors, thus lending support to the idea that it is wise to grant oversight agencies some degree of independence. Still, there is no predominant worldwide model of oversight agency as there is with central banks: in some countries oversight activities are conducted by informally independent departments within line ministries, while other countries prefer the more formal autonomy of the independent commission model. In the case of designing oversight agencies in Bolivia, the practical considerations have been key: most of the Bolivian bureaucracy is simply not equipped to fulfill the important role that the government must play as formulator and enforcer of rules for public and private sector activities. The autonomous agency model provides a convenient alternative.[48]

Each of the three main creation periods coincides with the presence of external actors lending or donating money to the Bolivian government, and anecdotal evidence shows that in a number of cases foreign actors supported the model, usually through policy advice as well as financial support. In Bolivia, there is a direct correlation between agency creation and the presence of an international technical assistance mission, usually accompanied by promises of foreign investment or aid.

The Progressive Era and the Money Doctor Bolivia's first experience with autonomous agency creation was in 1928, responding to the recommendations submitted by the mission of E.W. Kemmerer and his team of advisers. Kemmerer, a product of the United States' Progressive era, was a first-hand observer of a watershed period in the United States' own experience with state building at the turn of the 20th century. Like other proponents of the Progressive movement, Kemmerer was concerned with the corrupting

[48] I recognize that there is a stronger philosophical argument for autonomy in the area of public sector oversight (the area covered by the CGR) than for private sector regulation (the SBEF example). However, even in the area of government audit, the autonomous agency is not the only model. For example, in the U.S. the Inspector General Act of 1978 created Offices of Inspector General inside line agencies and departments, and the Inspector General is a presidential appointee (Light 1993).

influence of political parties in administrative affairs (which later evolved into what is known as the "politics-administration dichotomy"),[49] and believed that insulating key agencies from political parties' interference would improve the government's economic performance. His approach was based on the U.S. experience, where the first part of the 20th century saw the passage of numerous pieces of legislation to create a variety of independent regulatory commissions, an independent Central Bank modeled on the European experience, and several other autonomous agencies such as the U.S. General Accounting Office.

In the U.S., two areas of reform received particular attention: institutionalizing an administrative control structure to oversee the expanding state apparatus,[50] and establishing an independent regulatory system to oversee key private sector industries. The introduction of scientific management principles carried out by independent experts rather than political leaders was one of the Progressive era's premier standards of institutional reform (Skowronek 1982).

Applying this scientific approach to the Andean countries that requested his advice, Kemmerer concluded that the structures that worked in the United States should also work

[49] James Svara (1998) argues that the "politics-administration dichotomy" model was not engendered by the founders of public administration (associated with leaders of the Progressive Era such as Woodrow Wilson and Frank Goodnow), but rather developed in the 1920s (the period when Kemmerer's "money doctor" missions visited Latin America). Svara acknowledges that the Progressives did frown on the interference of *partisanship* (different from *politics*) in public administration, and quotes Goodnow's argument that "political control over administrative functions is liable…to produce inefficient administration in that it makes administrative officers feel that what is demanded of them is not so much work that will improve their own department, as compliance with the behests of the political party" (Goodnow 1900, 83).

[50] Though as Skowronek (1982) points out, "authoritative controls over the new national bureaucratic apparatus were cast in a constitutional stalemate. The shifting scramble for power and position could not be satisfactorily ended, so it was built into the very structure of the new American state" (204). The creation of the Civil Service Commission and the Bureau of the Budget allowed presidential control over personnel and financial management, while the Bureau of Efficiency and the General Accounting Office constituted parallel control instruments in the legislative branch: "the design…promised to keep control over the new realm of civil administration at the center of political contention in the operations of the new American state" (208).

in Latin America: "Kemmerer and his companions believed that scientific, technical advances in institutions managed by apolitical, public-spirited experts could bring about generalized economic and social improvements in any country. Their universal principles could be applied wherever leaders possessed sufficient wisdom, integrity, and willpower" (Drake 1989, 252).[51]

The 1927-28 period is the strongest example of the Bolivian government adopting the autonomous agency model almost purely because of the influence of outside actors. According to Drake (1989), of all the Andean countries that received visits from the Money Doctor Bolivia was the most striking example of a country where "nearly everyone…sought his advice solely to satisfy external creditors… Bolivians…paid only lip service to…foreign codes and proctors" (173-74). Not surprisingly, "Kemmerer's dicta had little lasting effect" (211): both the CGR and the SBEF were politicized soon after their creation in 1928, and little if any impact could be seen on Bolivia's development.

Administrative efficiency: service delivery and the productive state The second major period of autonomous agency adoption in Latin America was during the 1950s and 1960s. In Bolivia, the push for autonomous agency creation began around the time of the 1952 Revolution with the United Nations Keenleyside mission and continued for almost two decades thanks in large part to increasingly active involvement by the U.S. government and the Inter-American Development Bank (IDB). The U.S.' primary concern was to remove the threat of Communism in Latin America. Poverty reduction was seen as an important ingredient in accomplishing this goal, and the U.S. drew on its own recent

[51] Kemmerer's reforms tried to apply nearly identical measures to significantly different environments: "although some of Kemmerer's laws did work with universal predictability, others fit poorly with the legal, linguistic, cultural, political and economic heritage of the Andean countries. For example… a highly liquid commercial credit system provided little for farmers in countries far more agricultural than the United

development experiences to fight poverty (agricultural extension programs, expansion of social services, and the establishment of basic infrastructure).

Latin American bureaucracies' extreme politicization and their weak human resources constituted the first obstacle to ensuring that development funds would be used for the intended purposes and might have a real impact. The U.S. government decided to design alternative arrangements that would enable its programs to circumvent politics and target its funds directly at the development challenges it wanted to solve. The *servicio* model,[52] used in many Latin American countries, was a semi-autonomous service delivery agency formally attached to a ministry but functioning as a self-contained entity. Planning, budget, procurement, personnel, and other management functions were all handled primarily by the *servicio*, though these decisions were communicated to the parent ministry. Four *servicios* (agricultural extension, education, health and roads) were created in Bolivia between 1942 and 1960[53] under the U.S. government's Point Four assistance program.

In Bolivia, the Bolivian Development Corporation (BDC) was established in 1942 with a $10 million loan from the U.S. government. It was created as a decentralized agency whose mission was to stimulate economic development through import substitution. It was charged with creating and operating new industrial enterprises (sugar, cement, and powdered milk) and with constructing access roads and irrigation structures in the sparsely

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States… These countries also lacked sufficient financial and trained human resources to make all of Kemmerer's costly and complex institutions operate properly" (Drake 1989, 253-4).

[52] The *servicio* model of joint operation "is a government entity specifically established by the host government within one of its ministries to administer jointly with foreign technicians a group of projects in a major functional field." The *servicio* opened the door for considerable U.S. influence, not only over which *types* of programs were carried out with U.S. funding, but also over the day-to-day details of *how* they were carried out: "the willingness of the United States to contribute substantial sums to a *servicio* within this pattern depends on the degree to which the head of the United States technical mission can exercise a voice in the expenditure of the money. The characteristics of public administration in the underdeveloped countries make it unreasonable to expect the United States to contribute substantial sums unless a United States representative can thereafter exercise some suitable control". (Glick, 1957, 68).

populated but highly fertile eastern part of the country. The BDC's first project involved the administration of funds from the U.S. government for construction of the Cochabamba-Santa Cruz highway, and it continued to administer foreign aid into the 1970s (Zondag 1966).

Willis' (1996) article on Brazil's Banco Nacional de Desenvolvimento Econômico (BNDE) as a "pocket of efficiency" describes how the BNDE was established in 1952 at the urging of the World Bank and the U.S. government. The BNDE was to provide technical expertise and financing for infrastructure projects carried out under the Vargas administration's National Plan for Economic Reconstruction. The World Bank and the U.S. Export-Import Bank offered $500 million to support these projects, but "as a condition for releasing these funds, these international lending institutions required the Brazilian government to present projects that met the technical standards followed by the World Bank" (Willis 1996, 632).

It would be incorrect to argue that Latin American governments only created autonomous agencies under pressure from foreign influences. There are several examples of reformist presidents in the 1940s – 1960s who, as their governments took on an increasingly active production role, created autonomous organizations to improve the state's performance. The "decentralized administration" consisted of development corporations, planning commissions, development banks and state owned enterprises. Vargas in Brazil, Belaúnde in Peru, Frondizi in Argentina, and Frei in Chile are well-known examples. Frustrated with the inefficiency of the traditional bureaucracy, they adopted what Geddes (1996) refers to as a "compartmentalization strategy," creating "islands of competence" in a

[53] "Point Four in Bolivia (1942-1960): programs of technical cooperation and economic assistance." United States Operations Mission to Bolivia, December 1960.

few key agencies (Geddes 1996, 134). Geddes argues that presidents can compartmentalize when they do not face strong competition within their parties and can rely on party discipline to provide legislative support.

Under the MNR governments of the early revolutionary period in Bolivia, Presidents Paz Estenssoro and Siles did not govern under conditions that would favor a compartmentalization strategy. Instead, they faced strong rivals from the different factions of the MNR and had to contend with pressures to satisfy the left-wing members' urgent demands for patronage appointments. In this environment, pressure from external actors such as the U.S. government and the IDB provided a useful excuse for Paz Estenssoro and Siles to create autonomous public agencies. This supports Drake's (1989) argument that the Bolivian government used outside experts to achieve their own ambitions.

The temporary insulation of certain public agencies to develop their technical expertise was congruent with both predominant development theories of the era as well as the ideas that guided the U.S. approach to public administration. However, the results tended to be disappointing when efforts were made to institutionalize the semi-autonomous agencies by reincorporating them into their parent ministries: "the servicios…have proved…long lived, and the assumption of full responsibility for programs by regular ministries has been continuously postponed in most instances" (Weidner 1964, 144). Undeniably, the autonomous agency experiments of the 1950s and 1960s produced results (e.g., infrastructure construction, agricultural extension, etc.), some of which may have had considerable impact (such as the enormous implications of the Bolivian roads network for peasant mobilization). Still, the implicit goal of improving the efficiency of the traditional administration went unmet: local administrators who were trained by foreign experts in the insulated agencies were unable to transfer what they had learned to the rest of the bureaucracy. Instead, the insulated agencies were eventually incorporated into the state apparatus, where sooner or later they were swallowed up by the traditional public sector and politicized.

New Public Management: model or marketing tool? In the 1980s and 1990s, some OECD governments began to experiment with public management reforms that led to the creation of more autonomous agencies. Often referred to as the New Public Management (NPM), these experiments do not constitute a single reform, but rather a series of new approaches to public administration. Both critics and advocates speak of NPM as based on the idea that an activity called "management" can be applied equally to the public and private sectors. The most radical NPM reforms occurred in New Zealand and the U.K., where contractual relationships were established between ministers (who were now seen as "purchasers" of good sand services) and departments or executive agencies (who were now seen as "suppliers"). In the U.S., bureaucrats were urged to break the bonds of bureaucratic rules and procedures to become more innovative in their decision making. At the same time, they were instructed to focus less on the demands of narrow clientele and on perpetuating their own agency's existence, and instead to pay more attention to policy and ideological directives from elected officials (described by some authors as the "repoliticization" of government).

During this period, most Latin American countries were returning to democratic regimes at the same time that they confronted enormous economic challenges. Many Latin American presidents came to power on reformist platforms: almost every country in the region embarked upon a broad-based state reform initiative during the late 1980s or 1990s, but most of these efforts have fallen far short of expectations. The rising frustration that accompanies the slow progress of state reform efforts has once again driven many of the region's leaders to create insulated agencies to run in parallel with highly politicized traditional public entities.[54] This time, Latin American elites found an especially attractive OECD public management model upon which to base their decision. For the most part, the IFIs have eagerly supported the Latin version of NPM: "the World Bank and other international organizations have showcased New Zealand's reforms at various conferences" (Schick 1998, 123), at least implicitly suggesting that there would be support for countries that decided to try this model.

Since the 1980s, donors themselves had already developed a modern version of the 1950s and 1960s *servicio* model, called the Project Implementation Unit (PIU). These (semi)autonomous units are based on an argument reminiscent of the justification of *servicios*: an insulated organization to implement the project is able to avoid the inefficiencies and dysfunctionalities of political interference. A recent World Bank study[55] of 96 non-adjustment projects in Latin America and the Caribbean found that 84 of them (87 percent) were implemented outside the regular ministerial structure (i.e., using autonomous or semiautonomous entities, either within or outside a ministry). The study found very weak correlation between the creation of an autonomous PIU and a positive project outcome (measured using the World Bank's evaluation department's classification of the project result as Unsatisfactory, Satisfactory, or Highly Satisfactory). However, the study did find a significant *negative* correlation between autonomous PIUs and likelihood of project

[54] In his ambitious review of 70 years of administrative reform in Latin America, Spink (1997) argues that "major reforms as systematic and coordinated attempts to change public administration in a major way have never been successfully implanted during pluralistic and democratic periods" (15). Smaller-scale reforms of one part of the bureaucracy are somewhat more successful, though success stories are still limited (examples of at least partial success include Bolivia's regulatory system, Nicaragua's restructuring of the executive branch, and Peru's experience with a semiautonomous tax agency).
[55] "Thematic Review on Project Implementation Units. An analysis of ongoing and completed projects in Latin America and the Caribbean", Dan Boyce and Alef Haddad, July 2000.

sustainability: when the PIU is autonomous from the entity responsible for the targeted sector, projects are less likely to be sustainable.[56]

Upon closer examination, it is clear that autonomous agencies in Latin America are quite different from those in the industrialized world. Although the desired ends may be similar (more transparency, improved responsiveness to political principals, and better operational efficiency), the bureaucratic environment that autonomous agencies are designed to bypass is very different in Latin America and in OECD countries. In the latter, NPM was designed to tackle "government departments [that] were viewed as bloated, inefficient, and poorly managed", with habitually overspent their budgets while delivery poor quality services (Bale and Dale 1998, 104). Bureaucrats were accused of focusing on compliance with rigid hierarchies of rules rather than concerning themselves with the results they were achieving. As Osborne and Gaebbler (1992) argued, governments have become tied up in "red tape" that prevents them from focusing on results.

Bolivia, in contrast, like most parts of the developing world, does not face the problem of too much bureaucracy. Instead, as Evans (1995) argues, in Latin America:

> "Real bureaucracy is in scarcity, not excess. It is the absence of bureaucratic structures that leads to the utilitarian nightmare of the state as a collection of self-interested incumbents using their offices for the purposes of individual maximization. *Ineffective states are characterized precisely by the lack of predictable, rule-bound, bureaucratic norms and relations within the state apparatus*" (Evans 1995, 71, italics mine).

In Latin America, the task is not to break the bonds of bureaucracy, but rather to create a set of coherent formal and informal rules that will guide the formulation and execution of public

[56] The study does admit that the impact of a project's organizational structure depends primarily on the country's broader political environment. Independent PIUs have some positive elements: for example they do tend to provide greater staff continuity, which is particularly important in an environment such as Bolivia's where donors have repeatedly identified extremely frequent turnover of personnel as a major impediment to project implementation.

policies and programs. As Schick (1998) points out, “no country should move directly from an informal public sector to one in which managers are accorded enormous discretion to hire and spend as they see fit… [M]odernizing the public sector means establishing reliable external controls” (129-130).

Still, the precepts of NPM have attracted the attention of many developing country governments. In countries such as Bolivia, with its well-traveled and internationally-connected political elite, there is a tendency to employ the language of NPM in order to “market” experiments with independent agencies by linking their creation to scientific-sounding management techniques drawn from the industrialized world. For example, the re-establishment of the CGR’s autonomous status was framed in the context of passage of the SAFCO Law and emphasized a focus on results-oriented management. The 1997 *Ley de la Organización del Poder Ejecutivo* (LOPE) calls for the “debureaucratization” of the executive branch by delegating responsibilities for policy implementation to decentralized agencies and prefectures.[57]

A more basic issue to understand is why politicians decide to delegate in the first place. This is a particularly intriguing question in the Bolivian context, where political survival is directly related to politicians’ ability to maximize their support coalitions by distributing as many patronage benefits as possible, and where agency independence is often synonymous with corruption and mismanagement.

The decision to delegate: creating autonomous agencies

In recent years, scholars have paid increasing attention to politicians’ decision to delegate policy-making authority to bureaucrats. And yet, asking a government agency to carry out a particular mission does not mean that the political overseers give up control. Empirical observation offers plenty of examples of the various instruments (both formal and informal) used by politicians to exercise control over the bureaucracy.[58]

While it is true that in most instances politicians prefer more control to less, research in this area has shown that under certain conditions, politicians may give up a great deal of control by delegating authority to an autonomous agency within the bureaucracy. This can sometimes be a better way of achieving the politicians' desired results. And even when politicians decide to delegate, they will try to retain some kind of (formal and/or informal) control over the agency.

Various researchers have identified different circumstances under which delegation is likely to occur. It can be a way of handing off tough decision-making responsibilities: Huntington (1968) found that the inherent difficulties of decision-making on complex policy issues in a representative assembly can lead legislators to delegate to the president or a bureaucratic agency. It can be a way of avoiding blame: Fiorina (1982) and McCubbins and Page (1987) observe that politicians may decide to pass responsibility for policymaking on to bureaucrats in areas of uncertainty or areas where regulation will be unpopular with key constituents, so that legislators can avoid being held responsible by voters in case a mistake

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[57] The technical experts who developed LOPE presented the law to me in an elaborate PowerPoint presentation and spoke proudly of their modern approach to public management.

[58] Wilson (1989) quotes Herbert Kaufman's 1981 study in which he described the "awesome arsenal" of weapons that the U.S. Congress can use to control agencies. The executive also has instruments at its disposal, in particular the authority to name cabinet members and other policymakers (the number of people the executive can appoint varies greatly by country); change management procedures; reorganize agencies both internally and within the executive branch; and coordinate activities. The struggle to control the bureaucracy is particularly intractable in the U.S., given that the Constitution makes the legislature and the executive rivals for control of the public administration. This struggle does not occur in a parliamentary system, where the prime minister is the only person with authority to oversee the bureaucracy. The difference between presidential and parliamentary systems is particularly important in this thesis, since Bolivia has been described as having a "hybrid" system. In this system, both the president and Congress have some formal authority over the administrative apparatus, but the presidentialist nature of the system gives the executive greater power. However, Bolivia's electoral rules place the president in a

is made. Delegation can be a way of deemphasizing an agency's importance when politicians do not care much about a certain policy area: Wilson (1989) quotes journalists who accused the Reagan administration of "appointing cabinet and subcabinet officials who had 'a common hostility to the programs they were supposed to run'" (262).

The authors cited above refer to circumstances in which politicians delegate to the bureaucracy in fairly low priority policy areas. The idea is that in areas where politicians do not care too much about policy outcomes, they are more likely to take a hands-off attitude and transfer responsibility to government agencies. As I mentioned, some authors even argue that politicians believe this strategy will keep voters from blaming them if unpopular policy outcomes result. Other scholars are critical of this proposition (Horn 1995, Wilson 1989), arguing that voters are likely to be aware that it was the responsibility of elected officials to *oversee* policy decisions, even if they did not make them themselves.

But the argument about delegation taking place in low priority areas does not seem to reflect the decision to delegate in Bolivia. First of all, in Bolivia delegation in the sense used by scholars studying OECD countries is rare: programs run by the Bolivian government's line ministries almost invariably have a strong political flavor. Instead, "delegation" in Bolivia means creating an agency with some degree of insulation from politics (or broadening an existing agency's mandate). The decision to create an autonomous agency or amplify its scope of action almost always occurs in very important policy areas (whether or not that policy area remains important is another matter; there are some examples, such as the *Instituto Nacional de Reforma Agraria*, which at the time of creation are extremely important but later fade into obscurity).

position of de facto dependency on Congressional coalitions, which sometimes allows Congress great influence over the administration of the state.

Some areas of the literature on delegation support the idea that delegation occurs in very *high* priority policy areas. Bawn (1995) suggests that legislators are more likely to allow agencies greater autonomy in areas of technical uncertainty. She uses the example of the Environmental Protection Agency to make the case that politicians prefer to relinquish political control in exchange for the benefits of having important decisions made by technical experts in a government agency. Central bank independence is often strengthened after an economic crisis. In a study of the Venezuelan oil sector, Matsuda (1997) finds that politicians delegated responsibility for managing oil to the highly professionalized state-owned oil company because of uncertainty about how to manage a key revenue-generating sector.

In other words, it is often the case that the higher priority the policy area has, and the lower the bureaucracy's capacity, the more likely politicians will create an insulated agency to which they can delegate. Examples of such high priority areas are agencies involved in crucial resource-generating activities (such as oil in Venezuela or the Panama Canal in Panama), agencies connected with crucial sectors that have recently undergone a devastating crisis that affected large and/or powerful groups in society (such as the U.S. banking crisis in the early 1930s, or Bolivia's economy in the early 1980s), or in the case of an aid-dependent country such as Bolivia, areas that are targeted as philosophical and/or practical priorities by the external actors who provide desperately needed resources.

Regardless of the motivation behind the decision to delegate, astute observers of the state apparatus such as Wilson (1989), Kiewiet and McCubbins (1991), and Bawn (1995) make strong arguments against what is referred to as the "abdication hypothesis". The abdication hypothesis predicts that delegation invariably leads to an abandonment of control over policy and implementation decisions. These and other authors argue instead that delegation is not an all-or-nothing decision; rather, politicians can and usually do continue to exercise control over the agent in which they have delegated. Formal autonomization by no means equals total independence for the agency in question.

Organizations for export: the influence of external actors in autonomous agency creation External actors are undeniably the most immediate drivers of autonomous agency creation in Bolivia. As I showed in Chapter 2, Bolivian decision makers have been highly dependent on international actors throughout the 20th century. One of the most obvious areas of impact has been the transfer of policy approaches (and related organizational models), first by the U.S. government and later by IFIs.

The idea that international actors have an impact on domestic events – and vice versa -- is not a new one. But little progress has been made in understanding *when*, and *how*. Putnam's (1988) model of two-level games remains the primary foundation for those who are interested in analyzing the interaction between domestic and international interests in negotiating agreements.[59] Putnam emphasizes the importance of taking into account both Level I negotiations (defined as those that take place both between the national government and international actors), as well as Level II negotiations (separate discussions with domestic actors to ratify any Level I agreements).

In the first period of autonomous agency creation in Bolivia, negotiations were fairly simple. At Level I, foreign lenders offered loans if the government would implement a series of reforms (including passage of legislation to create certain autonomous agencies), and the government agreed. At Level II, the negotiation was somewhat less simple, though it went through because of the great power of the president and the fact that the groups capable of voicing an opinion – indeed, those that were even aware of the negotiations – were few and small. A limited number of voices criticized the agreement, but "Congress and most elites approved the interconnected loan and laws" (Drake 1989, 204).

The Bolivian government showed little concern for the feasibility of implementing the legislation after it was passed. This was a reflection of its unspoken intention to "circumvent the spirit and even letter of those laws to satisfy domestic political and economic pressure groups…Bolivians called such legislation – concocted for foreigners to admire more than for citizens to obey – 'laws for export'" (Drake 1989, 255). The Bolivian government, very weak at the Level I bargaining table, used the influx of foreign funds to expand state spending without having to impose heavy taxes on local elites, thus enabling it to strengthen itself politically without having to mobilize the masses. Given the precarious position of the oligarchy in the mid-1920s, this was a key priority for the Siles administration.

In the 1980s (the second creation period I examine in this thesis), the negotiations were much more complicated. As before, Bolivia's Level I bargaining position was very weak. The Bolivian government knew that it would have to engage in repeated negotiations with international lending institutions since it would require a series of loans in order to overcome its economic plight.[60] Moreover, IFIs had suspended loan disbursements to Bolivia in 1980, demonstrating their willingness to punish slippage (Mosley et al, 1991) in meeting loan conditionalities. At Level II, the president and his economic team (the

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[59] Studies have used the two-level game framework to analyze a wide variety of topics including diplomatic relations (Putnam 1988), trade agreements (Rogowski 1989), nuclear arms agreements (Knopf 1993), and debt negotiations (Lehman and McCoy 1989).

[60] See Axelrod (1984) and Mosley et al (1991) for discussions of how the expectation of repeated games increases the likelihood of cooperation by players.

negotiators) were in a potentially disadvantageous position vis-à-vis domestic actors. Popular sectors were mobilized, the president's mandate was precarious since he had not won a plurality of votes in the 1985 election (though his MNR party did hold a majority in the National Congress), and there were plenty of destabilizing elements that remained in society (especially labor unions). However, during the Paz Estenssoro administration in 1985-1989, the president took a variety of steps to strengthen his bargaining position at Level II, including awarding himself extraordinary powers and eliminating public sector unions. In this way, Paz Estenssoro was able to accomplish what his predecessor (Hernán Siles Zuazo) had failed to do: he made concessions to the IFIs whose support he desperately needed to implement the adjustment plan, and he managed to impose those agreements on domestic actors through a combination of pacts, exchanges, and repression.

But it would be simplistic to argue that external actors' interest in autonomous agencies *forces* Bolivia to create these agencies. Indeed, as I will show in the next chapter, external actors also serve the purposes of Bolivian elites. International creditors and advisers allow the sophisticated upper echelons of Bolivian society to experiment with new ideas that might otherwise meet too much resistance to be feasible; they provide access to foreign investment for development purposes; they have often allowed Bolivia's politicians to strengthen their own positions and avoid imposing costs on domestic actors.

In the early part of the 20th century, Bolivia's enclave economy brought about strong linkages between national elites and international actors in foreign enterprises, foreign governments, and international aid agencies. Initially, the linkage was so close that the distinction between domestic and international was somewhat blurred as the Bolivian tin barons established their companies abroad, invested their assets internationally, and spent more time in foreign countries (mainly the U.S. and Great Britain) than in Bolivia. These commercial linkages lasted until the beginning of the MNR Revolution.

The international connections affected the top levels of government, as well: Bolivia's reliance on mining exports and foreign investment lent importance to the maintenance of a diplomatic presence abroad, and many members of the country's oligarchy were awarded ambassadorships. In their foreign postings, Bolivian elites came into direct contact with important economic, social and political changes occurring in the industrialized world at the beginning of the century. During the MNR revolutionary period, these government ties were sustained and even strengthened. Unlike many nationalist revolutionary parties, the strongest part of the MNR (the central pragmatists and the right-wing bourgeoisie) had excellent relations with the U.S. after the 1940s (when the party was purged of its fascist elements). In 1953 President Eisenhower sent his brother Milton Eisenhower on a fact-finding mission to Bolivia to learn about the MNR's objectives – Milton Eisenhower was well received in Bolivia and returned to the U.S. with recommendations for increased aid to Bolivia. Later, Victor Paz Estenssoro and his ambassador to the U.S., Victor Andrade, maintained a strong personal relationship with John F. Kennedy.

Connections with international actors and ideas continued in the shape of large foreign aid projects, study abroad tours, and emigration (mostly to the United States, but also to Chile, Mexico, and Brazil). After the MNR Revolution many foreign companies withdrew from Bolivia in the face of the country's chaotic political and economic situation. By the 1980s, though, foreign business interests cautiously reentered Bolivia and once again the elites developed strong ties with foreign companies.

It is also important to point out that in Bolivia, relationships between the public and private sectors tend to be close. There is not a clearly corps of elite civil servants (what Schneider (1993) terms a “state elite”) that follows a predominantly public sector career track. Instead, at the higher levels of management, people move fairly easily between the bureaucracy and the business sector, and there is considerable cross-fertilization of ideas between business and the public bureaucracy. This is not surprising, given the low levels of human capital in Bolivia and the high levels of turnover in the public sector. Well-trained managers are scarce, and the rotating door of the public sector gives them ample opportunities to change from public to private sector and back several times during their careers.[61]

An example of this is the role that the modernizing wing of the private sector (represented by the *Confederación de Empresarios Privados de Bolivia*, or CEPB) played in the economic transformation of the mid-1980s. This well organized group carved for its leaders a prominent position on Paz Estenssoro’s team of economic advisers.[62] At the same time, beginning in 1985, the highest levels of the Bolivian government have been staffed with young technocrats, many of whom grew up abroad while their parents were in exile, and almost all of whom have studied at the graduate level in the U.S. or Europe. Many have also worked in Washington, DC at the IMF, World Bank, or IDB.

The international lifestyle of many members of Bolivia’s business and bureaucratic elite has given rise to an amazingly fertile “marketplace of ideas” in certain parts of Bolivian government and society. Many of these individuals have become policy entrepreneurs, incorporating new approaches into the available menu of options for their country’s decision

[61] See Ben Ross Schneider (1993) for a discussion of the connection between state autonomy and the career paths of bureaucrats.

makers. However, the presence of influential individuals who bring ideas drawn from other countries' experiences with state reform does not offer a sufficient explanation of autonomous agency creation. As Gourevitch (1989) argues in his essay on the political sources of adoption of Keynesian economic policies, "Individuals surely matter... Nonetheless, identifying the individuals involved is not a sufficient political explanation. We must explore the broader political context that allowed the predilections of specific individuals become policy" (88).

Hall et al (1989) conclude that a government is more likely to adopt economic policy ideas imported from abroad when these are viable along economic, administrative, and political lines. It is not unreasonable to apply this theory to other policy areas, including state reform approaches. Thus, Hall's argument suggests that it is more probable that transfers of state reform approaches will occur when: a) the proposed reform responds to the adopting country's immediate development needs; b) the adopting country's policy-making institutions are relatively open to outside ideas; c) the state apparatus has the administrative capacity to implement the new idea; and d) politicians are able to forge a support coalition of social actors that enable political leaders to stay in office while they implement the proposed reform.

In the case of autonomous oversight agency models proposed by external actors for adoption by the Bolivian government, creation generally has been fairly smooth. While the models proposed by foreign advisers were often not entirely appropriate for Bolivia's development problems, the Bolivian government has usually done whatever was necessary to pass the creation legislation in order to obtain the foreign funds that were promised in return. Outside influences and ideas usually enter fairly easily into the Bolivian

[62] Conaghan and Malloy (1994) describe the involvement of the CEPB in Paz Estenssoro's economic team.

government; non-bureaucrats (and even foreigners[63]) are frequently drawn into the president's inner circle to provide policy advice. In the absence of a career civil service, recruitment patterns allow politicians in power to make appointments at all levels of the bureaucracy.

But the bureaucracy's openness to foreign ideas does not automatically translate into a capacity to implement these ideas. In Bolivia, implementation problems arise not so much from an inability to create an agency in the first place (though there is an undeniable scarcity of qualified human resources); the real difficulties come about when the agency has to begin to function.

The feasibility of the autonomous oversight agency model in Bolivia has unarguably been most affected by the difficulties politicians have faced in garnering support coalitions for the reform (dimension d) above). Despite professed support by the modernizing wing of the private sector for creation of the SBEF, the CGR, and similar oversight organizations, other important actors oppose these agencies. Moreover, even the coalition members do not always behave in ways that further the independence of autonomous agencies; short-term survival needs sometimes have a way of interfering with higher-level philosophies.

Who drives autonomous agency creation? Although external actors have played a key role in autonomous agency creation, it is also undeniable that they are not the ones who actually vote on the legislation. To gain a better understanding of the factors that contribute to the decision to create an autonomous agency, it is important to know which parts of government supported the reform, which parts resisted it, and how the former convinced the latter.

[63] For example, the IMF Representative in La Paz is reputedly a regular attendee at meetings of President Banzer's economic team.

The Bolivian Constitution awards the bicameral National Congress the authority to pass laws that create new agencies. However, during much of the country's history the government has been run by dictators, or by democratically elected presidents who have governed by declaring a state of emergency and awarding themselves extraordinary powers during their terms.[64] Importantly, the two agencies I have selected as case studies were both created during the state of emergency declared by Siles from 1927-1928. The laws were passed by a legislature that was beholden to the Executive, thanks to the Republican Party's use of electoral fraud in the Congressional election of 1927.

In 1985, the passage of Supreme Decree 21060 established a radically new economic policy for Bolivia; subsequent decrees in 1986-87 furthered the reform (including 21660, which created the autonomous SBEF). During this period President Victor Paz Estenssoro had declared a state of emergency and was wielding extraordinary powers to deal with the catastrophic economic crisis.[65] D.S. 21060 was designed in secret and even members of Paz's own party were stunned when it was issued. Because the president counted on the element of surprise in emitting the decree, it was not subject to the normal legislative approval process.

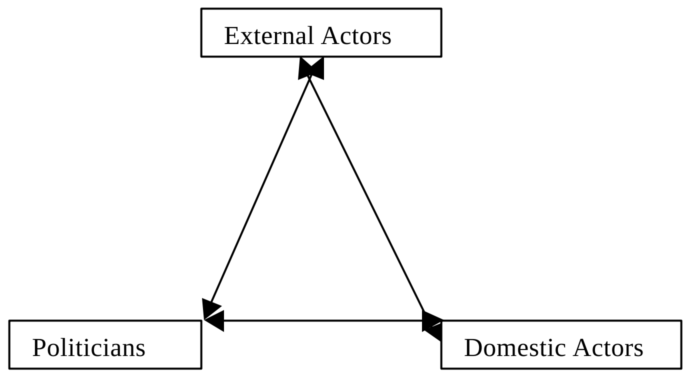
[64] Carey and Shugart (1994) call this *paraconstitutional* presidential decree authority, in reference to the fact that if the Constitution does not allow the president the authority to emit certain kinds of decrees, the president's action may be challenged as unconstitutional. See Carey and Shugart (1994) for an interesting analysis of the different types of presidential decree authority in Latin America and a discussion of whether this threatens democratic institutions in the region.

[65] There is disagreement among scholars regarding the extent of emergency powers awarded to the president under the Bolivian Constitution: Conaghan and Malloy (1994) contend that Article 96 of the Bolivian Constitution awards the president the authority to emit economic measures by executive decree, while Carey and Shugart (1994) disagree. I agree with the latter, based on the text of Article 96(1), which authorizes the president to: "*ejecutar y hacer cumplir las leyes, expidiendo los decretos y órdenes convenientes, sin definir previamente los derechos, alterar los definidos por ley ni contrariar sus disposiciones, guardando las restricciones consignadas en esta Constitución*". I agree with Carey and Shugart's contention that the term "decretos" in this case refers to the rulemaking authority delegated to the executive in implementing legislation. In the discussion of the state of emergency (Art. 111-115), nowhere does the Constitution award the president economic policymaking powers.

The politics of autonomous oversight agency creation

I have reviewed the influence exerted by three groups on autonomous oversight agency creation. External actors, Bolivian politicians, and domestic actors all play a role in the decision to delegate. Each of the three affects both of the others, as shown in Figure 2.

Figure 2. Actors affecting the creation of AOAs



Hypothesis 1. External actors' influence in Level I negotiations In a country as resource dependent as Bolivia, the role played by external actors is the most immediate variable affecting the decision to create *any* autonomous agency. External actors willing to offer funds to the Bolivian government will almost always find themselves in a strong position in their negotiations with the Executive (Level I). In an aid dependent country, external actors have two instruments available for exerting pressure on the government to create an AOA. First, they can promise to provide financial assistance that will compensate for the costs the Executive must assume (decreased patronage and oversight decisions that may have a negative impact on strong domestic interest groups), by offering politicians an "advance" on the reform's benefits. Second, if the external actors believe that this promise will not be enough to win government cooperation, they can make agency creation a *condition* for disbursement of funds. When an external actor is dealing with a strong

Executive (as has often been the case in Bolivia) and makes disbursement of funds contingent upon agency creation, passage of the creation legislation is very likely.

However, it is costly for external actors to design conditionalities and enforce borrower compliance, especially when the Executive is not able to win cooperation by his domestic constituents at Level II. When the Executive anticipates fierce domestic opposition to AOA creation, he is often able to win concessions from external actors in Level I negotiations. These concessions may take the shape of not establishing AOA creation conditionalities for receiving aid in the first place, or allowing slippage on AOA creation (Mosley et al, 1997). This argument can be summarized as follows:

Hypothesis 1A: When the President is weak at Level I and strong at Level II, AOAs are more likely to be created, because the President can push through ratification of Level I agreement at Level II.

Hypothesis 1B. When the President is weak at Level I ***and*** weak at Level II, AOAs are less likely to be created, because the President wins concessions at Level I with the excuse of Level II weakness.

Hypothesis 2. Determining the Executive's strength at Level 2 In the case of Bolivia's AOA creation experience, the 1928 creation is relatively easy to explain: the President's strong Level II position enabled him to force a ratification of the Level I agreement, although his intentions of enforcing that legislation once it passed were doubtful. In the mid-1980s, the experience was less straightforward. Here, we have two cases of the Executive trying to implement a very similar idea (creation of an AOA) in the same time period. In one case (the SBEF) he was able to succeed because of his strong Level II position, while in the other case he failed because he found himself in a weak Level II position for CGR creation.

Putnam (1988) contends that “any testable two-level theory of international negotiation must be rooted in a theory of domestic politics, that is, a theory about the power and preferences of the major actors at Level II” (443). In a highly politicized bureaucracy such as Bolivia’s, both politicians and other domestic interest groups are crucial determinants of the Executive’s ability to enact bureaucratic reform. For these groups to support AOA creation, the proposed agency must be what Hall et al (1989) call “administratively” and “politically” viable. In other words, politicians and other domestic actors must view the proposed agency as compatible with the existing bureaucratic environment and with their political interests.

In the mid-1980s, any degree of autonomization was somewhat incompatible with the politicized Bolivian bureaucracy, but the proposed CGR reform posed a far more comprehensive threat than the SBEF to the existing balances of power. Thus, it encountered enormous resistance from a wide range of groups, and the Executive recognized that the political cost would be far too high to implement. This argument can be summarized as follows:

Hypothesis 2A: When the AOA to be created is administratively and politically viable, the President’s Level II position will be stronger and AOA creation more likely (the SBEF case).

Hypothesis 2B: When the AOA to be created is not administratively and politically viable, the President’s Level II position will be weaker and AOA creation less likely (the CGR case).

Chapter 4. Agency creation in desperate times

Introduction

In Chapter 3, I discussed the apparently counterintuitive decision by politicians to delegate rulemaking and supervision authority by creating agencies with considerable degrees of autonomy. I constructed general arguments to help explain how certain factors, under certain circumstances, influence the decision to delegate. In this chapter, I analyze specific cases of delegation and explore how they are consistent with the arguments made in the previous chapter.

This chapter tells the story of four instances of delegation, at two very different points in Bolivian history: I examine two oversight agencies, each of which achieved autonomy twice within sixty years. This historical narrative concentrates on the actors, interests and issues involved in four instances of delegation, allowing me to explore different factors that affect the decision to delegate. The changing relationship between the Bolivian government and the providers of external resources; the transition to a more democratic regime including elections where politicians could not interfere to skew results; and the mobilization of Bolivia's popular sectors including the emergence of multiple political parties, all made the agency creation process more complex the second time around. And yet, the 1980s produced more sustainable autonomous oversight agencies than those created in 1928.

In this chapter, I take a closer look at cases of success and failure as the Bolivian government attempted to lay the groundwork for autonomous oversight; in Chapters 5 I will examine factors that contribute to the sustainability of autonomous agencies once they are established.

The Kemmerer mission: applying scientific administration to political and economic turmoil

The Siles Administration In January 1926, Hernando Siles was sworn in as President of the Republic of Bolivia. Siles was a young lawyer, a son of the Sucre elite, who wanted to establish his independence from the traditional oligarchy. His youthful enthusiasm and dynamic personality made him attractive to reformist-minded elements of military, professional, and intellectual circles. Siles and *la juventud* needed each other: the youth movement saw Siles as a modernizing force at the head of government who could give them a voice in the reform process, while Siles saw the youth movement as an opportunity to gain "major support for his government, a support distinct from the traditional elements of authority yet closely allied to the elite" (Klein 1969, 91).

Siles staffed his administration with young, enthusiastic technocrats. The new administration was attracted by recent efforts in the United States to adopt a "scientific" approach in administering the state, and wanted to emulate them. At the same time, though, Siles' dreams of a great push towards economic and social modernization for Bolivia were frustrated by two immediate and enormous challenges that had stymied many Bolivian governments before him: a desperate financial situation, and strong resistance to state reform by opposition parties. When Siles took office in 1926, Bolivia was on the brink of bankruptcy. His efforts to pass economic reforms that would improve the financial picture were hindered by severe opposition from members of the traditional parties whom he had initially included in his "government of the majority." Without an immediate injection of funds, few aspects of the new Nationalist Party's agenda could be accomplished[66] -- in fact, the government would not even be able to perform its routine day-to-day activities.

Like other presidents before him, Siles felt obliged to turn to foreign lenders for assistance, because domestic revenue sources were too limited. In his negotiations with U.S. investment firms, Siles realized that the Bolivian economy would need to be certified by an outside expert in order to obtain additional loans. He was interested in inviting Princeton economist E.W. Kemmerer, who was making a name for himself as an adviser in other Andean nations. The Permanent Fiscal Commission, which included two U.S. representatives chosen by the banks that financed the 1922 Nicolaus Loan (see Chapter 2), asked Siles to rely on them to vouch for the economy, and suggested that the new government simply pass the laws Kemmerer had recommended in Chile and Colombia.

Siles ignored this request, and soon after taking office sent a telegram to Kemmerer, asking him to come with a group of experts on an advisory mission. Siles hoped to accomplish three goals with this decision. First, he was attracted by Kemmerer's ideas and wanted the "money doctor's" recommendations for modernizing the Bolivian administration. Second, Siles thought that Kemmerer's visit would boost external lenders' support for Bolivia, "enhanc[ing] its ability to float further foreign loans" (Drake 1989, 188). Third, Siles hoped that the reforms would strengthen his political position within Bolivia: they would win his more support from domestic actors because he would avoid imposing more costs on the private sector; Kemmerer's personal endorsement of the economic reforms Siles had already tried to pass might give them more legitimacy and help him win Congressional approval; and it was an opportunity for Siles to manifest his

[66] The Nationalist Party agenda concentrated on large spending programs, including: public works, a new ministry (health), and social protection for vulnerable groups. Apparently, it did not call for tax increases,

rejection of the controversial Permanent Fiscal Commission. Kemmerer agreed to come to Bolivia from March – July 1927.

When Kemmerer arrived in La Paz in March 1927, just over one year after Siles' inauguration, he found Bolivia in a state of considerable political unrest. Congressional elections were scheduled for May, and Siles "used the usual strong interventionist methods to obtain results" (Klein 1969, 95) so that his Nationalist Party could win a majority of seats.[67] The election was challenged by bloody student rioting and a teachers' strike, which Kemmerer recorded in his personal diary: "streets guarded everywhere with soldiers and police. City looks like an armed camp", and a few days later, "ministerial crisis in which all Ministers but Financial Officers resigned. Political situation very unstable."[68] A few weeks after the election, however, Siles managed to organize a new cabinet with members from the opposition parties. In June 1927, the Republicans and the Nationalists agreed to govern in coalition.

The economic situation Bolivia at the beginning of the century was a unified nation in name only: its territory and its population were separated by insurmountable divisions: economic (the small number of people in the elite and middle class modernized economy vs. the vast numbers of poor living from traditional agricultural activities); geographic (the small percentage of urban dwellers vs. the much larger and very isolated rural populations); and racial (the tiny white population vs. the indigenous people). The state and its policies were controlled by and directly affected only a tiny proportion of the total population. As I showed in Chapter 2, the number of politically active Bolivians was in the tens of thousands – around five or six percent of the population, and "the urban-

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though it did promise a rationalization of the tax structure including elimination of indirect taxes.

monetized economy…probably consisted of not more than 600,000 persons…" (Malloy and Thorn 1971, 158). The rest were excluded from Bolivia's economic development, and policy decisions were remote from them.

When Kemmerer arrived in La Paz in 1927, he found "a relatively simple enclave export economy grafted onto an overwhelmingly agrarian society" (Drake 1989, 175). Figures reported in Malloy and Thorn (1971) indicate that during the first half of the 20th century, agriculture accounted for about one-third of Bolivia's GNP and employed about 75 percent of the country's population, working on about 2 percent of Bolivia's national territory. Mining, on the other hand, provided 15 percent of the GNP, but it brought in 95 percent of the country's foreign exchange. The juxtaposition between the large but economically weak agricultural sector versus the small but lucrative mining business was reflected in, and reinforced by, the fact that "mining…determined the national pattern of urbanization, transportation, trade, and government revenues. The transportation network consisted of a few railroads connecting the mining areas with the seaports, but the rest of the country was left virtually without modern roads" (Malloy and Thorn 1971, 158).

Between 1900 and 1920, the Bolivian economy did quite well. It became the world's second largest tin producer, and as the price of tin rose on the international markets, the value of Bolivia's exports increased by over 400 percent in the first twenty years of the century (Klein 1969). The country ran a trade surplus throughout the first part of the century, even into the 1930s.

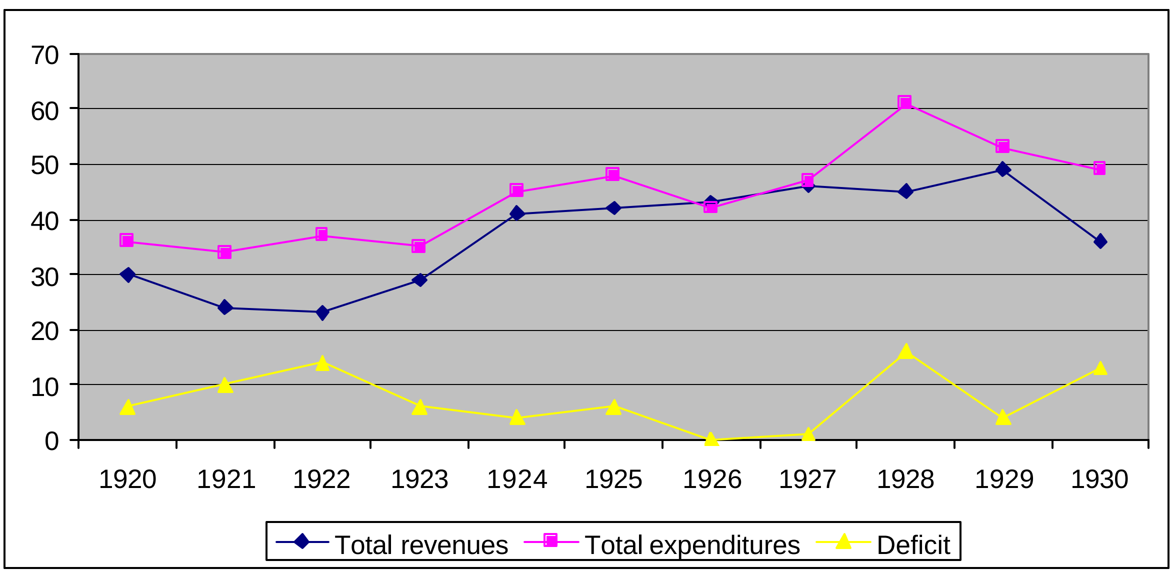
Yet the country's apparently strong export performance masked serious economic problems. First, Bolivian policymakers recognized that the economy's dependence on a

[67] Seven Senate seats were up for election and the Nationalists won four; of 34 deputy seats, the Nationalists won 21. Klein (1969, 95) quoting from *El Diario*, May 3 1927, 4.

single product sold almost exclusively to one customer (Great Britain) made them very vulnerable. Indeed, the excess production of tin provoked a slow but steady fall in prices beginning in 1927; the decline was aggravated by the Depression. The fall in prices had a direct impact on the Bolivian government's revenues, which relied heavily on tin export taxes: these accounted for 8 percent of national revenue in 1921 and 21 percent in 1927 (Drake 1989).

Second, even when exports were at their highest level, government revenues were not enough to offset an expansive public spending program and a growing bureaucracy; the government ran a deficit during ten of the 11 years from 1920 to 1930 (Figure 4.1). An important portion of this spending went to pay foreign debt obligations: Klein (1969) reports that in 1926, 33 percent of national revenues was spent on foreign debt payments, while Drake (1989) estimates that in 1927 the figure was nearly 50 percent.

Figure 4.1. Bolivian Government Revenues and Expenditures (1920-1930) (in millions of Bolivian pesos



Source: Drake (1989).

[68] Edwin W. Kemmerer Papers (EWK), Princeton University Library, May 5, 1927 and May 12, 1927.

The government's sporadic attempts to increase its domestic revenue sources were usually ineffective. Although the vast majority of the Bolivian population contributed tiny amounts of tax revenue each year, they were already paying a considerable percentage of their disposable incomes and additional taxes would be extremely unpopular. On the other hand, most administrations (with the partial exception of Saavedra, who did pass a broad tax reform) did not seriously entertain the idea of raising taxes on their primary constituency, the economic elite, who threatened to put up fierce resistance.[69]

Siles' administration was caught in a familiar dilemma: his hold on the presidency was too weak to either raise more domestic revenues or to reduce expenditures.[70] To stay in office, Siles needed to keep taxes on the rich low but he also needed to continue launching public works projects and ensure public employment in an environment of scarce job opportunities. In addition, he had to meet contractual obligations on the country's foreign debt. Responding to these pressures Siles, like others before him, contracted even more foreign loans. And so the spiral of debt and dependency continued.

The Kemmerer Mission Kemmerer visited Bolivia from March-June 1927. From the beginning, Kemmerer's mission encountered considerable difficulties in obtaining

[69] In his discussion of taxation in Bolivia (both direct and indirect), Drake (1989) reports that in the mid-1920s the indigenous population (around 50 percent) contributed 1.94 bolivianos per person per year in taxes, the mestizos (around 35 percent of the population) contributed 11.89 bolivianos per capita, and the whites (around 15 percent of the population) 43.25 bolivianos per capita. According to these figures, the poor were paying around 19 percent of disposable income in direct and indirect taxes, while the wealthy were paying only 4 percent of theirs.

[70] It is important to note that Siles was not elected to the presidency by popular vote. In the government-controlled 1925 presidential elections, Jose Villanueva ran as the Republican candidate and won a landslide victory against the *Genuino Republicanos'* candidate (Daniel Salamanca). Soon after, outgoing President Saavedra nullified the election results to prevent Villanueva from taking office, but the Republicans would not allow Saavedra to extend his presidential term. Instead, they insisted that Hernando Siles be brought back from exile and given the presidency. While Siles enjoyed strong support from the younger factions of his own party, he faced opposition by the traditional Republican wing, and the opposition parties were lukewarm (Klein 1969).

even the most basic information on public finances. Kemmerer and his team met with government and private sector leaders, visited key provinces, and solicited suggestions from all the main interest groups. At the end of the visit, the mission submitted recommendations on central banking, currency, a commercial banking law, the budget, the treasury, creation of a national comptroller, tax reform, customs, the salt monopoly, railroads, and public credit (Drake 1989).

Kemmerer's recommendations fell into two main categories: money and banking reforms, and fiscal reforms. His money and banking recommendations included three main pieces of legislation:

- a new central bank law (with changes such as: reduced representation for the government and increased representation for economic groups on the board of directors; higher legal reserve requirements; and restrictions on loans to the government)
- monetary legislation that used the gold-exchange standard to maintain exchange rate stability
- a general banking law, including capital and operating requirements, and creation of a banking superintendency to oversee the commercial banking sector

Some Andean governments that invited Kemmerer for an advisory mission emphasized his expertise in money and banking reforms; in contrast, Bolivian economic and media commentators stressed his ability to help resolve the government's weak fiscal situation. Drake (1989) contends that "whereas Bolivians really desired Kemmerer's money and banking reforms only to placate U.S. lenders, they exhibited more intrinsic interest in his fiscal recommendations" (197). Certainly, the newspapers of the day contained frequent commentaries complaining of the inefficiency, corruption, and politicization that affected public financial management. The oligarchy's primary concern in relation to these problems stemmed from the recognition that poor financial management practices could affect Bolivia's creditworthiness with outside lenders. Kemmerer's fiscal recommendations consisted of five pieces of legislation:

- a budget law designed to eliminate deficits, mainly by reducing the size of government
- a law creating the Office of the Comptroller General to ensure that the government stayed within its budget and paid its debts
- a Treasury law to ensure the Treasury Office's (in the Ministry of Finance) independence from the Comptroller General
- tax reforms, including a more progressive income tax, property tax, and revised taxes on mining capital, profits, and exports. The new legislation contained provisions for improved tax administration, charging the Permanent Fiscal Commission with supervision of all tax assessments and collections (the actual work of collecting taxes would be conducted by the newly created National Tax Collection Company). Kemmerer also recommended making the Commission a permanent part of the Ministry of Finance.
- Legislation to reform the customs agency

Reactions to the Money Doctor Most members of the Bolivian oligarchy (mine owners, merchants, bankers, and political party leaders)[71] and the middle class (white-collar professionals, teachers, and government employees) supported the announcement of Kemmerer's upcoming mission. These groups were optimistic about the possibility that "his international prestige and independence from local vested interests… [would]…compel the government to implement and obey laws which domestic experts had been unable to get

[71] Landowners are commonly perceived as a powerful group in Latin America. However, in Bolivia and other Andean countries, landowners were politically weak despite the fact that they controlled most of the labor force. Drake (1989) attributes the limited participation by rural landowners to the fact that "the inflow of foreign capital and advisers benefited elites in the most modernized sectors but hardly touched the rural owners (175).

accepted" (Drake 1989, 189). In the following paragraphs, I explore their reactions to proposed banking and budget reforms.

The banking law. While there was unanimous support among Bolivian interest groups and politicians for the new central banking law, some Bolivian bankers were initially hesitant at the prospect of a general banking code based on the U.S. model. It seemed that in a country with such a small banking sector (according to Kemmerer's personal diary, in 1928 Bolivia had only four commercial banks, the laws that had worked for the U.S. as it tried to limit and regulate the rapid proliferation of banks would be inappropriate. In other words, opponents of the general banking law argued that Kemmerer's proposed law had been designed for a period when the U.S. had wanted to rationalize expansion of its banking sector, whereas Bolivia's problem was to spur economic growth (including development of a larger banking sector).[72] Bankers and other economic groups feared that tighter banking regulations would force some existing banks out of business, discourage new banks from opening, and oblige surviving banks to adopt much more cautious lending practices.

The banking law had supporters, as well, among both bankers and potential borrowers. They argued that the proposed law would make loans safer, more efficient, and more productive. The new rules would encourage bankers to lend for profitable urban activities rather than tying up all available credit in long-term commitments such as mortgages. Ultimately, the banking sector decided to support Kemmerer's proposal: "Bolivian bankers themselves became the leading proponents of the reform, believing it would make their operations more 'scientific' and sound. Those able to meet the

[72] In fact, it is not strictly accurate to say that the U.S. OCC upon which Kemmerer's model was based aimed to stifle proliferation of all banks. Rather, in part its creators hoped it would establish a national banking system that would eventually overcome the state commercial banking system. Indeed, from around 1900 until the 1920s, the OCC was engaged in an aggressive chartering period that aimed at

requirements of the legislation…realized it would concentrate financial power in their hands. Despite complaints from agriculturalists, industrialists, and mine owners, the bankers began constricting transactions to adjust to the new regulations even before their enactment" (Drake 1989, 196).

In Congress, some politicians resisted passage of the commercial banking law. They were especially concerned with the fact that "it delegated excessive powers to the superintendent of banks" (Drake 1989, 196). Siles pushed the law through Congress by announcing the assurances he had received from New York banks, that if the commercial banking law were passed as part of the Kemmerer reform package, the U.S. banking industry would provide more loans to Bolivia and even open up branches there. Both the central banking and commercial banking laws were passed in June 1928.

The budget laws. While Bolivian economic elites were interested in Kemmerer's money and banking reforms as a way of making credit more available, they had a personal interest in his fiscal reforms. These reforms offered an opportunity for genuine improvement in the way the government performed its expanding role, a desirable end in itself as well as a way of enhancing Bolivia's image for potential foreign investors. Despite this strong interest in fiscal reforms, when it came time to pass the proposals into law it was these that encountered the strongest resistance by politicians. Unlike in the area of money and banking where politicians and economic elites had already reached some degree of consensus on certain key principles, [73] in the area of public expenditure management there

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promoting growth in the number of national banks. See Khademian (1996), pp. 95-102 for a historical discussion of the supervisory roles of the OCC and the Federal Reserve.

[73] Key principles included the importance of a strong central bank, and the consolidation and stabilization of commercial banking. According to Drake (1989), Bolivia was the first South American nation to create a single, semi-public bank of emission (the Bank of the Bolivian Nation) in 1914. Before Kemmerer's mission, Bolivia had strengthened its small commercial banking sector. The government had engaged in

were few incentives to change the existing rules of the game, which provided enormous benefits to politicians and to the upper and middle classes, especially public employees and those who made their living from government contracts.

The budget and Treasury laws passed in April 1928 without resistance. This legislation was supposed to reduce deficits, but in fact these continued, as "Congress… add[ed] special expenditures, and the executive branch…went on hiring new employees. When the government claimed to be imposing austerity by cashiering some bureaucrats, it was normally just making room for its own friends or relatives" (Drake 1989, 198).

It was the law creating the Office of the Comptroller General (CGR) that encountered most resistance, despite support by Bolivian public opinion and a "glowing report" submitted by a commission of "notables" appointed by the Minister of Finance to review the proposal (Drake 1989). Nearly a majority of legislators fiercely opposed the creation of the CGR: "they complained because it transferred budgetary control from them to a powerful, independent agency attached to the executive branch" (Drake 1989, 199). Bureaucrats also strongly opposed the law because it would severely curb their discretionary spending decisions.

Siles needed a two-thirds majority in Congress to pass the Kemmerer laws. He had spent a great deal of political capital by hiring the Kemmerer mission over the resistance of the Permanent Fiscal Commission and some members of the traditional oligarchy, and now the broad-based resistance to the CGR meant that the Kemmerer recommendation which was most popular with the economic elites and with his own modernizing technocrats might not pass. Congress had already denied the President's request for decree power that would

banking supervision since the 19th century, and in 1923 charged the Permanent Fiscal Commission with oversight responsibilities.

enable him to implement the Kemmerer package without legislative approval. Confronted with congressional resistance to the CGR and taxation reforms, Siles "denounced, censored, and exiled many of the opponents…, employed a state of siege and the army to ram almost all the Kemmerer laws through the legislature by July 1928" (Drake 1989, 191). This time, the state of siege was in effect until Siles left office in 1930.

Summary Initially, Kemmerer's reform proposals enjoyed broad-based support from modernizing politicians and economic elites. The evidence I have just presented, however, suggests that opposition began to emerge as soon as concrete proposals were ready to be converted into laws that would impose costs on particular elite groups. That resistance emerged is not surprising, considering the contradictory desires that Bolivian elites laid out at the beginning of Kemmerer's mission (e.g., increase in state infrastructure investment while lowering taxes; avoiding inflation while lowering interest rates; reduction in budget deficits but by attracting more foreign loans rather than by increases in tax rates and/or better revenue collection). The tin barons and other economic elites wanted a more active central government but they did not want to assume the considerable accompanying costs. They wanted their government to provide "order, employment, and infrastructure for economic growth [while] outside funds helped pay the costs of administering and enlarging the bureaucracy, expanding the transportation network, and servicing the…external debt" (Drake 1989, 175).

Before Kemmerer's institutions had time to produce a positive impact, the Depression hit Bolivian businesses, sources of foreign financing ran dry almost overnight, and the deterioration of the economic and fiscal situation drove elites to criticize strongly the Siles administration for "selling out to foreign interests" (Drake 1989).

As for the politicians, by far the biggest winner from the passage of the Kemmerer legislation was President Siles. First, he had advertised the mission's arrival as a serious and scientific commitment to administrative reform, and he needed something to show for all the publicity surrounding Kemmerer and his team. Second, the President was eager to have at his disposal the revenues from foreign loans expected as a result of Kemmerer's stamp of approval. Third, the Money Doctor's visit lent a technical rather than a political flavor to reforms that Siles and his staff were already contemplating,[74] thus minimizing partisan opposition.

Legislators and bureaucrats, on the other hand, were reluctant to pass the new laws because they had nothing to gain and much to lose. The reforms would take away some of Congress' already limited power, such as the removal of legislative control over the budget by delegating budgetary control and audit authority to the CGR. But despite congressional resistance to passing the reforms, Siles wielded strong influence over its members (since packing the legislature with his supporters in the May 1927 legislative elections), and so the Executive was able to pressure Congress into passing Kemmerer's proposals without examining them too closely.

In the end, the most compelling explanation for the passage of most elements of the reform package can be found in the arrival of the Dillon, Read loan as well as promises of further support from U.S. bankers. Once that support was withdrawn during the Depression, the laws implemented upon the advice of the Kemmerer mission were revised and often weakened. According to Drake (1989), "none of the economic sectors strongly supported the letter or spirit of the Kemmerer legislation once it no longer attracted foreign credits.

[74] For example, shortly after Siles' inauguration in 1926, he informed Congress that he intended to "*reprimir abusos y asegurar la corrección administrativa*" (Contraloría General de la República, 1988, 2).

Neither the decision to adopt nor to discard his model resulted from fierce struggles among domestic interest groups; rather, those policy choices mainly responded to shifting international currents" (206).

Still, during the Depression Kemmerer's agencies were modified to fit Bolivian needs, and indeed survived the Depression, the collapse of the oligarchy, the Revolution and the military dictatorships of the 1960s and 1970s. Later in this chapter I will examine how the SBEF and CGR were re-created as autonomous agencies, coinciding with a period of important institutional changes in the 1980s. In the next section, I provide an in-depth view of their autonomy along different dimensions when they were first created.

Two autonomous oversight agencies: the CGR and the Banking Superintendency

The influence of ideas: on the cutting edge of administrative reform At the time of Kemmerer's mission to South America in 1923-31 his recommendations on fiscal reforms and (to a lesser extent) on money and banking, were state-of-the-art, drawn directly from recent reforms in the U.S., where the development of a national administrative apparatus, including delegation of some policymaking tasks to unelected public officials in bureaucratic agencies, took place between 1900-1920. During the Progressive Era, of which Kemmerer was a product, "the national administrative realm rose to prominence…but authoritative controls over this power were locked in a constitutional stalemate" (Skowronek 1982, 16).

Kemmerer's strong convictions about the potentials of scientific management to remedy South American governments' chaotic financial management and other economic ills led him to prescribe reforms based on a set of universal principles that he himself referred to as "the most successful modern lines" (Drake 1989, 250). Thus, Kemmerer's central bank model was based on the U.S. Federal Reserve System created in 1913. His Banking Superintendency model was fashioned after the U.S. Office of the Comptroller of the Currency (OCC) established in 1863, the United States' first national regulatory agency. The CGR model was taken from the U.S. General Accounting Office (GAO), set up in 1921 after a lengthy power struggle between the U.S. Congress and President. However, it is important to underline the fact that while in the U.S. the GAO reports to Congress, Kemmerer drafted the legislation for the Bolivian CGR as accountable to the Executive.

From 1883 until 1929, the Bolivian Congress was indirectly in charge of the government audit function because it supervised the work of the *Tribunal de Cuentas*. Congress was so ineffective in its supervisory role (and the *Tribunal de Cuentas* was such a poor auditor) that Kemmerer did not trust Congress to oversee the CGR. Nor did he trust the Executive branch, because of its high degree of politicization and frequent turnover in Cabinet members (EWK 1927).

The Kemmerer-designed CGRs provide an example of the enormous faith their architect had in the possibility of separating administration from politics. If, as Kemmerer recommended, the CGRs were "managed by apolitical, public-spirited experts" (Drake 1989, 252) who would sit apart from the other branches of government, then they could occupy themselves with restoring fiscal order and restraint without becoming embroiled in political conflicts. They would simply work for the government of the day, submitting monthly and annual reports on the status of financial operations to Congress, the President, and the Minister of Finance. According to Kemmerer's report recommending a CGR for Bolivia, "the CGR…in its accounting and fiscal control functions, shall have the final responsibility for the correct administration of the revenues and expenditures of the

Government and for the recording…of the results of government operations" (Kemmerer, *Report in Support of the CGR* 1927, 19).

And yet, as I will show later in this chapter, both the CGR and SBEF were soon overcome by political interests. How much autonomy did the laws proposed by Kemmerer grant these agencies? And, what other factors contributed to politicians' and domestic actors' resistance to delegation?

Dimensions of autonomy As I discussed in Chapter 3, an agency's autonomy has different dimensions. I examine four aspects (structural, personnel, financial, and technical) in determining the degree of autonomy the CGR and SBEF had when they were first established. In addition, I will consider the degree of informal autonomy these agencies had at the time of their creation.

<u>Contraloría General de la República</u>. The legislation that created the original CGR was passed on April 27 and May 5, 1928, and the agency became operational in July 1928. The CGR replaced the *Tribunal de Cuentas* which, since 1883, had been in charge of examining public accounts and reporting the findings to Congress. Kemmerer's mission judged the *Tribunal de Cuentas* "a failure … which has absolutely no value as an organization of preventive control over the financial operations of the Government" (Kemmerer, *Report in Support of the CGR*, 2-3), based on several deficiencies:

- The Tribunal examines the accounts months or years after transactions have taken place, and after the responsible officials have left the public service.
- Its leadership consists of a panel of five judges, resulting in a diffusion of responsibility.
- Its lengthy procedures result in long delays.

- Poor communications networks in Bolivia lead to long delays in the Tribunal receiving the necessary documents.[75] Because of these delays, combined with the previous point on long procedures, the Tribunal fails to present a regular annual report to Congress.

- The Tribunal has inadequate powers to enforce its decisions.

The accounting and fiscal control institution that Kemmerer recommended to replace the *Tribunal de Cuentas* had to be, first and foremost, nonpartisan: "the main principle underlying the creation of the CGR is the establishment of an authority which shall be independent of the executive branch of the Government…" (Kemmerer, CGR, 19). Article 1 of the CGR law granted the agency ***structural autonomy*** by establishing its independence from the Cabinet and making it responsible directly to the President.[76] Article 3 states that the Comptroller General will "respond before Congress for his own actions as well as those of his subordinates". Article 39 charged the CGR with submitting monthly reports to the President and the Minister of Finance, while Article 40 dictated that it must submit annual reports to the President, Congress, and the Minister of Finance.

As for ***leadership and personnel autonomy***, the 1928 law dictated that the CGR would be headed by a *Contralor General* (CG), appointed to a six-year term by the President with the advice and consent of the Senate. The CG may be reappointed for an unlimited number of subsequent terms. The law also contained a provision stating that the CG could be a foreigner, or a Bolivian CG could hire a foreign technical adviser. This came from Kemmerer's recommendation that President Siles appoint team member Joseph Byrne

[75] For example, in 1927 the Treasury Department had not yet submitted its accounts from 1919-1926, and those for 1916-1918 had just been received.

[76] "Esta oficina administrativa será independiente de todos los Ministerios y de las demás oficinas del Estado; pero sujeta al Presidente de la República" (Article 1).

as the first CG (ultimately, a Bolivian was hired as CG and Byrne was named technical adviser and his salary was paid in U.S. dollars).

The law also granted the President the authority to set the CG's salary. The President's role was limited to leadership decisions; Article 54 granted the CG complete freedom in personnel management (the authority to select, promote, dismiss, and set salaries for CGR personnel). The first CG hired 77 people; of these about 60 percent were professional accounting and audit staff, while 40 percent were support staff (CGR 1988, 4-7).

The CGR's ***financial autonomy*** is unclear from the 1928 law, although it seems likely that the law mandated a system similar to the current one, whereby Congress assigns the agency an annual budget based on a request from the CG. This request goes directly to Congress rather than passing through the Ministry of Finance (to protect it from suffering reductions, as I will discuss later in this chapter). In 1928, the CGR's budget was 446,420 bolivianos (CGR 1988, 7). This was four times larger than the Banking Superintendency's budget, but the CGR had about ten times as many staff.

The most important – and polemic -- of the newly created CGR's roles was to sign off on all expenditures (purchases, contracts, and payment orders) before they were made (ex ante control), thus preventing public employees from making unauthorized expenditures. In addition, the CGR was charged with:

- Overseeing public agencies' compliance with laws
- Preparing the National Budget
- Authorizing the hiring of any public employee
- Setting up accounting systems in all government offices

- Overseeing all public employees who received, spent, or were in charge of public funds or properties
- Examining debts owed to or owed by the Government
- Ensuring recovery of debts owed to the Government

Article 3 of the Organic Law creating the CGR granted the agency total ***technical autonomy***: “The decisions of the Comptroller General in all matters relating to accounting, statistics, and fiscal audit within his competency, will be definitive and final.” As mentioned in Chapter 3, it is sometimes difficult to tell if an agency really has technical autonomy, when its decisions coincide with the preferences of politicians and external actors. However, when the CGR began to carry out its mandate in 1928, the agency’s decisions clearly differed significantly from the preferences of politicians and some domestic actors, and the agency suffered an early and energetic attack on its technical autonomy. The new CG and his technical adviser, Joseph Byrne, reported that during the first year of operations they “encountered severe problems straightening out accounts, winning the cooperation of bureaucrats, and fending off attempts at emasculation or domination by the Congress and the president… The government moved to weaken the comptroller and to pack the office with political loyalists… The Siles administration also continued fueling illegal deficits and fighting attempts to audit public works contracts” (Drake 1989, 199). Interference in the CGR’s work was so extreme that Byrne threatened to resign, although ultimately he remained in his post under pressure from the U.S. government.

Banking Superintendency. Before the arrival of the Kemmerer mission, a 19th century institution called the *Inspección General de Bancos*, under the oversight of the

Permanent Fiscal Commission, was in charge of supervising the Bolivian banking sector. Universal banking regulations were nonexistent: each bank had its own regulations and statutes. Also, "the small number [of banks] rendered the system intrinsically precarious" (Drake 1989, 183). Kemmerer's general banking law created a banking superintendency that would enforce much stricter rules, breaking new ground in public regulation of private property, and hopefully stimulate growth in the number of banks and the availability of credit for the private sector.

The Banking Superintendency had less ***structural autonomy*** than the CGR, as it was established as a bureau within the Ministry of Finance. From this, though, we must not infer that the Bolivian government had decided *ex ante* to politicize the bank supervision. Instead, the Kemmerer model was based on accepted wisdom about "best practice" for banking supervision from the U.S., where the OCC was a bureau within the U.S. Treasury Department (equivalent of the Ministry of Finance). In industrialized nations in the early 20th century, banking supervision generally fell under the responsibility of the central bank (most of which had limited independence from politicians). Banking sectors tended to be small and bank owners were members of the elite.[77]

Despite its formal position as a bureau within the Ministry of Finance, the Bolivian Banking Superintendency had considerable ***leadership and personnel autonomy***. Like the OCC, the Bolivian general banking law dictated that a Superintendent, appointed by the president with the advice and consent of the Senate for a six-year term, would head the Banking Superintendency. The law required that the first Superintendent be a foreigner who

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[77] In Great Britain, for example, the Bank of England was in charge of bank supervision and adopted an informal approach to the task. The British system depended largely on unwritten norms of compliance, and bank supervisors' primary instruments of supervision were "moral suasion, discretion, and personal contact" (Polizatto 1990, 298). In continental Europe, central banks were also in charge of supervising

would have a three-year term. The Bolivian government accepted Kemmerer's recommendation of mission member E.O. Detlefson (who had worked on tax reform issues but had no experience in banking).

The six-year term gave the Superintendent some independence from presidential influence, as did the rules that restricted removal of the Superintendent. In this sense, the Bolivian Banking Superintendency enjoyed more autonomy than his U.S. equivalent: in the U.S., the president could remove the Superintendent before expiration of his term with Senate approval. Kemmerer's legislation dictated that the Bolivian Superintendent could only be removed by a Supreme Court ruling, based on formal charges of deficient performance or criminal activities presented by the state attorney (*Ministerio Público*).

Articles 21 and 22 of the law granted the Superintendent considerable autonomy in personnel management (appointments and dismissals), and allowed him to set the salary scale for his agency with the approval of the Ministry of Finance. Kemmerer's report emphasized that "this is a fundamental characteristic of the Bill that allows the Superintendent of Banks to perform better the important post to which he is assigned, by contracting the services of employees in whom he can be entirely confident and releasing him from hiring employees whose honorability and competence are dubious" (Kemmerer 1927, 7-8).

The legislation creating the Banking Superintendency also protected the agency's independence from the Ministry of Finance by awarding it ***financial autonomy***. Here again, the Bolivian Banking Superintendency was modeled after the OCC, which is also self-funded through fees levied against the supervised banks. Article 25 of the general banking

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commercial banking, though the system was more legalistic, relying on banks' compliance with various ratios and central bank rules (Polizatto 1990).

law authorized the Superintendent to determine the amount of the fees semi-annually, based on each bank's average total assets in the previous six months. The law states that "the assessment levied upon any bank…during any semi-annual period shall not exceed .002 percent of the monthly average of the total assets of that bank during the previous year…" (Art. 25). The banks had to deposit the money in an account at the Central Bank.

Under Detlefson, the Banking Superintendency hired a staff of seven, including an Intendente, three bank inspectors, one assistant, and two office aides. Detlefson wrote to Kemmerer in October 1929, saying that the Superintendency's financing had been reduced and that he could not run the agency on his meager budget. For 1929, the Superintendency was assigned 100,000 bolivianos; almost 50 percent of that was to pay the Superintendent's and Intendente's salaries.

At least in theory, the Superintendency's financial and personnel insulation rendered it sufficiently independent that it could carve for itself a reasonable level of ***technical autonomy***: its professionally competent staff had their own resources with which to do their work. The Superintendency was charged with the following tasks:

- Enforcing banking legislation
- Approve charters for new banks
- Overseeing and participating in the emission and destruction of paper money
- Overseeing and participating in the emission, distribution and destruction of mortgage notes by commercial banks' mortgage departments

The Superintendent was obliged to submit annual reports to the Minister of Finance, containing information about the financial condition of each bank under his supervision; a list of banks that had opened in the past year as well as a list of those that had closed; a report on the status of any on-going bank liquidations; information on that year's deposits and interest payments; as well as information about the Superintendency's management (names of all Superintendency employees; Superintendency financial statements; account of fees levied against banks during the year; account of fines imposed by the Superintendency during the year).

Detlefson, the first Superintendent, reported to Kemmerer that Bolivian bankers were cooperative, and indeed they did comply with the banking law's new regulations, although the results were not what Kemmerer had originally led the Bolivian economic elites to believe: "local banks demanded payments on long overdue loans, eliminated noncommercial [banking] operations, and cut back the credit supply…. At the same time the banking oligopoly consolidated. The largest commercial bank closed some of its weaker regional branches and absorbed one of the independent mortgage institutions" (Drake 1989, 196-197).

Immediately following the Superintendency's creation, the banking sector cooperated with the new agency and politicians did not interfere while the Superintendency tried to help national banks survive the Depression. As the Depression ended and Bolivia entered into war with Paraguay, however, the constricted credit supply became a greater problem and interference in the Superintendency's technical decisions began to emerge.

Summary The Kemmerer mission to Bolivia in 1927 coincided with the beginning of a particularly tumultuous period for the Andean nation. Economically, the monoproduct mining economy that relied primarily on sales to a single consumer was suffering from a slow but steady decline in international tin prices, which turned into a full-blown international crisis by 1930 (Klein 1971). As the mining sector declined, the industrial sector was beginning to expand, leading to the emergence of new urban interest groups which challenged the still-dominant tin barons in some policy areas.

Politically and socially, the Bolivian oligarchy was increasingly split. Political battles raged between older traditional elites and younger modernizing members who held a new view of the state's potential role in the economy; partisan disputes emerged over access to patronage; there was increasing participation and calls for revolution by university students; and the growing restlessness within the military culminated in the Chaco War of 1932-35.

In this climate of transformation, several factors influenced the decision to adopt Kemmerer's state reform recommendations. On one hand, there was a definite interest in the idea of modernizing and improving public sector performance, and a fairly strong consensus that the creation of autonomous government agencies would contribute to this goal. Many policymakers and public opinion leaders recognized that insulating agencies from partisan interference was a prerequisite for a technically competent government. Also, by the mid 1920s Bolivia was suffering from severe resource scarcity, and leaders knew that in order to meet the electorate's demands, they would need to obtain foreign financing that would enable them to embark on investment projects without imposing costs on local groups.

On the other hand, Bolivian politicians still needed to exercise tight control over the state apparatus in order to distribute patronage opportunities (employment, contracts, subsidies, etc.). By agreeing to respect the new agencies' independent status, they would lose an important resource for ensuring their own political survival.

The evidence presented in the previous section confirms the hypotheses set out in Chapter 3.[78] Regarding the first part of the hypothesis, the conditions set by external actors

[78] **H1A:** When the President is weak at Level I and strong at Level II, AOAs are more likely to be created, because the President can push through ratification of Level I agreement at Level II. **H1B:** When the President

in 1928 constitute a crucial explanatory factor in understanding the Bolivian government's decision to establish an autonomous CGR and Banking Superintendency to which it delegated responsibilities for budget supervision and audit, and banking supervision, respectively. If foreign banks had not made the new loans to Bolivia contingent upon creation of these agencies (as well as the other elements of the Kemmerer package), and if the Bolivian government had not been so desperate for foreign financing, it is quite likely that Congress would not have passed them.

In relation to the second part of the hypothesis regarding the president's strength vis-à-vis domestic actors, the CGR and the SBEF were vested with autonomy because Siles had sufficient strength to assume extraordinary powers and push the reforms through the legislature. He already enjoyed broad support from economic elites.

A closer analysis of the ways in which the combination of external actors and a strong presidential position influenced Bolivia's decision to create the autonomous oversight agencies reveals a two-stage process. The first stage consisted of what Hall (1989) calls an "absorption of ideas" by the Bolivian administration, as the fame of the Kemmerer missions in other Latin American countries and his team's arrival in Bolivia exposed policymakers to foreign experiences in organizing certain public sector functions. It is true that these ideas were not entirely new to the Bolivians: for example, Siles was already interested in creating an independent entity to oversee public expenditure management. Still, Kemmerer's CGR recommendation helped Siles and his team to "choos[e] among competing solutions [and] improv[e] the details of reforms" (Drake 1989, 252).

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is weak at Level I ***and*** weak at Level II, AOAs are less likely to be created, because the President wins concessions at Level I with the excuse of Level II weakness.

And yet, merely introducing Bolivians to new ideas about delegating certain tasks to insulated parts of the bureaucracy was not enough to ensure acceptance of those ideas. To be able to create the new agencies, Siles needed to attract a coalition of support for those ideas among economic elites. The Kemmerer mission contributed to this objective by "focusing public attention on the problems the government wanted to solve; …[and] giving new programs a neopositivist aura of being purely technical and scientific, instead of 'political'" (Drake 1989, 252).

The second stage in the agency creation process consists of the actual passage of the laws. To see how both external actors and political strength considerations played a role here I employ a two-level game framework, allowing me to take into account the complex political realities within Bolivia.

Siles and external actors: Level 1. In the Level 1 negotiations, Siles was in an extremely weak position vis-à-vis international lenders. Bolivia was nearly bankrupt and the prospects of increasing domestic revenues were poor; it was highly indebted and a large proportion of its annual budget was committed to servicing its existing debt; and at the same time powerful economic groups were pressing for more state investment. Siles' need to borrow was greater than foreign lenders' need to lend; for Siles, the cost of no-agreement was too high to constitute a realistic option. Weakening Bolivia's bargaining position even further was the fact that it had limited alternative sources of borrowing: Siles was mainly interested in obtaining financing from U.S. investors, since the U.S. was increasingly dominant in international markets.

During the first two decades of the 20th century, U.S. banks also were especially eager to lend to the Bolivian government, since Bolivia was the only Andean country that continued to do more business with Great Britain than with the U.S. But by 1927, Bolivia's economy was recognized as very weak and U.S. investors made it clear that Bolivia must allow North American experts to certify its creditworthiness before new loans would be forthcoming. The way for Bolivia to do this was to adopt "the economic regulations and practices desired by its creditors" (Drake 1989, 176). However, U.S. banks such as Dillon, Read were not too concerned by Kemmerer's warnings that Bolivia should not take on much more debt. In part, this could be because of Kemmerer's rather mixed messages to the U.S. government and bankers,[79] but also because of U.S. investors' strong desire to lend. Intentionally or not, they gave the Bolivians the impression that they were more concerned with *passage* of the new legislation rather than with actual *compliance*.

Siles and domestic actors: Level 2. Siles had only been in office for one year when Kemmerer's mission arrived. He rose to the presidency thanks to strong support from the modernizing elements of the Republican Party, and like other Latin American administrations that received visits from the Money Doctor, Siles' government was "willing and able to embark on sweeping reforms" (Drake 1989, 251). During the early part of his term, Siles succeeded at building an important support coalition among younger, intellectual, and middle class groups in Bolivia. He stood up to the traditional oligarchy and refused to be controlled by the older members of the entrenched political parties (Klein 1969), although he managed to put together a Cabinet with some more traditional Republican members. In the May 1927 legislative elections his Nationalist Party won a (fraudulent) majority in Congress.

On the other hand, Siles had not been elected to office by popular vote. He owed his position to his party and, by abandoning the Republicans almost immediately after coming to office, he made many enemies. He inherited a government with a very weak financial

[79] See Drake (1989), pp. 202-03.

position, and soon after coming to office he resorted to several extremely unpopular measures to raise domestic revenues, including a program of indirect taxation and forcing local banks to lend the government money (Klein 1969). This aroused strong opposition by important sectors of the economic elite (mainly the tin barons and bankers).

In order to improve his government's rather shaky position, it was vital for Siles to obtain more foreign funds: "in a country where the popular support accorded the government is in direct proportion to the number of miles of roads and railways which the government constructs" (Drake 1989, 205), Siles needed to regain political capital with the tin exporters and key political actors by investing in public works. As mentioned earlier, he tried to ensure that he would be able to enact Kemmerer's proposed legislation by packing the Congress with his supporters in the legislative elections that were held during Kemmerer's mission. Although this move apparently strengthened his position in the short-term, the outrage it ignited contributed to his later downfall. In addition, even having a Nationalist majority in Congress did not ensure the Kemmerer laws would pass, given inter- and intra-party disagreements as well as strong resistance to certain Kemmerer proposals by particular groups (e.g., bureaucrats in the case of the CGR law).

Ultimately, Siles resorted to taking emergency powers by declaring a state of siege in order to push his proposals through the legislature. He justified this action by blaming the demands of external actors, explaining to Congress that "the [Dillon, Read] contract ratifies the express recommendation that the plan of reforms which the Kemmerer Mission proposed had to be adopted within the legislative mechanism of the country" (Drake 1989, 312).

Siles' ability to behave as a virtual dictator in the passage of the Kemmerer reforms suggests that in 1928, the president was in a relatively strong position vis-à-vis domestic constituents. Thus, the 1928 adoption of reforms negotiated with foreign bankers confirms Lehman and McCoy's prediction: "weakness at Level I and strength at Level II will predict concessions from the negotiator [Siles] at Level I, since he or she can impose those concessions on the domestic constituency and still ensure ratification" (610).

Siles' dictatorial methods cost him dearly, however. Within a few months after passage of the Kemmerer reforms, Siles' strength began to deteriorate rapidly as his political and economic opponents united against him. The combination of intensified political conflict and the shock waves of the Great Depression brought the situation to a crisis point, and by 1930 Siles faced a revolution. Just two years after he forced the passage of the Kemmerer legislation, Siles was obliged to resign and was driven into exile.

Threats to autonomy: determining strength at Level 2. In the narrative above, I identified two different reactions by the group that would bear the cost of the creation of two autonomous oversight agencies. These stories support the second hypothesis set forth in Chapter 3.[80] In the case of the Banking Superintendency, members of the banking community initially showed reluctance to support the measure. They quickly changed their minds, though, as Kemmerer persuaded them that the Bolivian banking sector would benefit in several ways from the new institution. When the Superintendency reform gained administrative and political viability, the creation was easier.

First, a technically competent Superintendency would help to strengthen their banks through "scientific" means (though the unexpected economic crisis of the Depression extinguished his expectation that the Superintendency would increase the number of banks

[80] ***H2A:*** When the AOA to be created is administratively and politically viable, the President's Level II position will be stronger and AOA creation more likely. ***H 2B:*** When the AOA to be created is not administratively and politically viable, the President's Level II position will be weaker and AOA creation less likely.

in Bolivia by attracting more foreign branches). Second, a politically independent Superintendency would help protect them from the political abuses that had taken place during the tight financial situation before Kemmerer's arrival (such as forced loans to the government or government-mandated interest rates). Third, the owners of the strongest banks also realized that they would face reduced competition from weaker competitors, making their banks more profitable. Bankers even began to implement the Kemmerer proposal before the Superintendency was created. Siles did not have to devote his efforts to convincing the banking sector of the importance of the new commercial banking law; instead he could concentrate his energies on winning legislative support, which he did through authoritarian means.

The creation story of the CGR fits closely with the prediction of the standard theory of industry resistance to regulation and supports H2B: administratively and politically unviable autonomous oversight agencies are less likely to be created. Passage of the CGR legislation encountered severe resistance from government bureaucrats, the group that would bear the immediate costs of agency creation. Of course, the effectiveness of their opposition was certainly strengthened by the fact that Congress as well as the president himself resisted delegating national accounting and audit responsibility to an independent CGR. In fact, the creation of a professionalized, technically competent, and independent CGR represented an enormous threat to the patron-client networks that held together the fragile Bolivian state.

If bureaucrats were to be held accountable for the legality of their expenditures, they would no longer be able to respond when their political patrons asked them to provide services and favors to political supporters. This would put bureaucrats in an untenable position (as they owed their jobs to their political patrons and were expected to facilitate favors in return for employment), and would also put politicians in danger of losing their supporters (for whom they would no longer be able to obtain favors). Thus, although fiscal reforms and reduced corruption were priorities for Bolivian citizens, and would certainly have improved Bolivia's overall economic situation, the CGR was one of the most difficult reforms to pass. As Geddes (1994) argues,

> "state intervention creates…opportunities for officials to profit from their role in allocating scarce goods. These profits, along with resources such as jobs and contracts drawn directly from the state itself, are the goods that make cooperation within clientele networks rational for supporters. Once such a mutually beneficial arrangement has developed, members of the cooperating cluster can be expected to oppose any reforms that would reduce the supply of benefits available, even if they recognize that the reforms would improve economic performance for the nation as a whole" (33).

As I propose in my first hypothesis, the CGR legislation eventually did pass because of pressure from external actors: Siles realized that in the short term it was important to showcase a CGR in order to receive more foreign loans. Although his political discourse indicated his attraction to the scientific approach to public administration, his political survival needs were too immediate to allow him the luxury of exploring these ideas. His immediate interference in the CGR's independence after its establishment is evidence that his administration's "main motivation was to impress the U.S. bankers": the new legislation was treated as "laws for export" (Drake 1989, 197). Bureaucrats also put up vigorous resistance by failing to provide the CGR with the information it needed to do its job. Although the CGR eventually became one of the most powerful public agencies in Bolivian government, it was also one of the most politicized.

Power and politicization: brief overview of agency autonomy in Bolivia (1930-1980)

Kemmerer's models of the CGR and the Banking Superintendency for Bolivia did not last long. As the economic crisis worsened, the interest groups that had previously supported Kemmerer's reforms came to oppose them. Between Siles' resignation in 1930 and Bolivia's hitting bottom in the early 1980s, both the CGR and the Banking Superintendency underwent a series of important changes that I will summarize in the following paragraphs.

The CGR: the President's comptroller In 1931, a referendum approved some constitutional amendments, including the CGR's inscription in the Constitution and the extension of the CG's term from six to ten years.[81] Over the next decades, the CGR's role expanded to keep pace with the rapidly growing state, increasingly involved in productive activities. Between 1928 and 1980, more than 60 reforms were made to the CGR, adding new responsibilities such as:

- Establish and install government-wide accounting and internal control systems and decide how checks should be processed;
- Additional oversight responsibilities including the national railway enterprise and mail and telecommunications services;
- Ex-post audit responsibilities in addition to the ex-ante controls included in the 1928 law;
- Incorporation into the CGR of the government's payroll office (for public employees' salaries);
- Assumed the responsibilities of the Permanent Fiscal Commission when that entity was dissolved;
- Approve purchase and sale of currency;

[81] Bolivia and Chile were the only countries where Kemmerer's CGR model was inscribed in their Constitutions. In Bolivia, the CGR "developed even greater fiscal powers than its counterpart in Chile" (Drake 1989, 200).

- CGR authorized to lend itself money from the *Fondos Especiales* (a self-financing mechanism);

- Authority to name a financial inspector for the National Social Security Administration;

- Authorized to transfer funds to the Treasury;

- The Legal Department is extended to include a judicial section that can prosecute offenders, determine guilt, sentence offenders, and recover public funds;

- Ex-post audit of all state-owned banks;

- Oversight of all funds obtained through agreements with international aid agencies;

- Assessment of the legality and appropriateness of all state debts;

- Provide stamp of approval for the financial statements of all public entities;

- Maintain records of all public agencies' assets, vehicles, and employees;

- Validate the number of years of public service for government employees;

- Establish public servants' debts to the state (*notas de cargo*) and produce document stating that their account has been settled (*finiquito de cuentas*);

These added responsibilities turned the CGR into an extremely powerful but increasingly corrupt instrument of the President. Many Bolivian presidents used the CGR to pursue political enemies. Employment in the CGR was considered a valuable reward for political supporters, because of the enormous opportunities for corruption.

The government accounting and audit functions that originally drove Kemmerer to recommend creation of a CGR were pushed aside by a multitude of other activities. A 1983 World Bank report found that "while the total CGR staff has increased dramatically, its number of qualified auditors has decreased equally as dramatically" (i): of a total

1,200 employees, less than 10 percent of these were auditors. According to the CGR's 1982 annual report of activities, it performed only 28 audits in that year.

The weakening of the Banking Superintendency The Banking Superintendency protected Bolivia's commercial banks during the turbulent Depression years. By the time the Chaco War began in 1932, however, the government and members of the private sector were frustrated by the lack of credit supply: "in 1932…the banks and the government succumbed to public pressure and revised Kemmerer's law to permit greater flexibility in commercial credit operations" (Drake 1989, 206). In the following years, landowners and mining elites convinced the government to create state-owned banks for the agricultural and mining sectors. These institutions were used to channel subsidies in the shape of loans at concessionary interest rates (which were usually never repaid) to political supporters in the productive sectors.[82] The Superintendency was not allowed to conduct oversight activities of these state-owned banks.

The first Bolivian Superintendent, Humberto Cuenca (1972), provides a detailed account of the President's close involvement in approving the Superintendency's decisions. For example, in the 1930s the Superintendency wanted to save a local bank that was having trouble recovering the money it had loaned, so President Salamanca responded to the Superintendent's request that he impose a decree requiring borrowers to repay their debts in that bank. Later, the Superintendent himself was invited to become the Managing Director of the rescued bank. This was explicitly outlawed by Kemmerer's general banking law, but Cuenca accepted anyway.

[82] According to Conaghan and Malloy (1994), by 1975 half of the state agricultural bank's (Banco Agrícola de Bolivia - BAB) portfolio was in arrears, and by 1979 the BAB was bankrupt and required a $41 million government bailout.

In the 1950s and 1960s, the Superintendency's activities were severely limited, mainly because of the lack of stability in top management. In 1970, the Ovando government came to office with a strongly state-centered approach to development. Since the Superintendency was no longer even minimally effective at carrying out its oversight activities, Ovando's Minister of Finance decided to incorporate the supervisory agency into the relatively well-functioning Central Bank, creating a *División de Fiscalización*. This step did not improve the performance of the oversight function: by that time, banking supervision focused only on assessing banks' formal compliance with Central Bank regulations, rather than on the overall soundness of the banks' loan portfolios and management (World Bank 1988).

Though the Bolivian banking sector continued to enjoy steady growth in the 1970s, this came to an abrupt halt in the early 1980s with the emergence of the most severe economic crisis in the country's history. Then, several foreign banks left the country, others practically closed down, and Bolivian banks found themselves on the edge of a severe crisis.

Re-creating agency autonomy: insulating key tasks

The powerful pressures of clientelism in the Bolivian state undermined the intent of Kemmerer's institutions during the revolutionary and post-revolutionary periods. Even the Banzer regime's explicit attempts at modernizing the public administration could not overcome the enormous reliance on distribution of public employment, contracts, etc. to political supporters. Banzer's New Bolivia Plan allowed him to "draft" civilians into technical posts in government, bringing them into the civil service as individuals rather than as members of parties or interest groups. This created a semblance of a politically independent corps of technocrats, but in fact the arrangement merely served to replace the corporatist connection with a personal one between Banzer and his appointees (Conaghan and Malloy 1994). In the end, Bolivian leaders' hold on power was simply too tenuous to risk insulating agencies with as much potential influence as the CGR and the Banking Superintendency.

However, as Conaghan and Malloy (1994) point out, some leading Bolivian politicians continued to dream of constructing professionalized government agencies run by independent technocrats, and there were sporadic attempts throughout the 20th century to "institutionalize"[83] certain key agencies. Conaghan and Malloy contend that

> "the changes in the bureaucratic machinery and the style of economic policy making that were part of the Kemmerer reforms were an important benchmark in the evolution of business-government relations. New bureaucratic structures were created expressly to insulate economic decision making from the direct purview of business elites and clientele-oriented politicians. The thrust of the reforms was to construct, inside the executive branch, a new *technocratic realm that could direct capitalist economy with more autonomy than had been accorded by the old institutional structures* of the oligarchic system. The enactment of the reforms themselves was a prototype of technocratic policy making structured to minimize interference by pressure groups" (31) (italics mine).

From economic collapse to a New Economic Policy Hernán Siles Zuazo assumed the presidency reluctantly in October 1982. Although his center-left UDP party had won a plurality in two of the three aborted presidential elections between 1978 and 1980, he had never been allowed to take office. In 1982, the major political parties (with the notable exception of the UDP itself) agreed that Siles should become President. The problem was that this pact was not a pact to govern.

It was a pyrrhic victory for Siles, for even though he was President he was unable to overcome the tremendous economic catastrophe that affected Bolivia in the first half of the 1980s. The UDP did not have a unified majority in the legislature, and the MNR and ADN blocked the president's legislative agenda, forcing Siles to rule using presidential decree authority. This was part of a calculated strategy by Bolivia's center-right political parties and the bourgeoisie: they had pushed for Siles to govern on the premise that he would fail and the center-right would then come to office. As one business group leader explained, "Unless the left tried [to govern], we would never have peace in this country…We had to let them govern, although we knew they couldn't do it…But we knew that after this we had to have a chance [to govern], which is exactly what happened" (quoted in Conaghan and Malloy 1994, 97).

The members of the center-left felt they had a legitimate claim to power, but the unwieldy coalition suffered from "internal conflicts…[which] produced constant changeovers in the economic team and undermined the government's capacity to sustain a coherent economic formula" (Conaghan and Malloy 1994, 108). Complicating matters even more was the fact that organized labor was led by Juan Lechín, who harbored particularly hostile feelings towards Siles ever since Siles imposed an IMF stabilization package during his presidency in 1956. When Siles came to power again in 1982, Lechín's COB "was able to assert all but de facto veto authority over economic policy" (Malloy and Gamarra 1988, 160) by organizing vehement protests and strikes that prevented Siles from sticking with any of the five IMF stand-by stabilization packages he tried. Siles tried to recreate the arrangements that had worked for the MNR in the revolutionary period (1952-1964), by

[83] "Institutionalization" is the Bolivian term for "autonomization" of a government agency. This term is used as the opposite of "personalized" (when the agency is dependent on a particular leader and/or political

offering the COB a co-governing agreement whereby the COB would have some cabinet positions in exchange for support on economic policy, but the COB rejected the offer (Conaghan and Malloy 1994). Siles found himself forced to keep printing money to maintain consumption, accelerating Bolivia's downward spiral in economic collapse.[84]

By autumn of 1984 the Siles government was completely untenable. According to one estimate, there were around 53 "collective action events" (e.g., strikes, street protests, blockades, takeovers) *per month* during while Siles was in office; "forty percent of all collective political action that took place in Bolivia…between 1970 and 1984 occurred during Siles' term in office" (Conaghan and Malloy 1994, 123). In November 1984, the Catholic Church organized a conference with political parties and interest groups to find a way to resolve the crisis without destroying the newly established democratic electoral framework. In December 1984 all sides agreed to hold early elections, which were scheduled for June 1985.

The election was very close: Hugo Banzer, the ADN candidate, won 28 percent of the vote, while Paz Estenssoro (MNR) won 26 percent. The left-wing parties did poorly. According to the Bolivian Constitution, the fact that no candidate had won a majority meant that the final decision rested with Congress. But the ADN had not won enough votes to obtain a sufficient majority in the legislature; in fact, the MNR had two more deputies and six more senators than the ADN. Paz skillfully negotiated with the social democratic party, MIR, and a few smaller center-left parties, gaining enough legislative votes put him in the Presidential Palace.

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party in order to function).

[84] See Malloy and Gamarra (1988), Conaghan and Malloy (1994), and Gamarra (1994) for detailed descriptions of the complex and turbulent Siles presidency.

Bolivia's dreadful economic situation called for immediate and drastic action. When Siles had come to office in 1982, Bolivia's economy was already facing its worst crisis in thirty years. Since the end of the Banzer dictatorship, GDP had fallen by 10 percent. Bolivia had almost $3 billion in foreign debt, and debt service obligations reached 70 percent of export earnings. As Siles tried to stimulate the economy with domestic credit expansion (in place of foreign capital inflows, which were not forthcoming), the expanding money supply set off hyperinflation, which reached 26,000 percent (Gamarra 1994). Morales and Sachs (1990) describe this as the only true case of hyperinflation in the region. Like other leaders before him, Siles had continued to use public employment to try to win support from voters, and during his tenure public employment grew about 8 percent annually; by 1985, the public sector wage bill dominated public expenditures (World Bank 1987).

After his inauguration, President Paz quietly convened a select group of economic technocrats and independent businessmen to formulate an economic plan. Some members of the task force had already acted as advisers to the ADN during the election campaign, when ADN leaders traveled to Harvard University and Washington, DC to solicit advice on an austerity program for Bolivia (Gamarra and Malloy 1988). So, there was considerable cross-fertilization between Banzer's program and the one Paz was about to present: in fact, the plan developed by Paz's group was based on what the ADN prepared before the election, but was even more austere. Less than one month after taking office, on 29 August 1985, Paz implemented by presidential decree 21060: the *Nueva Política Económica* (NPE).

According to Gamarra (1994), the NPE sought three main objectives: "the liberalization of the economy, the ascendence of the private sector as the central actor in economic development, and the recuperation of state control over key state enterprises that had been captured by factional cliques and labor groups" (28). It focused on imposing fiscal discipline on the government (i.e., restraining public sector spending while enacting measures to increase revenues) and withdrawing the state from its extensive involvement in the economy. The NPE froze wages, liberalized prices and interest rates, enacted a lower uniform tariff, devalued the currency and unified the exchange rate. It called for a reduction in public sector employment and a restructuring/downsizing of state-owned enterprises.

Although the formal statement of the so-called Washington Consensus was not issued until 1990, Bolivia's NPE was a preview of the policy instruments favored by the IFIs during the 1980s debt crisis. Paz's economic team believed that the only way they could recover access to IFI lending was by passing an extensive package of reforms that fit with Washington's preferred prescriptions.

As before, the COB reacted strongly to D.S. 21060, but Paz was prepared to respond in kind. In response to organized labor's strike attempts, Paz declared a state of siege on September 17, arrested labor leaders and sent them to internment camps in remote areas of the country.[85] In order to ensure that the new decree would be fully implemented, Paz signed a political pact (*Pacto por la Democracia*) with Banzer that pledged legislative cooperation between MNR and ADN, both in pushing through D.S. 21060 and in passing follow-up legislation. Paz also won a legislative endorsement of his state of siege. In a sense, Banzer was obliged to agree to support the MNR in its reform efforts: he could not very well challenge the MNR for implementing an economic program almost identical to his own. Banzer also saw the agreement as an opportunity to oblige Paz to help him win the presidency in the next elections (scheduled for 1989): in May 1988 he and Paz signed a secret addendum to the *Pacto por la Democracia*, in which Paz promised to support Banzer's candidacy for president in 1989 (Gamarra 1994).

Academics herald the signing of this pact as the beginning of a new approach to governance in Bolivia. Gamarra (1994) claims that this was Paz Estenssoro's "fundamental contribution to the new pattern of political economy" (33); Conaghan and Malloy (1994) call the pact "historic" (147); Malloy and Gamarra (1988) contend that the pact meant that "for the first time in recent memory, there is a mechanism by which the electoral system can generate a structural base of support for executive power" (198). Certainly, it is true that the pact created conditions for the solidification of a civil democratic regime in which the executive can get its policies legitimated by the legislature. It allows the government to govern without resorting to openly dictatorial behavior (i.e., dismantling the legislature).

Upon closer inspection, however, the pact can be more accurately described as a variation on a pattern that has repeated itself several times in Bolivia since the beginning of the century. In the 1920s, for example, Hernando Siles used a co-government formula that brought opposition parties into the cabinet in order to distribute patronage in exchange for their support to keep him in office. The MNR Revolution achieved broad policy reforms during its inclusionary period (1952-1956) when Paz negotiated a co-government arrangement with organized labor. General Banzer ruled under a military-civilian coalition during the first four years of his dictatorship.

In the three examples cited above, the agreements entailed a system of co-government, whereby cabinet posts (and their accompanying patronage) were divided among supporters. Those agreements were made in an institutional context where the

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[85] According to Conaghan and Malloy (1994), "They were detained without legal recourse until 5 October when the COB agreed to suspend the general strike and enter into dialogue with the government… [O]ne

legislature's role was either no more than a "rubber stamp" (because the executive made liberal use of decree authority and/or because electoral fraud allowed the ruling party to pack the legislature with its supporters), or because it was a dictatorship (under General Banzer). In that context, the executive did not need to concern himself with making a pact with the legislature, since that was not where potentially debilitating opposition lay; instead, he was concerned with appeasing other political parties who might stage a coup d'etat and overthrow him (Siles in the 1920s, Banzer in the 1970s) or with winning the support of powerful interest groups who could destabilize his government (Paz and the COB in the 1950s).

The *Pacto por la Democracia* was made at a time when Bolivia was making the transition to democracy, and the legislature had a much more important role to play. Hence, the pact was cloaked in the "rhetoric about…the newfound commitment to democratic values" (Gamarra 1994, 33). Under the surface, though, it was quite similar to earlier agreements: "it…reinforce[s] the concentration of decision power in the executive. Because Congress…is mainly ratifying rather than making policy, the pact in effect creates an authoritarian decisional capacity in the executive within the framework of formal democracy" (Malloy and Gamarra 1988, 198). And true to the pattern in Bolivian politics, patronage distribution still served as the glue that held the pact together. Gamarra (1994) notes that the pact was not based on an explicit policy agenda: "instead, it was…in essence, an agreement through which the ADN would share in state patronage by assuming control of a number of state corporations" (33), as well as several leadership positions in other government agencies.

member of Paz's cabinet later admitted, the government 'behaved like authoritarian pigs.'" (149)

I will describe in more detail later in this chapter how subsequent government in Bolivia have been able to govern thanks to similar party pact arrangements. On the positive side, these agreements are both a reflection of, and a contributing factor to, the capacity of the country's political elite to reach and maintain a consensus on market-oriented policy reforms. Sustained progress has been made throughout the late 1980s and 1990s on economic stabilization and adjustment. On the negative side, though, there is a real danger that the legislature is being cast once again in the role of awarding democratic and political legitimacy to decisions made by a small circle of decision makers around the executive. Political parties are attracted to the agreement because even if they lose in the electoral process they are still included in the game, and they are awarded a share of state patronage that they can distribute to their supporters.[86]

As Malloy and Gamarra (1988) point out, political pacts present a solution to only one part of the governing process. The executive must be able to articulate and win approval for viable public policies; political pacts *can* play a vital role in that process. However, the executive must then be able to implement and administer the policies, which "demands that the executive have the capacity to assert authority over the state apparatus" (227). Ironically, the very nature of political pacts hinder the establishment of executive control, since they rely on the "division of state patronage, which reinforces clientelism in the state apparatus, which in turn conflicts with the needs of the executive to control the size and behavior of the corps of public employees" (227).

E.W. Kemmerer in 1927 introduced one possible solution to this problem, which Bolivian leaders revived during the 1980s: the agreement to carve out a limited number of

[86] Pacts of this nature can be a way of stabilizing formal democratic regimes, as in Colombia and Venezuela. However, the recent experiences of those two countries should serve as a stern warning of the

"islands" from the traditional bureaucracy, autonomous agencies which are insulated from both interest group and political interference. In a very real sense, the executive does not in fact control these "islands of excellence", but neither do other political parties or interests. By creating agencies with a considerable degree of formal independence from the rest of the state apparatus, Bolivia has tried to build capacity in certain key areas. I will now discuss the re-creation stories of two of these agencies.

Fighting for autonomy: Contraloría General de la República When Siles became President in 1982, he had to name a Comptroller General. For as long as anyone could remember, no CG had served out the 10-year term mandated in the Constitution. The CG was always replaced each time a new president came to office. According to a 1983 World Bank report, the past 30 months had seen seven different CGs (an average term of less than five months). Moreover, under the military dictatorships since the 1960s military men had headed the CGR, rather than economists or accounting specialists.

According to the Constitution, to appoint the CG Siles had to select one name from a list of three candidates selected by the Senate. Based on a negotiation between the MNR, Siles, and other left-wing parties, the CGR was to be awarded to the MNR. However, the party had to come up with a list of names that would be acceptable to Siles. Paz Estenssoro recommended a well-known businessman from the medium-sized mining sector: Antonio Sánchez de Lozada. He was known as a no-nonsense, stubborn, out-spoken, and fairly independent member of the private sector (although his sympathies lay with the left-leaning

potential pitfalls of the arrangement. See World Bank 2000 for an analysis of the political decay that has taken place in Venezuela under the *Punto Fijo*.

faction of the MNR, he was not a militant party supporter). Moreover, he had harbored Siles in his house during the García Meza dictatorship, so Siles was indebted to him.[87]

Siles appointed Sánchez de Lozada as CG. When Sánchez de Lozada assumed his post, he found the situation even worse than he had imagined. Under the various pieces of legislation passed between 1931 and 1977, the CGR was now responsible for all three stages of the public expenditure process: 1) it was authorized to provide pre-approval for all expenditures (to the point of signing all government checks); 2) it was supposed to conduct ex-post audits of all spending; and 3) its Legal Department was responsible for judging offenders and recovering misspent funds. The CGR even had its own police force that could seize evidence and arrest functionaries accused of misspending public money.

By far the main activity conducted by the CGR in the 1980s was expenditure pre-approval. Employees called "*interventores*" were assigned to each public agency, where they spent their days signing checks that the agency would then use to purchase materials, pay contracts, etc. *Interventores* made up about 70 percent of the CGR staff. While it was a low-paying position, it was also very coveted, because it provided enormous power as well as plenty of opportunities for corruption. In fact, when Sánchez de Lozada became CG he found a considerable number of *interventores* working without a salary[88] – one may assume that they were able to earn enough in illegal payments that they did not need an official paycheck. The *interventores* were supposed to play a neutral oversight role in assessing the appropriateness of a given expenditure, but it was easy for the *interventor* to be "captured" by the agency he was supervising, succumbing to bribes and other forms of special treatment.

[87] Interview, La Paz, 1 February 2000.
[88] Interview, La Paz, 1 February 2000.

There are many anecdotes of public employees who wanted to make unauthorized expenditures and needed the collaboration of the *interventor*: this also provided an opportunity for the *interventor* to collect a pay-off from the corrupt public employee. The *interventor* also had the power to paralyze government activity by refusing to sign payment orders, contracts, etc. Officials who worked for the CGR in the 1960s and 1970s report that the interventores were treated "like kings".[89] Although their official salaries were not very high and most had no university degree, they drove expensive cars to work, while the auditors (who had completed a rigorous course of higher education) had to take the bus, because they could not afford to buy a car.[90] This is an anecdotal indication of the level of bribes and other corruption to which the interventores had access.

As discussed earlier, the audit function was a tiny part of what the CGR did before 1982. The Audit Department reviewed only a small number of government operations. The absence of adequate reporting obligations, and the almost total lack of compliance with existing obligations, meant that it was difficult to find enough information to conduct an audit. Those that were conducted had almost no impact. As Sánchez de Lozada points out, "since the Office of Comptroller General had already participated in precontrol, the resulting conflict of interest invalidated the audits" (Sánchez de Lozada 1999, 71).

The audit function was used as a tool of political oppression, usually against low-level public employees. If an audit report found that a public servant had misspent public funds, the money had to be returned to the government. There was no opportunity for outside appeal: "the accused was obliged to prove, to the satisfaction of the accuser, that he

[89] Interview, La Paz, 27 July 1999.
[90] Interview, La Paz, 15 July 1999.

or she did not owe the sum contained in the 'payment demand' issued by the [CGR], who acted as both prosecutor and judge" (Sánchez de Lozada 1999, 71). Those who were unable to prove this were sent to debtor's prison.

Antonio Sánchez de Lozada faced a herculean task in getting the CGR to function as Kemmerer had originally intended. His first step was to hire a small team of highly qualified audit professionals and lawyers to work with him at reforming the agency. In January 1983 he contacted agencies in Washington to request advisory assistance for modernizing the CGR. During the next eight months, the new CG worked with a team of technical specialists from the World Bank, Inter-American Development Bank, USAID, the US General Accounting Office, and the UNDP to design a reform plan. By August 1983, with technical assistance from international cooperation agencies, Sánchez de Lozada and his team had outlined a new legal, organizational, and functional framework for the CGR, which significantly revised the agency's role and called for important changes in the original organic law.

The most fundamental element of the proposed reform was the elimination of the CGR's pre-control function: Sánchez de Lozada and the foreign advisers he hired saw the pre-control function as ineffective and incompatible with the notion of holding public managers accountable for their spending decisions.[91] The elimination of pre-control would necessarily lead to the retrenchment of a significant number of CGR staff together with a retraining program for the remaining employees.

When CGR staff heard of the reforms that were being discussed, they were outraged. Like other public sector employees, CGR employees were unionized and they reacted to the

[91] This view eventually led to the passage of one of the most important pieces of legislation in recent Bolivian history, the SAFCO law (Law 1178).

suggestion of eliminating the CGR's pre-approval role by going on strike, with the support of the Deputy Comptroller. At one point, the unionized employees took over CGR headquarters, held the CG and his top management team hostage, and demanded Sánchez de Lozada's resignation. According to a former member of Sánchez de Lozada's team, the CGR operated for only two or three months during 1984, because of the strikes.[92]

The CG was able to design a reform plan during the first three years of his mandate, but the combination of powerful unions and weak presidential leadership meant that Sánchez de Lozada did not have the necessary resources to implement his plan. However, when Víctor Paz Estenssoro came to office in August 1985, Sánchez de Lozada was ready. Between 1985 and 1992, he implemented a plan specifically designed to re-gain the CGR's insulation from political interference in personnel and technical matters.

Personnel. The dismissal of unqualified employees who held posts because of their political affiliation and their replacement with technically competent officials selected based on their professional merits has been the longest-lived contribution Sánchez de Lozada made to re-creating the CGR's autonomy. The unions' protests against D.S. 21060 led President Paz to exile around 200 labor leaders. This left the CGR employees' union without much strength to fight the internal reforms. In autumn 1985, Sánchez de Lozada fired around 70 percent of the CGR staff, primarily those who worked in the pre-control division. More than half of those dismissed were members of the MNR, reflecting the CG's commitment to terminate the use of CGR jobs as patronage, even by his own party.

With assistance from international aid agencies, he organized training programs in auditing for the remaining staff. Initially, employees had to attend 26 weeks of intensive coursework, both in general auditing principles and in specialized areas of auditing. At the

[92] Interview, La Paz, 16 August 1999.

end of the course, each employee had to score over 80 percent on a competency test before they could be ratified in their posts. They were obliged to take on-going training during their careers, and promotion decisions were based on performance and examination scores. Those who did not obtain acceptable scores on periodic examinations were dismissed. Hiring decisions were also made on the basis of entrance exams.

Previously, salaries in the CGR had been very low, providing yet another incentive for staff to engage in corrupt activities to supplement their incomes. Using the savings from the dismissed employees, Sánchez de Lozada raised CGR staff salaries for the first time in many years. By 1986, salaries for junior-level CGR staff were approximately equivalent to the private sector, while some senior-level staff earned salaries even higher than the CG's.[93] The minimum salary for a CGR official was more than twice that of an equivalent employee in the Ministry of Finance, and was among the highest in the public sector, second only to the Central Bank.

Technical. Another crucial milestone in the re-establishment of the CGR as an independent oversight agency was Sánchez de Lozada's accomplishments in improving the agency's technical autonomy. Government agencies were not receptive to stronger, more technically competent oversight. They were accustomed to bribing *interventores* to look the other way, and to meaningless audit reports that could never hurt them. Several especially powerful public agencies, such as the Central Bank and the military, were simply never audited by the CGR.

With explicit support from President Paz, Sánchez de Lozada launched efforts to regain the agency's technical autonomy. We can identify the starting point as late 1985, when he decided to do something that would call attention to his efforts to make the CGR a technically independent oversight agency: he ordered his audit department to audit the Central Bank. The unionized Central Bank managers refused to allow the CGR auditors access. Instead, they took the case to the Supreme Court, seeking an injunction against the CG. When the Supreme Court ruled unanimously in favor of the CGR, the Central Bank employees still refused to give the Audit Commission access, on two occasions. On the third attempt, Sánchez de Lozada himself accompanied his audit team with a letter authorizing the audit. The group was detained for some time in an elevator inside the Central Bank, and when they eventually got out of the elevator union leaders took them hostage in an office suite. Eventually, the police intervened and the CGR employees were released. Sánchez de Lozada issued an arrest warrant and all the top managers at the Central Bank were arrested for resisting external audit.[94] When it was finally completed, the audit brought to light severe deficiencies in the management of Bolivia's financial system.

In the climate of 1985, when public sector unions were still powerful, this act by the CGR made an unequivocal statement that the agency was going to oversee public entities regardless of pressures to continue the previous customs of using the audit function to punish political enemies and being lax on the well-connected. In 1986, Sánchez de Lozada ordered an external audit of some programs in the Defense Ministry, another area that had been untouchable by auditors.

Between 1984 and 1987, the CGR received around $4.5 million in grants from international cooperation agencies, to support the CG's efforts at designing a new financial administration and control system for all public sector entities. Sánchez de Lozada, his reform team, and the foreign advisers who worked with them recognized that the

[93] Interview, La Paz, 8 February 2000.
[94] Sánchez de Lozada 1999; interviews, La Paz, 27 July 1999, 19 August 1999, 1 February 2000.

elimination of the CGR's pre-approval function required a fundamental change in the way public agencies performed financial management. Until pre-control was eliminated, the CGR was essentially responsible for the financial management of the entire public administration. Now that it no longer played that role, the responsibility must lie with each line agency. To assume the new responsibility, line agencies needed to install financial management systems. The CGR assumed the task of developing an integrated system for budgeting, cash management, internal control, and financial reporting that would be installed in all public sector entities.

In January 1986, the CG presented a proposal of the new system – called SAFCO[95] -- to the President and key economic ministers, and they reacted positively. In May 1987, the World Bank, the IDB, USAID and UNDP approved approximately $10 million of funding (about half as grants and the other half lending at concessionary interest rates) to support the development and implementation of SAFCO. An additional $700,000 was provided by another World Bank project in 1988, with the objective of incorporating wage management into the SAFCO plan.

The SAFCO proposal contained one of the most advanced systems of financial administration and control in Latin America. It combined traditional management control systems focused on planning and budgeting, with a modern decentralized, results-based oversight philosophy. The dominant presence of Sánchez de Lozada (a policy entrepreneur with unusually strong international connections[96]) and public management specialists from the United States injected ideas drawn from experiments underway in

[95] *Sistema de Administración Financiera y Control*.
[96] Sánchez de Lozada had been a student and professor at Oxford University and maintained contact with people there. He had also lived and worked for many years in the United States; in fact, Bolivians often teased him about his strong American accent when he spoke in Spanish.

some OECD countries in the 1980s, to find new ways to organize the public administration and improve public sector performance and accountability. The SAFCO law contains remarkably similar language to that of New Zealand's "core public sector reform", which focused on: "clear objectives -- based on specification of objectives, and the interventions that are needed to achieve those objectives; *clear relationships* – between all players in the public management system, and in particular between Ministers and chief executives; *managers' freedom to manage* - in exchange for *accountability* for decisions, and *transparency* about those decisions"[97]

SAFCO explicitly stated that the CGR "will exercise ex-post external audits with operational, technical, and administrative autonomy" (Law 1178, Article 41), and it mandated that the CGR must transfer to the Executive all its other functions that did not correspond to a Supreme Audit Institution (Law 1178, Article 45). This law, sponsored by the CG himself, would seem to fly in the face of the theory advanced by some academics whereby public managers always seek to maximize their agency's size and scope of action (Tullock 1965, Niskanen 1971). Instead, the elimination of tasks that no longer fit with the CGR's newly defined central mission (overseeing public agencies, specifically the efficiency with which they spent public funds and the results obtained) was key to strengthening what Selznick (1966) referred to as the internal aspect of autonomy, which Wilson (1989) describes as "identity or mission – a widely shared and approved understanding of the central tasks of the agency" (182). By shedding tasks extraneous to the CGR's mission, Sánchez de Lozada sought to focus all resources on the agency's core purpose.

[97] OECD Public Management Developments in New Zealand: Update 2000. http://www.oecd.org/puma/country/Surveys2000/surv2000nz.htm#A

Pre-approval of government expenditures as well as the CGR's involvement in practically all areas of public administration had resulted in a bloated, extremely corrupt, and weakened agency that was highly attractive as a target of political interference. The agency's broad range of activities also offered ample opportunity for the regulated group (public employees) to "capture" CGR employees and avoid strict oversight. Sánchez de Lozada and his team had seen the damage that an excessively long list of responsibilities did to the organization, and they were not about to let that mistake happen again. As Wilson observes, "when something goes badly wrong at a high political cost the incident enters the agency's memory as a legendary horror story. A great deal of…time and energy…is devoted to creating mechanisms designed to insure that the horror never recurs" (Wilson 1989, 191-92).

To get the program off the ground, the government appointed a SAFCO Council (CONSAFCO, composed of the Ministers of Planning, Finance, and Taxation, the CG, and other members approved by the World Bank) to oversee implementation of the reform. A SAFCO Executive Secretariat was created to take charge of the day-to-day project management. Once the new systems had been designed and approved by the executive and the donors (which they were by late 1987), the most basic requirement was to pass the legislation that would allow the government to implement the new approach. Apparently, all the conditions for a rapid approval of the legislation were there: professed support by top-level government officials and a president with enormous authority over Congress; strong reform leadership by CONSAFCO and the Executive Secretariat; repeated manifestations of enthusiasm from donors; intense assistance by foreign experts working closely with the government to design the new law; and timely disbursements of international funds to the CGR between 1987 and 1989.

Despite all these factors, President Paz did not present the SAFCO proposal to Congress until December 1988 (one year after it was ready for legislative review and eight months before the end of Paz's term). The Congressional committees that reviewed the bill recommended its passage in January 1989, but SAFCO was not passed into law until July 1990, nearly one year into the term of Paz's successor, President Jaime Paz Zamora. By 1999, SAFCO was still far from being fully operational. A 1999 World Bank evaluation of the project's impact found that "only three of SAFCO's seven [sic] systems are operating at acceptable levels, but even these three systems cannot be fully enforced in case of conflict because of institutional weaknesses and corruption in the judicial system. Consequently, the…SAFCO law is still 'on the books' and toothless" (15).

Financial. The CGR's financial autonomy has always been its weak point, given Bolivia's persistent lack of a binding budget agreement.[98] Autonomy violation in the financial sphere can take place both in budget formulation and in the actual disbursement of resources. In Bolivia, the budget process is one more mechanism for maintaining governability pacts. The formal budget is not a reliable indication of how public money will actually be distributed and spent; frequent reallocations of budgeted money occur during the fiscal year, which "allows the government to use budgets as a flexible means to accommodate shifting preferences of coalition partners and interest groups" (World Bank 2000, 32). For example, a comparison of approved budget versus actual resources received by central administration agencies in 1995 showed an average deviation of almost 15 percent (World Bank 2000).[99]

[98] See World Bank (2000) for an in-depth examination of the causes of informality in Bolivia's public expenditure management.
[99] In other words, agencies received on average 15 percent more or 15 percent less than the amount they had been assigned in the national budget.

Article 41 of the SAFCO law grants the CGR considerable financial autonomy, authorizing the CGR to formulate its budget and forbidding the Ministry of Finance to modify it in any way. However, the agency's budget is still subject to congressional approval. Article 41 also mandates that the Ministry of Finance's Treasury Department must disburse the approved allocation according to the timetables developed by the CGR itself. Despite these formal rules, there is evidence that the CGR has been affected by Ministry of Finance interference in releasing funds. Indeed, the 1995 budget data show that in that year the CGR received 14.6 percent less money than it was supposed to according to its approved budget.

In an interview, Antonio Sánchez de Lozada said that this never happened while he was CG. He enjoyed strong support from the President, who in turn exercised enormous influence over Congress and was thus able to ensure that the CGR received the budget allocation it requested. He also had close ties to the Ministers of Finance and Planning: Minister of Finance Juan Cariaga was a businessman and a close colleague of Sánchez de Lozada, and the Minister of Planning was his brother, Gonzalo Sánchez de Lozada. In any case, the CG felt that he had an effective instrument at his disposal that he could use to exert pressure on the Executive: "if the Ministry of Finance had interfered with my budget, I would have audited them to death"[100]

Winning back public confidence: the re-creation of the Superintendencia de Bancos y Entidades Financieras The growth of Bolivia's banking sector stopped abruptly in the early 1980s. The shrinking economy, the government-imposed "dedollarization" scheme whereby borrowers could pay back their dollar-denominated loans in (highly overvalued) Bolivian pesos (thus imposing a high cost on banks), and hyperinflation all weakened the financial sector. The banking industry was characterized by "shallowness [low ratio of bank deposits to GDP], high real interest rates, insufficient credit to the productive sectors, and overdimensioning (both in terms of personnel and branches)" (World Bank 1988, 6). Between 1981 and 1985, total deposits fell by about 90 percent; during the same period, the share of total credit going to the public sector more than doubled, from 35 percent to almost 75 percent (World Bank 1988).

By 1985, most of the country's banks[101] were in serious trouble. Bankers supported D.S. 21060, which liberalized interest rates, restored dollar assets, and helped raise depositor confidence which led to an increase in deposits (though most continued to be in dollars rather than pesos). A combination of factors (maintenance of artificially low interest rates during the first half of the 1980s; banks' liquidity needs; depositors' lack of confidence in banks' soundness) led to very high interest rates after D.S. 21060's implementation, hindering the resumption of private economic activity.

In July 1986, economist Javier Nogales was chosen as the president of the Central Bank. Nogales was a technocrat who had been on the staff of the World Bank in Washington for a number of years; the Bolivian government asked him to leave Washington and return to Bolivia to help rescue his country from economic disaster. Nogales and other members of Paz's economic team recognized the importance of stronger banking and financial entity supervision to put the financial sector back in order. As Central Bank president, Nogales did not have time to pay much attention to the *Departamento de Fiscalización* (the banking inspection department that was created when the former Banking

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[100] Interview, La Paz, 8 February 2000.

Superintendency was merged into the Central Bank in 1970). To send a message that banks were a priority for the new government, Nogales thought it would be wise to re-establish a separate Banking Superintendency. The economic ministers agreed, as did the IFIs.

As soon as Nogales came to the Central Bank, the IFIs began providing technical assistance financed with project preparation funds, and events moved rapidly. In February 1987 President Paz signed a decree enabling the restructuring of the Central Bank. In May 1987 the World Bank committed just over $1 million (in addition to a grant from USAID) for the re-establishment of an independent Banking Superintendency. In July 1987 Paz issued D.S. 21660 (*Reactivación Económica*) which mandates the re-creation of an autonomous Banking Superintendency (Article 89) within the next six months.

According to the Bolivian Constitution, the President had to appoint a bank superintendent from a list of three names proposed by the Senate. As part of the *Pacto por la Democracia*, Paz allowed Banzer to put the name of his preferred candidate on the list, with the assurance that Paz would select that individual.[102] Banzer chose Luis del Río, national treasurer for the ADN and a businessman from the eastern economic center of Santa Cruz. In November 1987, del Río was sworn in as Superintendent.

Like Sánchez de Lozada in the CGR, del Río faced the challenge of re-creating an autonomous agency. In his case, it was somewhat easier because the oversight department from the Central Bank was eliminated and del Río could start anew, thus avoiding resistance from employees accustomed to the old ways. However, he faced a suspicious and

[101] In November 1987, Bolivia's banking sector consisted of 13 private commercial banks (10 domestic, three foreign), three private development banks, the Central Bank, and three state-owned development banks (World Bank 1988).
[102] Although the creation of the three-person list (*terna*) is supposed to rest in the hands of the Senate, I was told repeatedly in interviews that in reality, strong Presidents such as Paz play an important role in ensuring that their preferred candidate is included in the list.

tremendously weak banking sector on the brink of collapse, and had to tread carefully to avoid setting off a banking panic.

Personnel. Del Río's first step was to hire the personnel he needed to carry out the new Superintendency's mission. He published job announcements in several newspapers, and received around 800 CVs. Based on a review of their qualifications, he selected 150 people and enrolled them in a course for three months (during this time the applicants received a small stipend). After the three-month course, the candidates took an examination and 66 were finally selected. Del Río admits that he received many telephone calls from politicians who wanted him to hire certain people; he told them, "Have the person show up on such-and-such a date and take the entrance exam. If they pass, they're hired. If not, no."[103]

Del Río sought young people with a university degree in economics, finance, or financial audit, preferably with training abroad, who had not worked in either banking or the public sector in Bolivia. He wanted to avoid hiring people who had learned the "bad habits" of Bolivian public employment. In May 1989, President Paz signed a decree approving the operating regulations of the *Superintendencia de Bancos y Entidades Financieras* (SBEF), which stated SBEF personnel would be subject to private labor law.

The new Superintendent also appointed a small group, an "equipo de confianza". Their responsibilities were not clearly defined, but all were members of the ADN.[104]

Bank inspectors are prone to being "captured" by the banks they oversee, since much of their work is done on-site in the banks themselves, working with the very people they are supposed to be supervising and out of sight of their employer (World Bank 2000).

[103] Interview, Santa Cruz, 21 February 2000.
[104] Interview, La Paz, 24 August 1999.

Del Río implemented several measures to try to prevent this problem. First, he assigned them excellent salaries, at approximately the same level as the private sector. Second, he took advantage of the presence of foreign advisers to expose his new inspectors to experienced professionals who took this job seriously. The first round of bank inspections after the SBEF was re-created was conducted in 1988 by foreign consultants from a major international consulting firm, accompanied by the new SBEF employees. Third, he ensured that the inspectors would go to the best hotels when they traveled to do inspections outside La Paz. In the past, bank supervisors had been tempted by bribes from bankers who would offer them per diems in exchange for a lenient inspection report; del Río made sure they had enough money to be comfortable while traveling. Fourth, he tried to create a sense of unity among the inspectors by providing them with fashionable "uniforms" (designer suits). Since the bank regulators had to work with well-paid employees of the financial sector, del Río "wanted them to look nice so that they could command respect from the bankers and would be well-received during the inspections."[105]

In essence, del Río's first step to prevent the regulatory agency's employees from being "captured" by the regulated group was to invest his new employees with pride in their jobs and to create a sense of professionalism and teamwork among them, something they would not want to lose by breaking the organization's rules. As one official who entered the SBEF in the first round of recruitment describes it, "We were sent to training courses abroad. We had foreign professors train us in methodology, legislation… We were all young, we were eager to learn, there were not very many of us and the agency was not bureaucratic. We had access to the most modern supervision techniques and to state-of-the-art computer systems [at a time when few Bolivians had access to information technology].

[105] Interview, Santa Cruz, 21 February 2000.

We didn't want to mess up."[106] Del Río supports this view: "I never had to punish anyone for getting involved in corruption. They knew I would never permit that, and they were very careful."[107]

Technical. As discussed above, an oversight agency's technical autonomy can be violated by political interference in the development and application of rules, and/or by resistance from the regulated sector itself. When banking supervision was carried out by the Central Bank, both types of interference were evident. The politicized Central Bank made sure that inspectors focused mainly on formal controls and banks' compliance with Central Bank regulations; analysis of the financial institution's overall health, including loan portfolio quality and operating efficiency, were ignored. Also, the Central Bank's supervision department was staffed with unqualified employees hired because of their political affiliation, who lacked expertise in financial sector regulation. According to a former employee of the Central Bank's supervision department, "the bankers used to laugh at us when we would go to an inspection. They had no respect for us. At the Central Bank, too, the supervision department had low priority."[108]

By the time the new SBEF was created, the threat to technical autonomy from the banking sector had diminished. According to many SBEF officials, the banking system was so badly broken after the economic crisis of the 1980s that even the bankers recognized that they needed to improve if they were ever to become competitive. As in 1928, most of the banking sector saw the re-creation of an autonomous, technically competent SBEF as potentially beneficial to them. Del Río recognized the weakness of the financial sector he was charged with overseeing, and he decided that the best way to win the cooperation of the

[106] Interview, La Paz, 14 February 2000.
[107] Interview, Santa Cruz, 21 February 2000.

banks was to “be flexible: I had to use a mixture of carrot and stick. If I were too inflexible, I would have destroyed the whole system… I always managed to reach agreements with the bankers.”[109]

Political interference in the SBEF’s technical decisions was still a danger. The main opposition came from members of Congress, some of whom are also bankers and many of whom depended on lax banking regulations to finance their electoral campaigns and other projects. Strong pressure from the IFIs as well as a firm commitment from Paz’s economic team overcame congressional resistance to SBEF creation, though as I will show in Chapter 5 politicians made ongoing attempts to diminish the agency’s technical autonomy after the SBEF was already established.

Financial. During the SBEF’s first 18 months, it was funded by many sources of international aid (World Bank, IMF, IDB, USAID, GTZ,[110] and the Swiss government). It received around $3 million from foreign sources, as well as approximately $2.5 million in local funds.[111]

Before Paz left office, he complied with one of the World Bank’s Financial Sector Adjustment Credit’s conditionalities for loan disbursement by approving the 1989 operating regulations that returned the SBEF’s system of financing to the original 1928 law, making it a self-funding entity based on quotas levied against the banks.[112] The Statute required the SBEF to submit its budget to the Ministry of Finance for inclusion in the national budget, to be approved by Congress. Although the SBEF is under the “tuition” of the Ministry of

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108 Interview, La Paz, 28 July 1999.
109 Interview, Santa Cruz, 21 February 2000.
110 German bi-lateral aid agency.
111 Most international aid agencies require the recipient government to contribute some of its own money to the project.
112 .01 percent of each bank’s total assets, including the Central Bank (D.S. 22203, Article 1).

Finance, there is no mention of a role for the Ministry of Finance to approve the SBEF's budget.

According to del Río, financial autonomy was one of the most important factors that allowed him to reconstruct a well-functioning agency. Based on his experience in the Bolivian public sector, the Treasury Department would have interfered with salary payments and other disbursements: "if the SBEF had to depend on the TGN [Treasury], it would not have been a good SBEF."[113]

Summary Important changes took place in Bolivia between 1928 and the 1980s, between the first and second periods of autonomous oversight agency creation analyzed in this chapter. The changes can be grouped into two broad categories: transformation of external actors' relationship with Bolivia; and institutional reforms within Bolivia that affected the relationship between the Executive and domestic actors. Both categories of change had an impact on the process of autonomous oversight agency creation.

<u>The continued impact of external actors</u>. In the 1980s, Bolivia was still one of the region's poorest countries and very much dependent on external resources to supplement public spending. As in the 1920s, external actors were also still interested in providing funds to Bolivia. The level of external debt it assumed in the 1970s was high enough to make it an important borrower for private commercial banks. Moreover, Bolivia's geopolitical position made it a key actor in the Reagan administration's fight against drugs. Bolivia was the region's largest producer of cocaine in the 1980s, and the U.S. government was concerned about the country's persistent political instability, particularly the presence of the radical left.

On the other hand, the external actors with whom Bolivia was dealing had changed since 1928. The emergence of the "aid industry" in the second half of the 20th century altered the face of the negotiators on the other side of the bargaining table. Private foreign investment in Bolivia ceased when the government defaulted on its loans during the Depression, and it did not recover to significant levels until the 1970s. U.S. government aid, on the other hand, began flowing to Bolivia as early as 1942 and continued as the U.S. government expanded its program to destroy coca crops. Moreover, IFIs became very active in Bolivia to support Paz Estenssoro's NPE in the mid-1980s.

The objectives and operating methods of external actors in the 1980s were quite different than those of the private lenders who constituted the country's source of foreign revenues in the 1920s. Given that their main commitment was to development rather than profit-making, IFIs and bilateral donors were arguably much more concerned with the way in which funds were used, and developed mechanisms to allow them to scrutinize closely the management of foreign-funded programs and agencies (including insulated PIUs, frequent supervision missions to the country, and the use of donor-paid foreign consultants in recipient agencies). Also, in the Bolivian case at least, IFIs tended to be more rigorous in enforcing conditionalities to "buy" reform from the government in exchange for the release of funds than private investment banks had been in the 1920s.[114]

In the cases of both the CGR (1982) and the SBEF (1987), the role of external actors in the re-establishment of agency autonomy was crucial. This time, however, the transfer of ideas on how to organize government oversight functions was not so much a one-way process of external actors trying to transplant a model from the industrialized world to

[113] Interview, Santa Cruz, 21 February 2000.

Bolivia. In the 1980s, Bolivian elites themselves had clear opinions and preferences about which foreign models they wanted to emulate.

Both the CGR and the SBEF were re-created under the leadership of foreign-trained Bolivian technocrats who initially developed the idea of autonomization, basing their thinking on best practices from other countries (Sánchez de Lozada on the New Zealand, British, and U.S. models of public financial management, audit, and managerial accountability; Nogales on the Chilean experience with banking supervision). Both men were members of Bolivia's politico-economic elite, had lived abroad for many years and were fluent in the language of international aid, and thus able to initiate direct contact with external actors.[115]

In these instances of re-autonomization, the role of external actors who provided funding was no longer what it was in the 1920s. External actors were no longer the only vehicles for the transfer of foreign ideas to Bolivian officials. Indeed, by the 1980s the Bolivian politico-economic elite was so well-connected internationally that they were often a step ahead of the IFIs.[116]

As in 1928, however, developing the idea was the easiest part of autonomization; the first major difficulties were encountered when reformers had to convince politicians to pass the laws formalizing the agencies' independent status. Did external actors play a crucial role at this stage in the 1980s? Here again, the two-level game framework is useful for analyzing

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[114] In the 1990s there has been growing skepticism about the effectiveness of conditionalities in "buying" reform and in achieving development: see Mosley et al (1991), Burnside and Dollar (1997), and World Bank (1998).

[115] Jim Wesberry, the World Bank official who began the technical assistance program to support the CGR reform, recounted how Antonio Sánchez de Lozada called him on his direct line at the Bank and talked to him about his ideas for the CGR until Wesberry agreed to recommend that the Bank provide support for the proposal (Interview, Washington, DC, 1 March 2000).

[116] The Bolivian approach to autonomization in the 1980s contributed to the World Bank's growing interest in the use of "enclaves" to achieve development goals in key areas. Although the Bank has not made

the factors – including pressure by external actors – that led to the passage of legislation that probably would not have been passed otherwise.

Paz and external actors: Level 1. In August 1985, President Paz launched a dramatic economic reform program without financial support from the international donor community, whose members were initially skeptical of the president's ability to implement the plan.[117] But when they saw Paz's determined approach to reform, donors rewarded his government by renewing lending in 1987.

The World Bank's 1987 Public Financial Management Operation Project to help strengthen the CGR's autonomy contained only two conditions for loan effectiveness:[118] the establishment of CONSAFCO and of the SAFCO Executive Secretariat (which were already essentially in place before loan approval by the World Bank's Board of Directors). Project documents specifically stated the donors' expectation that all funds would be disbursed within two years (quite fast for a technical assistance project). The project leaders also made explicit their expectation that the SAFCO Law would be passed in September 1987, four months after the loan's approval; in fact, the law was not passed until almost three years later. The Bank did not establish passage of the SAFCO Law as a formal condition for loan disbursement, but disbursement was intended to be tied to the government's progress in implementing the law's management systems in public agencies. Neither the World Bank nor the CGR reform team anticipated the political difficulties the SAFCO Law would face: they expected it to pass quickly and easily.

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autonomous agency creation a condition for lending in most of the countries it works with, many Bank staff are recommending the enclave approach in the context of policy dialogue with governments.

[117] No new World Bank or IDB lending operations were initiated in Bolivia between 1980-1985, although small amounts of funds were provided for project preparation at the CGR. The IMF did not disburse any money to Bolivia during this period because of the government's inability to meet loan approval conditions.

The long delay in President Paz's presentation of the SAFCO bill to Congress indicates limited political commitment to in-depth reform in this area, despite his support for specific audits, for example of the Central Bank. Sánchez de Lozada attributes Paz's mixed record in this area to an essential conflict: "the President supported the CGR doing the audits, but he didn't support SAFCO because it threatened the Executive's power. The bill was in Congress in 1989, which was an election year, and none of the parties wanted it to pass because it required transparency and accountability."[119] And indeed, the SAFCO Law was not passed until 1990, the end of the first year of a new administration under President Jaime Paz Zamora. This supports the counterfactual of my first hypothesis: an autonomous oversight agency is less likely to be (re)created when the President is in a weak position at Level II – in this case, President Paz had exhausted his political capital during the fight to implement D.S. 21060, and the MNR faced a tough electoral battle at the time the SAFCO bill went to Congress.

In interviews, I was told repeatedly that the bill ultimately passed because of strong (informal) pressure from donors, including strongly worded implications that further lending would be delayed if passage did not occur. One important piece of supporting evidence for the argument that SAFCO only passed because of outside pressure is the fact that the operating regulations (Normas Básicas) needed to implement seven of the eight SAFCO systems were not passed by the Ministry of Finance for another seven years, indicating widespread resistance to SAFCO enactment by both the Paz Zamora (1989-1993) and Gonzalo Sánchez de Lozada (1993-1997) administrations. As long as the implementing

[118] It set no conditions for disbursement of different tranches, since this was not a structural adjustment loan and was therefore paid out automatically.
[119] Interview, La Paz, 8 February 2000.

regulations were not issued, SAFCO could not be implemented – it only existed on paper: a "law for export".

In the passage of SBEF legislation, external actors played a less prominent, though still important, role. A reformist president (Paz) took the initiative to create the autonomous SBEF under the advice of Nogales in 1986. Still, the fact that IFIs expressed approval of the idea was certainly a positive factor for Paz, who in 1986 was working hard to regain credibility in the eyes of the donors. A World Bank technical assistance project including a component to fund improvements in banking supervision was launched in May 1987; just a few months later the Paz administration issued D.S. 21660 (against considerable resistance by Congress (World Bank 2000)) establishing an independent SBEF. Subsequently, the World Bank and the IDB approved two 1988 adjustment credits, with the condition that the President issue another decree enacting the implementing regulations to make the SBEF operational.

In 1991, the World Bank extended another structural adjustment loan to Bolivia, now under the less-reformist administration of Paz Zamora. As a condition of second tranche disbursement (scheduled for December 1992), Congress was to pass a new banking law. In fact the new law was not passed until April 1993, but this was due mainly to a very full legislative agenda rather than to political resistance to the new law. Members of the international consulting team providing technical assistance to the new SBEF were a prominent presence in the presentation of the bill to Congress, sending the message that the donor community backed banking reform.

Unlike SAFCO, though, my interviews with Bolivian officials and staff of donor agencies familiar with the creation of the SBEF did not support the contention that pressure from external actors *directly* obliged Congress to approve the new legislation consolidating the SBEF's autonomy. Rather, the link appears to be indirect. For example, external actors' provision of on-the-ground support for top SBEF officials in the agency's early stages, before passage of the 1993 banking law, was unarguably an important contributing factor to the agency's remarkably rapid success. Once the banking sector began to improve under agency supervision, it was difficult for legislators to resist passing the new law and consolidating the agency's independent status. As I will show in Chapter 5, external actors did play a crucial role in *sustaining* the SBEF's autonomy a few years after it began functioning.

In the 1980s, the Bolivian government was still in a weak position vis-à-vis external actors (Level 1). First, the suspension of aid during the first half of the decade showed that the IFIs were willing to punish Bolivia for slippage on reform agreements. Since Bolivia expected to need multiple rounds of follow-up financing, the Paz government felt that it could not afford to violate conditionalities for economic reform and risk isolating itself again from the aid community.

Second, the government's reform team was made up of internationally-connected elites (many trained in the U.S.) who had a strong interest in protecting their reputations as "serious reformers" among the staff of multi and bilateral organizations. Many were former employees of multilateral organizations, and hoped to keep their international career options open after their tenure in the Paz administration. This put them under considerable pressure to follow as closely as possible the neo-liberal recipes they knew the IFIs favored.

In fact, Paz's economic team genuinely shared the donors' philosophy about the appropriate measures Bolivia needed to take to stabilize its economy, and even before receiving international aid they had already embarked on a stabilization program whose key components quickly receive the IFIs' approval. In the macroeconomic area, then, Level 1 agreements reflected what external actors wanted and what the Bolivian government was planning to do anyway. Foreign revenues certainly made it easier for the government to comply with Level 1 agreements, but as I will show below, it would not be accurate to claim that the government would not otherwise have carried out these economic reforms.

Institutional reforms and the incentive to delegate. In 1982, Bolivia embarked on its transition to a democratic regime after nearly fifty years of de facto one-party rule (under the MNR) followed by dictatorship. The democracy that was born in 1982 was much different than that of the 1920s, thanks to universal suffrage and the emergence of a multitude of political parties, including powerful regional political groups. If public and political outcry is any measure, elections held after 1982 were much less corrupt than those held in the earlier part of the century, when electoral fraud was routine and well-known.[120]

The rapid increase in the number, size, and organizational strength of domestic actors is one of the most important changes that took place in Bolivia between the 1920s and 1980s. This transformation made it potentially much more challenging for reformers to build coalitions to support the creation of autonomous agencies. Since the 1952 Revolution, the mass mobilization of popular sectors has constrained the government's repeated attempts to impose decisions the way it did during the oligarchy period prior to the 1930s. During the 1970s and early 1980s, Bolivian civil society increasingly organized into politically active, class-based organizations (COB, CEPB, peasant *sindicatos*), as well as regional economic and political interest groups. The difficulty of ruling by decree was best illustrated by Siles' disastrous presidency (1982-85), complicated by the fact that Siles was "unwilling to use force against the opposition" (Conaghan and Malloy 1994, 110). In contrast, President

[120] Before the 1993 presidential elections all the political parties undersigned the creation of an apolitical electoral court, which would oversee the electoral process and ensure its fairness. Today, Bolivia's *Corte*

Paz's ability to push through his draconian stabilization package rested on his willingness to use authoritarian methods to bolster his strength in negotiations with domestic actors.

Paz and domestic actors: Level 2. Like Hernando Siles in 1928, Paz came to office with a rather weak mandate. First, he had not won the 1985 election and had to cobble together support from smaller parties in Congress so that he could be elected president. Second, in order to govern he relied on the *Pacto por la Democracia* signed with the ADN: without that support, it is unlikely that his reform measures would have been implemented. Third, the COB also presented a serious challenge to his presidency: organized labor had acquired formidable powers and contributed to the downfall several Bolivian presidents. Finally, Paz presided over an enormous, unwieldy bureaucracy, "disaggregated into petty fiefdoms headed by personalistic…factions" (Malloy and Gamarra 1988, 218) and practically impenetrable to reformers.[121]

Paz acted quickly to assume emergency powers and issue D.S. 21060. The pact with ADN won him congressional approval to extend the state of siege beyond the 90-day limit established in the Constitution. In essence, Paz found an opportunity where he could take advantage of an exhausted, frightened, and desperate population to cast himself in a strong position vis-à-vis Congress and other potential opposition (especially the COB) by assuming extraordinary powers. At that particular moment in Bolivia, resolving the economic crisis took priority over everything else. Paz's ways were authoritarian, but his reform package met three primary concerns of many Bolivians: it re-established some sense of order in the midst of chaos; it had an immediate impact on the hyperinflation that was hurting all citizens but especially the poor; and it restored the confidence of external actors.

Nacional Electoral is a very successful example of a highly respected and politically independent electoral body.

Paz did not encounter significant resistance from domestic actors when he used his decree authority to create the SBEF (D.S. 21660) and make it operational. This supports my first hypothesis: Paz's strong Level II position enabled him to impose the Level I agreements he had made with IFIs on domestic actors. However, the pact he had signed with Banzer meant that he had to include the SBEF in his power-sharing deal with the ADN, allowing Banzer to select the new Superintendent (who in turn provided employment for some key ADN figures in "*puestos de confianza*", as well as making other concessions which I will discuss later in this chapter).

Again, the re-establishment of the CGR's autonomy through passage of the SAFCO law is a different story. Although Paz professed support for internal strengthening of the CGR as an organization, he did not support structural reforms that would give the agency more power and independence from the Executive. On one hand, the president recognized that an effective audit agency was a key component in ensuring prudent use of government funds after the economy had been stabilized. With tight fiscal constraints, Paz wanted to make sure that improved financial management systems would contribute to the development of a coherent financial decision-making, control, and restructuring program for Bolivia. Improving oversight of government spending was an important measure for achieving this goal. On the other hand, Paz resisted allowing the CGR to recover its autonomy because he perceived this as a threat to the Executive's administrative power. In essence, he wanted a well-functioning CGR staffed with technically qualified auditors, but did not want the Executive to lose "veto power" over the organization's technical decisions.

[121] For example, to apply the measures in D.S.21060, Paz hired highly paid consultants to design and implement the new macroeconomic policies.

Once again, the proposal to increase the CGR's technical autonomy was administratively and politically unviable in the Bolivian context.

The CGR reform encountered serious resistance from throughout the political class. A stronger, incorruptible CGR would have a direct impact on politicians' ability to distribute patronage. For example, one of the SAFCO systems required that personnel selection be transparent and merit-based, thus endangering the almost universal practice of job distribution by "direct invitation". Another SAFCO system set up procurement rules and mandated that managers be prepared to justify their selection when awarding public contracts. These rules would tie politicians' hands in their efforts to win supporters, since the ability to secure and allocate employment, favors, subsidies, etc. on a discretionary basis is key to political survival in Bolivia. This obstacle was especially serious for SAFCO's passage because it was presented to Congress in an election year: congressmen who voted for SAFCO in 1989 would have been remembered by their parties and would almost certainly have been punished.

The CGR case shows the counterfactual of Hypothesis 2 set forth in Chapter 3. Paz's position vis-à-vis domestic actors was too weak to impose passage of a law that would affect everyone involved in Bolivian politics and government, from high-level party bosses to the lowest-level party member trying to get a job in a public agency. Paz used his inability to impose SAFCO on domestic actors in order to win concessions at Level 1, ensuring that the World Bank and other members of the donor community continued to lend money for the CGR and broader administrative reforms even though the SAFCO law was not passed according to the donors' expectations.

My research shows that it is too simplistic to define the Executive as "strong" or "weak" at Level 2. Determining the value of the variable "executive's strength vis-à-vis domestic actors" is not merely a function of which president is in power, it also depends on which domestic actors and which reform area. In Bolivia, the Paz administration constructed what has proven to be a lasting consensus among political parties and other domestic actors to protect macroeconomic management from partisan influence (for example, by creating an autonomous SBEF). However, this consensus does not extend to other areas such as administrative reform: "the realm within which technocrats can act autonomously from political influence are always defined by politicians…[P]atronage opportunities are private goods, which parties have little incentive to give up" (World Bank 2000, 50). A truly autonomous and empowered CGR would considerably reduce politicians' patronage opportunities, so there was little incentive either for Paz himself or for other politicians to support the reform.

Threats to autonomy: determining strength at Level 2. Interestingly, the creation of the SBEF did not encounter strong opposition from the banking sector, although the industry was small and well-organized, and therefore according to standard theory should have been well-placed to fight against the new agency's creation. The officials who participated in designing the new agency attribute the industry's cooperation to two factors. First, the industry was extremely weak when the SBEF was created in 1987, and its leaders recognized that the restoration of depositor confidence was an absolute necessity in order to avoid a prolonged banking crisis. Most of the industry viewed the creation of an independent SBEF as an opportunity to make their banks more profitable.

Second, the appointment of the first Superintendent, Luis del Río, was applauded by the industry. Del Río cultivated the bankers' receptive attitude: flexibility and dialogue were the hallmarks of his approach to enforcement of banking regulations. According to one of the directors of the Bolivian bankers' association, "We knew that

Luis del Río would allow some of the traditional banking practices to continue. We knew we could talk to him."[122]

While the banking industry supported the SBEF, some politicians did not. And yet, they did not want to jeopardize support from external actors by refusing to allow the agency to be created. They chose a less confrontational tactic: after the SBEF was created, politicians continued to use the banking industry to finance their political activities. Interviewees suggested that del Río turned a blind eye to these activities: "Del Río was a political person. He was very clever in managing the situation, he was prudent and flexible…He really improved the supervision system, but he didn't apply the law 100 percent…. He 'closed one eye' so he wouldn't see some of their activities."[123] Another interviewee referred to del Río's position as ADN treasurer: "He definitely had some commitments to his party: he channeled 'contributions' from the bankers to his party's electoral campaign fund."[124]

There appears to be general agreement among observers familiar with del Río's term as Superintendent that he did a good job at carving out a space for the SBEF's autonomy, but he could only succeed by making concessions to political parties who were accustomed to benefiting from lax banking supervision practices. As long as this behavior was permitted, politicians showed tacit support for an autonomous SBEF. The evidence presented in this chapter shows that there was not strong opposition by either of the groups that posed a potential threat to the creation of an autonomous SBEF (bankers and politicians). The low level of resistance allowed for a smooth agency creation process, although the first Superintendent's political connections left a space for some

[122] Interview, La Paz, 16 February 2000.
[123] Interview, La Paz, 24 August 1999.

degree of on-going interference by politicians and industry members with close ties to politics (though this interference was certainly lower than before the SBEF was re-created).

In contrast, the CGR did encounter serious resistance from both politicians and the regulated group (public employees). The CGR case illustrates the impact of institutional incentives on autonomous agency creation: beginning in 1985, the routine use of formalized political pacts has impeded autonomization of agencies that would directly affect important sources of patronage. The patron-client networks that tie together Bolivia's fragile governability act collectively to prevent the creation of autonomous oversight agencies in certain areas.[125] In the CGR case, the agency was ultimately vested with formal autonomy, but its real autonomy is limited.

Opposition by the regulated group alone would not have been enough to stall SAFCO's passage. By the mid-1980s, bureaucrats were considerably weaker than their counterparts in the 1920s: there was extremely high turnover among public employees, and they were a much bigger group (and thus harder to organize). Their union (the left's solution to the collective action problem) had been dismantled.

Politicians, on the other hand, gained power in the new democracy. The fragmentation of the party system is reinforced by the rules of the Bolivian electoral system. The large number of parties and the fact that there are no run-off elections make it difficult for one presidential candidate to win a majority of votes. When this happens, Bolivia's electoral rules call for Congress to elect the president from among the top two

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[124] Interview, La Paz, 24 August 1999.
[125] The CGR is the most infamous example, but more recent examples include the Civil Service Superintendency (passed into law in 1999 but still not operational) and the National Roads Authority. I will discuss these cases in more detail in Chapter 6.

candidates.[126] This in turn encourages larger parties to negotiate with smaller ones in search of potential coalition partners, allowing smaller parties to survive whereas in another context they might have no hope of sharing power and would be marginalized.

In 1987, politicians were not about to give up their recently acquired power, after being shut out of the state apparatus for years under the personalistic dictatorships of Banzer and the generals who followed him. The passage of SAFCO and the development of a strong oversight role for the CGR represented a threat to this newly recovered power. Politicians from all parties (including President Paz himself) joined together with the bureaucratic elite to resist the reform.

Their opposition kept SAFCO from being passed for three years, until pressure by external actors became too strong. However, as I will show in subsequent chapters, since SAFCO's passage politicians and elite bureaucrats have found new ways to thwart its implementation and interfere with the CGR's effective performance of its supervisory role in many parts of the public administration. The success of these strategies relies on the tightly woven connections between politicians and the public employees who owe them their jobs. In general, the more politicized the public agency the less progress it has made in implementing and enforcing SAFCO systems. Practically speaking, the CGR has limited recourse when an agency refuses to provide the information it needs to conduct an audit.

Conclusion The two-level game framework helps to explain four instances of autonomous oversight agency creation. Game theoretic explanations are less helpful for explaining how autonomous oversight agencies, once created, ***survive*** in a highly politicized bureaucracy. I discussed in this chapter how the two agencies had their

[126] Congress elected one of the top three candidates until the constitutional reform of 1995.

autonomy violated only two years after their creation in 1928. Since their re-establishment in the 1980s, however, they have evolved quite differently from the first time. In the next chapter, I will identify factors that explain the sustainability of autonomous oversight agencies after they are created.

Chapter 5. Sustaining autonomy: organizations matter

Introduction

In the last chapter, I studied four instances of autonomous oversight agency creation with different degrees of support from three sources: external actors, domestic politicians, and domestic interest groups. The 1928 creation experiences of both the SBEF and the CGR succeeded primarily because of external actor support (and banking industry backing in the case of the SBEF), which overcame the strong opposition they faced from Bolivian politicians. Soon after creation, however, external financing was withdrawn and Bolivian politicians and interest groups could violate the agencies' autonomy without risking the loss of valuable resources. In the 1980s, the creation experiences were mixed. The SBEF enjoyed varying degrees of support from all three sources in 1987, while support for re-creating the CGR's autonomy was limited to external actors and a small group of Bolivian technocrats.

Unlike the experience in the early 20th century, both agencies have retained considerable autonomy since their re-creation. How can we account for this sustained autonomy? In contrast to the first creation period, this time external actors have remained in the picture, and their influence in Bolivian politics has arguably increased in the past fifteen years. But does the on-going presence of external actors alone explain the government's decision to continue to insulate the SBEF and the CGR? Or, as has occurred in many other cases of foreign development aid, have the agencies become politicized as external actors closed their eyes to the agencies' evolution after the government satisfied conditionalities requiring passage of the original enabling legislation? Did domestic politicians and interest groups who supported the agencies' creation remain vigilant against attempts to violate autonomy? What about those politicians and interest groups who opposed agency creation: did they continue to try to limit autonomy after the agencies had been established?

And what about the agencies themselves? The creation of a new organization thrusts an important new actor onto the scene, leading us to ask: once created, what role does the organization itself play in sustaining its own autonomy? Brazil's *Banco Nacional de Desenvolvimento Econômico* (BNDE) provides an example of how an autonomous government agency, once created, can exert considerable influence in the consolidation of its own independent status.

<u>Carving a space for autonomy: the case of the BNDE</u>.[127] In 1952, the Brazilian Congress passed legislation presented by President Getulio Vargas, to create the BNDE. The Bank was charged with providing technical expertise and financial backing for state investment projects. Although the BNDE was placed under the formal authority of the Ministry of Finance, the law granted the Bank broad autonomy to act on behalf of the government in developing priority sectors of the national economy. The Brazilian president was granted the power to appoint the BNDE's top administrators. Within the BNDE, the top administrators had the freedom to design their own personnel system, including special hiring and promotion criteria as well as a separate salary scale.

At the creation stage, President Vargas indicated a strong commitment to establishing the BNDE as a truly independent development bank: he supported the separation of the BNDE from the rest of the bureaucracy, and his first appointments to the BNDE's top posts were based on technical criteria. When it came time to appoint the supervising director, however, Vargas chose a close personal friend – José Soares Maciel

[127] This account of the BNDE draws heavily on Willis (1996).

Filho -- who had no professional training in any areas related to the BNDE's mission, showing that "he valued loyalty over expertise" (Willis 1996, 636).

Maciel Filho was immediately thrown into conflict with the other BNDE directors over personnel selection. One of the directors resigned almost immediately, but the other two stayed on long enough to influence hiring decisions. As supervising director, Maciel Filho had a high level of control over personnel management. The other directors recognized that they could not directly reject Maciel Filho's decisions; instead, "they adopted two clever strategies in an attempt to circumvent Maciel Filho and advance their goal of professionalizing the BNDE" (Willis 1996, 638). First, they recruited technically competent professionals who were also sympathetic to Maciel Filho's nationalist political affiliation. Second, they hired civil servants and academics who had already shown excellent technical performance. Once these individuals were employed by the BNDE, the directors supported their professional development by sending them to overseas training courses and international conferences, where they would come in contact with well-known experts who promoted the most current theories of economic development.

Under the leadership of the technically-focused directors, the BNDE also "formed a series of co-operative arrangements with other organizations, Brazilian and foreign, for training and research… The Joint BNDE-ECLA Study Group operated for over ten years. During that time it made several contributions to building the administrative capacity of the BNDE" (Willis 1996, 639).

Another area where the BNDE sought to maximize its own independence was in the allocation of loans. Willis (1996) identifies several factors that contribute to this achievement. First, the existence of explicit investment plans containing pre-defined projects developed by the Executive "provided a kind of buffer for the Bank from political requests for financing" (641), because they made public the Bank's lending priorities. Second, vaguely-defined enabling legislation allowed top management to "expan[d] their independence through the development of criteria for project selection, work routines, and rules for interacting with clients… Bank bureaucrats proved highly successful in developing and applying technical criteria in the evaluation of loan decisions" (642).

Not surprisingly, BNDE officials received many enquiries from private sector firms wanting to obtain financing for projects that did not meet the Bank's requirements. The business elites who owned these firms "expected the government to subsidize their investments with low interest loans distributed on the basis of personal and patronage criteria… In the view of Bank directors, these prospective borrowers did not understand the difference between a credit and a subsidy" (Willis 1996, 647). The Bank's response to these pressures was to try to educate potential clients about its lending practices: "Bank officials were determined to educate all borrowers, whether private or public, in the technical requirements of project analysis" (Willis 1996, 647). For example, in the 1950s the BNDE published a pamphlet explaining the criteria used in analyzing loan requests.

Finally, the BNDE was particularly intent on increasing its independence by building up the capacity of its staff: "the deliberate strategy of building a unique expertise within the Bank as a source of independence was helped by the lack of such expert knowledge elsewhere in the public or private sectors. This virtual monopoly over expertise meant that higher political authorities could not effectively monitor the Bank, nor could private and public sector clients challenge its decisions on technical grounds" (Willis 1996, 660).

<u>An organizational approach to the autonomy debate</u>. Since the 1980s, diverse studies have contributed to the body of knowledge on what factors motivate politicians to

delegate tasks such as policymaking, program implementation, and regulatory functions to autonomous agencies. As rational choice theorists have come to dominate the field of political science in the U.S., they have driven the discussion of agency autonomy to concentrate primarily on politicians' self-interested calculations in *creating* these agencies, at the expense of looking at how these agencies evolve *after* creation. Thus, in recent years there has been strikingly little attention paid to issues surrounding the sustainability of agency autonomy.

The present situation stands in stark contrast to the 1960s and 1970s and even earlier, when some excellent organizationally-focused case studies looked at the relationship between politics and public organizations (Selznick 1949, Grindle 1977, Cleaves 1974, Cleaves and Scurrah 1980, Wilson et al 1980). In developing countries, the question of what happens to an autonomous agency after its creation is particularly salient. Evaluations of state reform efforts are filled with stories of agencies that enjoyed the support of a powerful president and flourished briefly under the direction of a charismatic leader, only to disintegrate as soon as these people left office or could no longer spend the political capital required to support the agency.

The short lifespans of many autonomous agencies in the developing world makes these an interesting object of analysis. There are many examples of frustrated attempts to insulate agencies from political interference, especially Type II agencies charged with "protecting the government from itself" (see Chapter 3). There are any number of reasons why autonomy is *not* sustained. But what about those cases where an agency's autonomy *does* last beyond the mandate of a particular president or agency leader? We know relatively little about the factors that lead to successful long-term insulation. I contend that an agency-focused study of the SBEF and the CGR (both of which have managed to retain some degree of autonomy despite being highly attractive targets of political interference) contributes new insights about the conditions under which autonomy lasts, and helps us to identify salient *organizational factors* which may help explain the agency's role in the sustainability of autonomy.

In section two of this chapter, I discuss political explanations for why some agencies remain autonomous while others do not. I highlight some of the shortcomings of politically centered arguments, and make a case for the importance of taking organizational factors into account to develop a more complete explanation. In section three, I introduce the concept of "agency strategies" for protecting the agency's independence from outside interference. In section four, I provide a top-down sketch of the SBEF and the CGR since 1987 and 1982, respectively, to give the reader an understanding of what these agencies actually do. Section five looks at the way each agency's "critical task" has evolved since their re-creation, and examines how the definition of the critical task influences the agency's strategy. Finally, in section six I analyze the manifestations of each agency's strategy along three dimensions: clarity and consensus around the agency's mandate; value of agency expertise; and development of a quantifiable performance measure by which outsiders can assess the agency's performance.

Sustaining agency autonomy: political and organizational explanations

Intuitively, it makes sense that the long-term sustainability of agency autonomy depends on the construction of a support coalition, just as the creation process does. But as I will show in this chapter, the respective weights of the actors I identified in previous chapters as key players in the creation coalition shift when we look at sustainability. External actors, for example, no longer have as much leverage as they did at the time of creation. And the new agencies themselves – through the behavior of employees at various levels – often exert a decisive impact on their own destiny.

When I speak of the "sustainability" of an agency's autonomy, I am referring to the long-term maintenance of agency independence on two levels. On one level, I am concerned with the on-going protection of managerial autonomy: protection from political interference in the agency's personnel decisions and ability to obtain financial resources. On a second level, I am concerned with the long-term independence of the agency's technical decision making capacity. As Khademian (1996) notes, the informal assertion of agency independence is a key element in the agency's efforts to maintain its formal autonomy.

Managerial autonomy Managerial autonomy (the personnel and financial dimensions of autonomy that I set out in previous chapters) is often the first area to come under attack in a politicized bureaucracy. As I showed in Chapter 2, Bolivian politicians depend on their ability to distribute public jobs as a way of rewarding their supporters. But rewarding electoral support and gaining access to a portion of rents collected by front-line bureaucrats are not the only motivations for politicians to violate managerial autonomy. In the absence of the kinds of effective control mechanisms that exist in most industrialized countries' governments, Bolivian politicians also place people who are loyal to them (*personal de confianza*) in key posts. This allows them to exert direct control over the state apparatus, ensuring that at least these parts of the bureaucracy will be responsive to their directives (whether for personal or political gain, or for legitimate policy objectives).

This control does not necessarily have to be exerted over the agency's top management (though it usually is, to be most effective); in certain instances, if politicians and/or industry leaders can influence hiring of front-line employees engaged in a critical task, this may also make the agency more responsive to political/industry preferences. This is especially true for what Wilson (1989) calls "craft" organizations, where the daily activities (outputs) of agency operators are difficult for managers to observe. Outputs may be hard to observe because of the way they are carried out (e.g., the line employees work outside the office, as do bank examiners from the SBEF, auditors from the CGR, or police detectives), or because the managers at agency headquarters cannot easily direct employees' daily output (it is hard to say exactly which steps must be taken while investigating a crime or, in the case of a bank examination or an audit, exactly how the standard steps should be taken). Thus, the employees of craft organizations such as oversight bodies are potentially susceptible to political and industry influence. Wilson (1989) reports that in craft agencies, "investigators…ha[ve] many opportunities to abuse [their] authority by taking bribes, using excessive force or improper investigative methods, or engaging in political favoritism" (168).

Technical independence As discussed in Chapter 3, there is a persistent tension between elected officials and agency executives about the appropriate degrees of accountability and autonomy for optimal agency performance. Khademian (1996) begins her book by pointing out that "the trade-off between accountability and freedom of action bedevils efforts to reform…bureaucracy" (2).

When discussing an autonomous agency's technical independence, it is important to keep in mind which kind of autonomous agency we are talking about. Type I agencies (see typology in Chapter 3) such as executive agencies or state-owned enterprises *should not* enjoy complete technical autonomy because their mandate is to execute government policies. Quasi-judicial or policymaking Type II agencies, on the other hand, ideally should enjoy a much greater degree of autonomy since they are supposed to protect the government from itself, by minimizing political interference that might allow short-term partisan priorities to override technical soundness in policymaking or regulatory decisions. Still, these agencies also must be accountable to elected officials and the general public for their actions.

Political explanations for technical autonomy. Whatever its mandate, once an autonomous agency is created, its political principals (the Executive and/or the Legislature) can and do set parameters to direct agency action and hold it accountable for its decisions. The existing literature on the behavior of regulatory agencies focuses almost exclusively on political variables to explain trends in agencies' technical decision-making. Political control studies conducted in the U.S. in the 1980s and 1990s used sophisticated statistical analyses to construct politically-based hypotheses to explain changes in the focus or level of activity of independent regulatory agencies. Explanations ranging from changes in presidential administrations to new agency appointments to congressional subcommittee ideologies are correlated with shifts in the numbers and types of investigations and enforcement activities. According to Eisner's (1993) critique of this literature, "the political control studies of regulation appear to be…studies of legislative choice" (129).

Similarly, political explanations have been developed to explain changes in agencies' technical autonomy in Latin America's strong presidential systems. Geddes (1994) attributes the evolution of the BNDE's independence to varying degrees of presidential support. Matsuda (1997) develops a theory of "granted autonomy" which uses political variables to explain fluctuations in the level of technical independence of Venezuela's state-owned oil company, PDVSA. He attributes politicians' decisions to defer to the agency's technical judgments on oil policy to certain combinations of three political factors. According to Matsuda, convergence of policy preferences between the agency and its political overseers and a high degree of uncertainty in the policy environment that makes politicians unsure of which policy direction to take, increase the likelihood that politicians will "grant" the agency autonomy. On the other hand, differing policy preferences between PDVSA technocrats and politicians, a lower level of uncertainty in the policy environment, and politicians' short-term need to exploit the agency's financial resources all decrease the likelihood of granted autonomy.

Matsuda does recognize the potential for PDVSA to try to influence the government's policy preferences and thus gain more autonomy for itself. His study includes an analysis of the enterprise's efforts to negotiate with the political sector on oil policy. Still, the focus targets political principals: Matsuda's explanation credits politicians with allowing PDVSA to adopt a more open oil strategy after PDVSA technocrats help to shift politicians' preferences toward greater liberalization. The theory fails to fully develop the organizational factors of the agency's autonomy building strategy (e.g., staffing changes, agency structure, development of performance measures), and does not discuss the agency's interaction with any actor other than politicians.

Taliercio (2000) provides a more micro-level political control explanation for the lack of sustainability of semiautonomous revenue authorities (RAs) in four Latin American countries. He attributes the loss of RA independence to opposition by the minister of finance, who in each case was concerned about being held accountable for the performance of an agency not fully under his control and reacted by trying to increase his ability to control the RA. Like many other political control studies, Taliercio's work uses the principal-agent framework to analyze the interactions between the Executive (represented by the Ministry of Finance), focusing almost exclusively on the behavior of the principal and providing few insights into the reasons for the behavior of the agent (the RA).

The external actor hypothesis. Another popular explanation for how autonomous agencies retain their independence (both managerial and technical) is the external actor hypothesis. This theory takes the conditionality logic developed by IFIs a step further: it predicts that when governments urgently need external aid, they will not only pass whatever reforms the IFIs want to see, they will also sustain these reforms. Thus, the external actor hypothesis would predict that not only will a dependent government such as Bolivia's *create* AOAs under external pressure, they will also *sustain* the agencies' autonomy. In other words, this theory predicts that foreign aid can "buy" agency independence.

This theory began to fall out of favor during the 1990s after a series of empirical research projects found that conditionalities do not have as much impact as the IFIs had hoped, either at the creation or the sustainability phase. Although the World Bank and the IMF continued to use conditionalities in the 1990s, the lending institutions have finally admitted that this has not had the desired effect. A recent issue of The Economist mocked the IFIs for their slowness in recognizing what became obvious to most people a decade ago: "The World Bank…recently published the findings…that when the government of a country is committed to economic reforms, development assistance produces economic growth. But when the government is not so committed, aid has little or no positive influence."[128]

The World Bank's newest mantra is "borrower ownership and political will", which claims that a country's government and its citizens must truly "buy into" the reform program it adopts, and have the political commitment to making it work. The Bretton Woods institutions now insist that highly indebted poor countries come up with their own Poverty Reduction Strategy in order to join the program of debt forgiveness and new rounds of lending. As The Economist article points out, for countries such as Bolivia with decades of experience in dealing with donors, it is fairly easy for the government to draft a strategy that pledges to implement all the policies they know donors want, including fashionable state reform initiatives such as autonomization of certain public agencies. But forcing Bolivian public officials to write the strategy does not make it more likely to be implemented.

In the long run, pressure by external actors (whether or not it is tied to aid disbursement) will not be effective in the long-term maintenance of AOA independence. It would require continuous direct monitoring that is too costly for the IFIs, as it is very easy for the government to hide what is really happening. In the past decade external actors have undeniably played a role at critical junctures in the evolution of SBEF and CGR autonomy. Still, the external actor hypothesis does not provide a satisfactory explanation for the sustainability of *de facto* autonomy. As early as 1928, for example, the U.S. government recognized that Bolivia had created the SBEF and CGR mainly in the interest of obtaining foreign loans, but that pressure from foreign lenders would not be enough to ensure real independence for these agencies. The sustainability of their autonomy was always tenuous, and the government's behavior during the creation period suggests that even if foreign lending had not stopped in 1930, the agencies' independence would not have lasted long.

Organizational explanations. Certainly, political control hypotheses must be considered as partial explanations for the degree to which AOAs sustain the autonomy granted them at the time of creation. As many scholars have found, political variables can also help explain fluctuations in the degree of real autonomy the agency enjoys. But the development of autonomy sustainability theories based on political factors alone ignores the

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[128] The Economist, 7 April 2001, 83.

role of a crucial actor: once created, organizations themselves can have a great impact on the sustainability of their own independence.

Agencies are not passive objects at the mercy of their environment; they are made up of people who have the ability to develop strategies and build alliances to support their own autonomy. Political control theories have tended to treat the bureaucracy as a "black box", failing to take into account the organizational factors that could affect public agency outcomes and evolution. Moe (1987) expressed his criticism of the congressional control perspective in a way that could just as well be applied to other political control studies: this perspective "encourages the notion that somehow we can learn about bureaucracy without actually studying it and without lending credence or devoting serious attention to the enormous existing literatures on bureaucracy, organizations, and public administration" (514).

In the following pages, I will review some of the pertinent ideas from organizational theory and public administration literatures, which analyze the organization as an open system whose activities and outcomes are strongly influenced by its environment, and which in turn develops strategies to interact with that environment.

Organizations have fascinated social observers for centuries. But it was not until the 20^{th} century that an identifiable body of literature on "organizational theory" began to emerge. By the 1970s, this literature had grown enormously to include many definitions and schools of thought. One of the best attempts at synthesizing the sociological study of organizations is Scott (1981). In the first half of his book, Scott presents three main perspectives on organizations. The ***rational system*** perspective (developed by scholars such as Barnard, Weber, March and Simon) defines an organization as "a collectivity oriented to the pursuit of relatively specific goals and exhibiting a relatively highly formalized social structure" (Scott 1981, 21).

The ***natural system*** perspective (whose most famous supporters include Mayo, Selznick, Perrow and Zald) considers the fact that organizations are collectivities as their most important feature. Scott develops a natural system definition of organization as "a collectivity whose participants are little affected by formal structure or official goals but who share a common interest in the survival of the system and who engage in collective activities, informally structured, to secure this end" (Scott 1981, 22).

Finally, the ***open system*** perspective (many scholars subscribe to this view, including Pfeffer, Salancik, Galbraith and Weick), unlike the other two perspectives, sees organizations as open to and dependent upon their environments. Scott develops an open system definition of organizations as "a coalition of shifting interest groups that develop goals by negotiation; the structure of the coalition, its activities, and its outcomes are strongly influenced by environmental factors" (Scott 1981, 22-23).

All three perspectives offer valuable insights to some aspects of organization. In the 1960s, scholars recognized that organizations – especially large ones -- were complex enough that a single analytical perspective might be insufficient -- a multifaceted model was required to understand them. Several attempts were made to merge the rational, natural, and open systems perspectives; I have chosen to concentrate on just one, the contingency model developed by Lawrence and Lorsch (1967).

Lawrence and Lorsch base their contingency model on the open systems perspective, which awards considerable weight to environment when analyzing organizational behavior. Contingency theory holds that there is no "one best way" to organize; "the best way to organize depends on the nature of the environment to which the organization must relate" (Scott 1981, 114). Lawrence and Lorsch do not reject the rational and natural system perspectives, but instead see them as two extremes within the open systems approach: "the more homogeneous and stable the environment, the more appropriate will be the formalized and hierarchical form [*rational systems*]. And the more diverse and changing the task environment, the more appropriate will be the less formalized and more organic form [*natural systems*]" (Scott 1981, 125, italics mine).

In fact, the contingency model's focus on the organization's environment is not at all new. Organizational scholars were concerned with environment at least since Selznick's (1949) classic study of the Tennessee Valley Authority, when the author argued that to survive, "the institution must seek some sort of equilibrium with the environment in which it lives" (Selznick 1949, 20). Dill (1958) was the first to refine the term to "task environment", which he defined as all aspects of the environment that are "potentially relevant to goal setting and goal attainment" (410). It was the contingency theorists, though, who conceived of task environments as a fluctuating factor that can provide opportunities or impose constraints on the organization. Thompson (1967) used public organizations as an example of how the task environment behaves as a constraint, arguing that government agencies cannot choose their environment: "the most dramatic example…arises in the case of governmental organizations which are captives of a particular population" (30).

<u>Organizations and their task environments: the resource dependency model</u>. Other authors have focused on how organizations adopt strategies through which they *do* manage to influence their task environments (early examples include Barnard 1938 and Selznick 1948 and 1949; later works include Pfeffer and Salancik 1978, Wilson 1974 and 1989, and Echeverri-Gent 1992). One of the most well-developed strands of this literature is the ***resource dependency model***. According to Echeverri-Gent (1992), Pfeffer and Salancik's

development of this model is the most comprehensive: "their model is based on the premise that survival is the paramount objective for organizations… In order to survive, organizations must acquire resources from their environment" (347).

No organization can function completely independently of the entities that surround it: all organizations depend to a greater or lesser degree on other organizations in the task environment to provide them with certain critical resources they need for survival, and/or to perform their primary task(s). This dependent relationship tends to make the organization more responsive to the demands of those organizations or groups in the task environment which control essential resources. For example, a public agency that depends on the Treasury Department within the Ministry of Finance to provide it with its budget allocation may devote a great deal of effort to developing a good relationship between its own budget unit and the Treasury.

At the same time, organizations are not just passive entities that wait to receive resources from the outside; rather, they tend to try to ensure their own survival and enhance their autonomy by gaining control over important resources. The greater an organization's dependence on outside resources, the lower its autonomy. Since autonomy is one of the things that organizations value most (especially those created with the explicit mandate to be autonomous), we would expect them to behave in ways that maximize their independence. The resource dependence model studies how "managers and administrators attempt to manage their external dependencies, both to ensure the survival of the organization and to acquire, if possible, more…freedom from external constraints" (Pfeffer 1982, 193). Following the example above, the director of the public agency might try to cultivate his relationship with political overseers in Congress and even bypass the Treasury Department, to ensure a steady stream of financial resources for the agency's central task.[129]

One weakness of the resource dependency model is its tendency to focus on material inputs (Echeverri-Gent 1992). I follow Echeverri-Gent in including political and informational resources as important intangible aspects of dependence. However, I believe Echeverri-Gent's criticism of the resource dependency model for neglecting institutional environments is too strong. He contends that "the resource dependence model remains inadequate because it neglects the fact that actors often act on incomplete information and they make sense of their information through cognitive maps that shape their understanding of what is possible and appropriate" (Echeverri-Gent 1992, 354). He suggests that the model fails to include a focus on institutionalized rules (defined as "cultural theories about how society works and consequent prescriptions for attaining social objectives" (354)) and authoritative institutions (defined as public agencies, educational bodies, professional associations, etc. which "articulate and legitimate norms, values, and activities" (354)).

I would counter that it is up to the researcher who applies the resource dependence model to decide if the institutional aspect of the task environment is relevant in the particular instance under examination. In the case of developing an explanation for how oversight agencies maximize their autonomy in a politicized bureaucracy such as Bolivia's, the institutional dimension is most certainly a highly relevant consideration. At the time of their creation, there was an expectation by some external actors and Bolivian technocrats that the CGR and SBEF would come into being as instant "islands of excellence:" that by building formal separations from the rest of the Bolivian bureaucracy these agencies would somehow

[129] See Wilson (1989), pp. 179-195 for an impressive discussion on how government executives try to protect their "turf" (autonomy). Wilson describes the typical U.S. government bureau as "suffering from

be immune to the dysfunctions that affect the country's public sector. This expectation responds to an instrumental view of administrative reform, which sees reform as a product of deliberate plans and consistent decisions. This has clearly not been the case. As I will show later in this chapter, both agencies have been subjected to strong pressures by politicians and domestic interests to accommodate the institutionalized rules of the Bolivian state. There is a strong temptation for organizations to succumb to these pressures: "political legitimacy often becomes a more important criteria for survival than economic efficiency" (Offe 1985, quoted in Echeverri-Gent 1992, 355).

SNAP: an institutional application of the resource dependency model. Bolivia's public sector landscape is filled with examples of agencies, even some born under close supervision by external donors, which have surrendered to political pressure to follow the existing rules of the game. The case of the *Unidad Ejecutora del Servicio Civil* (UESC), which later became the *Servicio Nacional de la Administración Pública* (SNAP), is an excellent example. Created in 1990 as an independent Project Implementation Unit through which to channel aid for civil service reform, it was turned into an executive agency in the Ministry of Finance in 1997 and renamed SNAP. The new administration replaced the agency's technocrat director with a political ally of the Vice President's. During his first year in the position, the new director attempted to fulfill SNAP's mandate of overseeing the implementation of a merit-based civil service, including participating in hiring decisions throughout the public sector, building and managing a centralized civil service database, providing technical assistance to line agency personnel departments, etc. The director's efforts were fruitless, however, and he soon gave in to political pressures to keep a low

'high resource dependence'" (181).

profile and not challenge the widespread and repeated violations of the new government's public platform on state modernization.

A recent World Bank report describes one of the primary institutional features of Bolivia's public sector as the capture of the state by a fragmented party system, so that as a result "the state that is captured by the parties has also become fragmented. The state's fragmented capture is facilitated by the practice of a political quota system" (World Bank 2000, 56). If we apply the resource dependency model in this institutional environment, it becomes evident that comprehensive administrative reform such as that which SNAP was mandated to oversee is not possible. SNAP failed to obtain even the most basic resources (budget allocation from the Treasury, information from line agencies, etc.) to carry out its formal task. But this can hardly be explained as the result of a flawed organizational strategy alone; without taking into account the enormous institutional constraints posed by the task environment, it is impossible to explain SNAP's downfall.

<u>The resource dependency model in AOAs: special considerations</u>. As I said before, autonomous agencies are especially likely to want to reduce their dependence on other organizations for critical resources. Oversight agencies such as the CGR and SBEF confront an especially difficult challenge in this endeavor. The central task of these two agencies is to oversee a given industry (banking) or activity (public expenditures and programs). To carry out this task, the main resource these agencies require is *information* (once material resources needs such as budget and personnel have been met). Here, both agencies confront a particular challenge: *the organizations in their task environments on which they depend to provide this crucial resource* – information – *are the same organizations they are charged with supervising*. These two agencies are highly dependent on their task environments, because a) the resource (information) is concentrated in a

relatively small number of actors, and b) there are no competing sources of the resource (for example, the SBEF cannot simply substitute the information provided by one bank for the information provided by another). One of the core challenges facing the SBEF and the CGR, then, is how to maximize their autonomy vis-à-vis the agencies they are charged with overseeing.

Of course, information is not the only intangible resource AOAs need to do their job, though it is unarguably one of the most vital. Another essential resource is support from political, economic, and/or social actors. All public agencies, and most especially entrepreneurial agencies that tend to face strong, concentrated opposition from the group they regulate, need what Wilson (1989) refers to as a *constituency,* which he describes as "the principal source of power" (204). Agencies may have a single, powerful constituency (such as the President), or they may have a broad constituency (e.g., the general public). But they must have one, and a central task for the agency's top executives is to develop a strategy to acquire and maintain a constituency, and if possible expand and strengthen it.

Agency strategy

When a visitor walks into the *Superintendencia de Bancos y Entidades Financieras* in downtown La Paz, he is immediately impressed with the modern new building and its big sign with the SBEF name and logo on it. Next, he sees how well-organized the entryway is, especially compared to other public agencies in Bolivia. On one side of the modern, bright and tastefully decorated lobby, there is a long counter with a sign above it (*Atención al Público*) indicating that this is the place to make inquiries. Behind the counter sit three or four attendants waiting to answer questions from visitors. On the left-hand side of the entry, two receptionists sit at a desk, answering the phones and receiving visitors who have appointments. They are dressed in neat uniforms and receive visitors with a polite, "May I help you?". Once the visitor has passed the entryway, there is a list indicating which floor each office is located on, and the name of the person in charge. The offices are well-maintained and comfortable, with modern office furniture. SBEF officials keep their appointments, and are invariably punctual and well-prepared. When a visitor requests information, it is provided immediately or, if that is not possible, an appointment is made so that the visitor can pick up the information at another time.

Several miles away, atop a steep hill that rises up from the older commercial section of La Paz, sits an austere concrete building that houses the *Contraloría General de la República*. The visitor can deduce that this is the CGR because it is the largest building on the street, but the name of the organization is nowhere to be found on the front of the building. Inside, there is a reception window with a surly-looking attendant who does not speak to visitors. There are signs next to the ancient elevators with the different CGR departments and floor numbers on them, but some of the information is incorrect. When the elevator jerks to a stop at the visitor's floor, he sees a secretary sitting at a desk in a waiting area. Behind her is a mirrored security door; to go through the door, a code must be entered into a keypad. From the waiting area, one cannot see through the door.

CGR secretaries tend not to acknowledge visitors; instead, you must sit on the uncomfortable waiting area sofa until she looks at you and announces your arrival. At the CGR, it is extremely difficult to get an appointment: all outside visitors must submit a formal request to the CG, even if the appointment is not with the CG himself.[130] Information is not readily available from the CGR, and is never given at the moment it is

[130] When I wanted to interview the Sub-Comptroller for External Audit, I delivered my request in person at the Internal Mail Office of the CGR. The envelope was addressed to the CG, but the mail clerk opened the

requested. Sometimes CGR officials promise to send it to the visitor, but it may never arrive and when it does, it is often not the information that was requested. Even the CGR's completed audit reports, which are supposedly for public consumption, are not generally made available.[131]

The public face of an organization can tell us a great deal about its character (often termed the "organizational culture"). According to Khademian (1996), organizational character

> "evolves out of an agency's efforts to address external expectations for its performance while it grapples with the internal challenges of managing its responsibilities. … The character of each agency is represented by commitments articulated and defended formally in its publications and presentations and informally by its personnel. These commitments guide the agencies through the expectations of elected officials, the demands of [constituents], and the priorities of other…agencies… Most important, the commitments provide a context within which top management makes decisions to coordinate, direct, and develop an organizational approach" to the agency's mission (11-12).

Public sector agencies, particularly those vested with some degree of formal autonomy, must balance the demands of their mandates with the challenges of protecting their autonomy. Agency heads cannot count on politicians to protect their independence; politicians are caught in a contradictory position where at one moment it may behoove them to create an autonomous agency, while at a later time they may face pressures to erode that autonomy. In Bolivia, as I have shown, it is not unusual for politicians to sign laws that award formal autonomy with one hand, while with the other hand they use informal mechanisms to violate the autonomy just awarded.

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envelope and read the letter inside. I asked if he always opened mail that was addressed to others in the organization. He replied, "Yes, I open all the mail. We are a transparent organization!"

[131] When I requested one of these reports, my request was denied, even though the official himself admitted that these were for the "general public". When I argued that this meant I should be able to have a copy of

Organizations are driven by two priorities: survival and autonomy. To meet these overriding goals, over time agencies patterns of behavior which some scholars (Wilson 1989, Goodman 1991, Matsuda 1997) refer to as "strategies". These patterns characterize the agency's interactions with different elements of its task environment, as well as its internal workings.

In his work on PDVSA, Matsuda categorizes agency strategies into two general types: **insulation** and **engagement**: "the insulation strategy is based on the premise that the best way to protect the agency autonomy is to stay away from partisan politics, trying…to maintain political neutrality and giving political actors few reasons for intervention. The engagement strategy follows from the view that the potential vulnerability of agency autonomy necessitates the agency to develop its own autonomy-enhancing capabilities" (1997, 14-15).

Scott (1981), drawing on the works of Thompson (1967) and Pfeffer and Salancik (1978), has developed a similar classification: "buffering" is similar to insulation, while "bridging" is similar to engagement. Scott defines buffering as a set of strategies designed to seal off the technical core of the organization from its environment, thus reducing resource dependence for the agency's central task. For example, an agency might try to accumulate a stockpile of the inputs it needs to produce its product in order to reduce its dependence on the supply side.

Scott defines bridging as an organizational response to increasing interdependence, whereby coordinating links are established between the agency and one or more elements of its task environment. Selznick's case study of the TVA discussed the agency's success at

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the report, he clarified, "Well, they are not for all publics". He referred me to the CGR's website, which contains paragraph long summaries of all completed audit reports.

cooptation: the incorporation of representatives from external groups into the organization's decisionmaking core. In the particular case of the TVA, Selznick argued that "by coopting external representatives, organizations were, in effect, trading sovereignty for support" (Scott 1981, 195). Not all engagement (bridging) strategies are as extreme as cooptation. There are plenty of examples of agencies that foster controlled interactions with selected members of their task environments (politicians, external actors, interest groups, 'the general public', etc.) to gain support for the agency's autonomy and mission.

Which strategy is most effective for AOAs to overcome their dependence on their environments for the resources they need to carry out their missions? Of course, there is no single correct answer. Some scholars of organizations (Pfeffer and Salancik 1978, Scott 1981, Echeverri-Gent 1992) suggest that agencies are more likely to sustain their autonomy if they minimize dependence on their task environments and close themselves off as much as possible to contacts that could lead to interference.

It is in part this premise that underlies the long-standing emphasis on the importance of an arms' length relationship between oversight agencies and their environments. The existence of formal distancing mechanisms between AOAs and their environments, indeed the things that make these agencies autonomous (separate personnel regimes, self-funding budget status, distinct legal status, etc.), tend to support the adoption of an insulation strategy. Many development assistance projects have been designed according to this approach as well, as evidenced by the prevalence of PIUs and other attempts to isolate implementing units and certain agencies from "outside interference". If we apply this argument to a politicized environment such as Bolivia's public sector, we could conclude that an insulation strategy would be most effective for protecting the independence of a Bolivian AOA.

In fact, though, my research suggests that in some cases the opposite may be true. The empirical evidence I present in this chapter suggests that *engagement* has actually been a more effective strategy for the SBEF and CGR when they have attempted to consolidate their autonomy (especially the technical aspect). In the remainder of this chapter, I develop an explanation that attributes at least part of the current differences in their degree of autonomy to the variation in the strategies adopted by each agency.

Since its creation, the SBEF has focused consistently on bridging tactics that strengthened support for it among a broad constituency including social and economic groups as well as external actors, and has thus limited politicians' ability to encroach upon the agency's autonomy. The CGR, in contrast, initially adopted an engagement strategy early in its re-creation process, but in the last decade has become much more insulated, even to the point of isolation. I will show how its autonomy has diminished accordingly. These findings confirm the hypothesis that I set forth in this chapter. Stated formally, I contend that:

H3: An agency strategy based on cautious engagement tends to win an oversight agency more real autonomy, while one based on insulation tends to result in the oversight agency becoming irrelevant and thus less technically autonomous. Of course, political factors can still override the agency's strategy, but the development of an organizational strategy can be an important determinant in how well an agency protects its independence.

The agencies today: a top-down view

Before entering into an in-depth discussion of the strategies exercised by each agency, it is helpful to provide a "snapshot" of each organization. In this section, I provide a brief overview of the agency's structure, number of employees, and annual budget, followed by a general description of how the agencies carry out their main activities. This "snapshot" provides a "top-down" view, which is useful for obtaining a general understanding of what the organization looks like from the outside.

The SBEF: safeguarding the financial sector The SBEF is an autonomous regulatory agency with around 150 employees. Its budget in 1999 was around 60 million Bs (approximately US$10 million). Formally, the SBEF is under the "tuition" of the Ministry of Finance. The term "tuition" is vague, and is interpreted differently by the Superintendency and the Executive. The SBEF interprets it as the Executive's power to oversee its activities, while the Ministry of Finance views it as conferring greater control over the SBEF. In practice, the Executive has so far exerted minimal control over the SBEF (as explained in Chapter 4). Still, the threat of a potential power struggle between the SBEF and Ministry of Finance should not be underestimated.

The SBEF's main responsibility is to regulate the financial sector by enforcing prudential norms (related to assets, lending practices, and solvency), thus preventing systemic sectoral failures and protecting the public's deposits (World Bank 2000). Within the SBEF, supervisory responsibilities lie primarily within the two *Intendencias de Supervisión*, one for banking entities and one for non-banking entities (mainly savings and loan cooperatives, private financial funds, and mortgage entities). There are two types of supervision: desk reviews and site visits. Desk reviews are carried out by a single examiner working from SBEF headquarters, while site visits are conducted by teams made up of a head examiner and several junior examiners.

Normally, a site visit is conducted for each financial entity (banking and non-banking) every 18 months. The frequency of these visits is higher for entities classified as "high risk". The examination teams' work is guided by a detailed checklist of indicators that they must assess. In commercial bank inspections (which constitute the majority of the SBEF's supervision activities), examiners focus on the so-called "CAMEL rating". Each letter of the CAMEL index represents an indicator of commercial performance: **C**apital adequacy, **A**sset quality, **M**anagement competency, **E**arnings, and **L**iquidity. Each component is rated on a scale from 1 (best) to 5 (worst), and an overall rating is assigned. Based on the inspection, the team prepares a report which must be reviewed and approved by the Superintendent. The entity is also allowed to comment on the report before it is finalized. If necessary the Superintendent, in consultation with an internal committee, determines the corrective actions the entity will be required to take (World Bank 2000).

If a financial entity under the supervision of the SBEF wishes to appeal one of the agency's decisions, it must first take its case to the SBEF itself for review. The second instance of appeal is the *Superintendencia de Recursos Jerárquicos* (SRJ), created in 1998.[132] If the appeal is not satisfied at either of these two levels, the entity can take its case to the Supreme Court (the final instance of appeal). Since the SRJ's creation, there have been approximately thirteen appeals (three from banks, the rest from non-banking entities), of which nine have been heard.

CGR: strengthening public administration through audit The CGR, with around 500 employees, is a constitutionally mandated supreme audit institution. While the agency's head, the Comptroller General, is appointed by the President (from a list of three candidates approved by the Senate) for a ten-year term, the CGR is formally independent of

[132] The SRJ replaced the General Superintendency, which in addition to hearing appeals, also supervised the SBEF and its sister organization, the Superintendency of Pensions, Securities and Insurance.

the Executive. The organization's expenditures in 1999 were around 51.7 million Bs (approximately US$9 million).[133]

The CGR's primary responsibility is to conduct independent, objective audits of various aspects of the operations of public sector agencies (including state-owned enterprises). Audit activities are divided among six *subcontralorías*, of which the *Subcontraloría de Auditoría Externa* (External Audit Subcomptroller) is the most important. The CGR conducts five main types of audit:

- *financial audit*: review of an agency's financial statements
- *operational audit*: review of the performance (economy, efficiency, and effectiveness) of a particular program. Includes audits of the agency's/unit's progress on developing SAFCO systems.
- *special audit*: review of financial statements or program or unit in a government agency. Special audits are not part of the CGR's annual work program, but rather are conducted when requested by a member of Congress, the President, or an agency head.
- *Internal Audit Unit evaluation*: review of internal audit reports
- *follow-up evaluation*: review of an agency's progress on implementing recommendations made in a previous audit report

The CGR emits audit findings, or "opinions"[134] on: a) effectiveness of control systems; b) reliability of accounting records; c) adequacy of financial statements; and d) efficiency and economy of operations. The CGR then emits a follow-up report containing recommendations for improving the shortcomings identified.

The CGR also determines if there is any indication of wrongdoing by public officials, and if so can issue a "certificate of responsibility" against the official. There are

[133] The CGR's approved budget was about 5 percent higher, but restrictions in Treasury disbursements in FY 1999 resulted in lower actual expenditures.

[134] There is a debate over the legal value of the "opinions" emitted by the CGR. While these often serve as a basis for legal action, Bolivian judges frequently do not accept them as evidence in court, contending that

four types of "responsibilities": *administrative* (when a public official, by omission or commission, breaks an administrative rule); *civil* (when a public official commits an act, or fails to act, and thus causes the state to incur a financial loss); *executive* (a broad category having to do with acts committed or omitted by senior officials, such as failure to ensure that SAFCO systems are functioning in the agency, or failing to account for the use of public funds entrusted to them); and *penal* (when a public official violates the Penal Code).

The SAFCO Law defines the steps that must be taken to deal with each kind of responsibility. For all four types, the task of imposing sanctions falls to actors other than the CGR. For example, when there is a finding of civil responsibility (one of the most common types), "the CGR presents its finding to the head of the entity where the official(s) are employed. The agency head is responsible for collecting the damages from the accused. If the accused does not pay for any reason, the agency head must transfer the case to the judiciary" (World Bank 2000, Vol. 2, 37). The CGR's findings are often appealed and overturned, resulting in new verdicts.

In the next section, I present the autonomy-defending strategies that the two agencies have adopted. I describe how each agency's top executive defined the organization's "critical task" immediately after re-creation in the 1980s. I then trace how these strategies have evolved over time, along three key dimensions drawn from organizational theory literature: mission definition, expertise, and performance standards.

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they are "only opinions" (see World Bank 2000, Annex 6 for a detailed discussion of the relationship between the CGR and the judiciary).

Fighting for autonomy: two strategies.

Matsuda (1997) presents the case of Venezuela's state-owned oil company, PDVSA, as an example of a public organization that "learned" to engage with the politicians and citizens in its environment, which the author finds to be a more effective strategy that improved the agency's policy-making autonomy. He describes how the oil company's careful approach allowed it to influence its environment in certain key policy areas, bringing politicians and public opinion to accept some of the PDVSA technocrats' policy preferences.

The PDVSA case is an example of an agency that provides an essential source of revenues to Venezuela's economy. Although Matsuda presents a convincing case that the agency's executives played an important role in politicians' and public opinion's ideological shift that led them to accept the inclusion of foreign investment in Venezuelan oil operations in the mid-1990s, this achievement is not very surprising given that these actors were already positively disposed towards PDVSA. Politicians and Venezuelan citizens were committed to developing a successful state-owned oil company, and when the country faced financial difficulties, the development of alliances with foreign oil companies provided an attractive solution. Also, by the time the ideological shift occurred, PDVSA's task environment was fairly simple. It was dominated by domestic politicians, and the two main parties had reached a consensus on national oil policy.

My case studies, on the other hand, allow me to compare the strategies developed by oversight agencies that face potentially very hostile and certainly more complex task environments. The environment is potentially hostile because, as oversight agencies, the CGR and SBEF are charged with regulation and enforcement; they are not revenue-generating organizations like PDVSA. The environment is complex because it involves multiple actors with often conflicting interests (politicians, external actors, the banking sector (domestic and international), businesses (domestic and international), and depositors). The challenges these agencies face are two-fold. On one hand, if they are to be truly autonomous they have to play a decisive role in developing a regulatory framework (e.g., rules for public expenditure management, or prudential norms for banks). On the other hand, they also need to be strong enough to enforce the new rules in politically powerful sectors (the SBEF on banks, the CGR on public managers). Moreover, as I mentioned in earlier chapters, the agencies' ability to carry out their core mandate (supervision) depends to a large degree upon the supervised entities' cooperation in providing the necessary information.

As I will show in the following pages, the SBEF has adopted a cautious but proactive engagement strategy and broadened its interactions to include not only the regulated group and Bolivian politicians, but other actors as well (economic, social, and external). Slowly, it has convinced all groups that its success as an overseer is necessary for the country's economic development. The CGR, meanwhile, began with a highly proactive approach under CG Sánchez de Lozada, culminating in the submission of the SAFCO proposal to Congress, arguably one of the most important pieces of legislation ever to be passed in 20th century Bolivia. But as resistance to the reform legislation grew, the CGR's engagement diminished. Since the early 1990s, the CGR has adopted an increasingly reactive stance vis-à-vis its environment, and has narrowed both the range of actors with whom it is willing to interact as well as the scope of activities it undertakes.

Critical tasks: dealing with a key environmental problem There are many important things about the organization (some would say the *most* important things), though, that a top-down view does not tell us. Here, I provide a "bottom-up" analysis of the SBEF and the CGR as well, allowing me to examine how each organization defines what Wilson (1989) calls its "critical task", and how these relate to their stated official goals. Wilson defines the agency's critical task as "those behaviors which, if successfully performed by key organizational members, would enable the organization to manage its critical environmental problem" (Wilson 1989, 25). He consciously differentiates between an organization's tasks and its official goals, which in public organizations are often vague ("educate children", "defend the nation", "solve crimes"). When official goals are vague, "tasks and goals are not connected in the straightforward way that is implied by the notion that tasks are 'means' logically related to 'ends'" (Wilson 1989, 26). A bottom up analysis helps us to understand how the organizations' members perform their critical task, which tends to reflect the agency's chosen strategy to reach the twin goals of all organizations, which are considerably magnified in AOAs operating in the type of politicized environment that exists in Bolivia: organizational survival and retaining autonomy.

<u>Walking the tightrope: banking supervision in a developing country</u>. Public organizations' formally defined goals usually fail to reflect the day-to-day complexities that they face in meeting that goal. In the case of the SBEF, there was a substantial increase in both the vagueness and the complexity of its mandate between the passage of the 1928 *Ley General de Bancos* that created the first Superintendency and was still in effect when the agency was re-created in 1987, and the 1993 *Ley de Bancos y Entidades Financieras*.

The 1928 law defines the agency's mandate as: "enforce the laws and decrees related to banks; oversee and participate in the emission and destruction of bank notes; and oversee and participate in the emission, distribution, and destruction of mortgage notes" (Article 14). The 1993 law, in contrast, charges the agency with "maintain[ing] a healthy and efficient financial sector and ensur[ing] the liquidity of the banking system" (Title X, Chapter II, Article 153). It is to do this primarily through the emission of norms and the regular examinations of financial institutions to monitor application of those norms. There are internationally accepted standards for what constitutes a "healthy and efficient financial sector", but it is a challenge for the SBEF to hold Bolivian banks to these standards, which are developed in industrialized economic contexts.

Simply put, the agency's employees at all levels face the enormous challenge of finding an appropriate balance between ensuring the health of the financial sector and the liquidity of the country's financial institutions, without destroying a fragile banking system that has occasionally been on the verge of systemic crisis. On one hand, the SBEF must develop and apply a new set of rules of the game for Bolivia's financial sector based on internationally accepted standards (e.g., the Basel Core Principles), while on the other hand it must prevent the banking system from plunging into crisis (which could easily happen if new regulations are enforced too quickly).

From the beginning, the SBEF's top executives and managers have rejected a narrow definition of the agency's mandate as the strict application of prudential norms. Instead, they have defined a broader goal for the organization, focusing on the overall health of the sector it is charged with overseeing. According to the SBEF's official website, the agency is "more than a regulator, it is the guarantor of a healthy and efficient financial system, which in addition to providing support and supervision for the system's financial viability, also undertakes the challenge of becoming a driving element in the nation's development". The agency's leaders see its mission as one of strengthening the financial sector so that banks and other financial entities can act as instruments for economic growth. If a weak financial system imposes costs on citizens because of poor lending practices and lost economic opportunities, then a strong system should confer benefits on them. The SBEF sees its supervisory role not as an end in itself, but as a contribution to Bolivia's larger development goals.

When an agency is created, it is authorized to achieve its mandate by carrying out a more or less well-defined set of daily activities. For example, the SBEF is authorized to require information from financial institutions so its examiners can assess their soundness. Initially, though, the agency was very limited in what it could do when it found cases of poor management, or risky lending practices. The SBEF had only the clumsy and outdated mechanisms contained in old banking laws that focused mainly on liquidation. It had little leverage to carry out preventive measures that would improve banks' management so that they would not need to be liquidated. Bank examiners who found cases of poor management that had not yet reached the crisis point could do little except wait and hope the bank would improve instead of going under.

Under Superintendent Luis del Río, the SBEF's top executives recognized that the agency's critical task was broader than a rigid enforcement of the law. According to an official who joined the SBEF as a junior examiner in 1987, "if a financial institution was badly managed, all we could do was liquidate it. And that wasn't a good option. Until we had a chance to develop prudential norms that banks had to follow, we had to ignore certain things. The Superintendent told us that the health of the financial sector was the most important thing, and that had to improve before we could enforce the rules 100%. If we hadn't been flexible, we would have had to liquidate all the Bolivian banks, because that was the only sanction the Superintendency had at the beginning."[135] The strategy worked: from 1989-1993, Bolivia's banking sector underwent unprecedented growth and the fears of a banking crisis subsided. The same official told me, "at that time, the policy in the SBEF was to provide banks with 'rescue plans'. We gave them resolution mechanisms, we didn't just liquidate. We let the banks buy themselves some time to recover by allowing them to defer their losses."[136]

During del Río's term as Superintendent (11/1987-11/1993), the agency's most urgent priority was the development of a legal framework that would allow it to shift from a primarily reactive approach to supervision to a more preventive philosophy that allows it to force banks to take action before they need to be liquidated. Today, liquidation has become, as it should be, a "solution of last resort". Del Río's term culminated with a major manifestation of this change, the 1993 passage of a new Banking Law. Later, under the leadership of the third Superintendent, Jacques Trigo, came the 1995 creation of FONDESIF (an emergency fund to rescue banks that are in trouble, the FONDESIF was referred to by Trigo as a "hospital for banks"[137]) and the agency's internal restructuring in 1996 (with a more prominent role for the Supervision Intendencies and the elimination of the Liquidation Intendency). Through measures such as these, the SBEF has managed to formalize its role as a supportive actor to Bolivia's private sector, including to the bankers whose activities the agency must oversee.

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[135] Interview, La Paz, 24 August 1999. The first Superintendent initiated only two large commercial bank liquidations. Other liquidations that were carried out between 1987-1993 had been initiated by the Central Bank before the SBEF's re-creation.
[136] Interview, La Paz, 14 February 2000.
[137] Interview, La Paz, 18 July 1999.

The SBEF in crisis. Between the end of del Río's term in November 1993 and the beginning of Trigo's in March 1995, the SBEF underwent a period of turmoil that led to a subtle but important shift in the way the agency defined its critical task.

The trouble began towards the end of the first Superintendent's term. First, del Río authorized two ailing banks to merge and create Banco Sur. He then allowed two banks (Banco Sur and Banco de Cochabamba) to hide their losses from the public by deferring them for 15 years. Although the deferment itself was legal, there are indications that del Río made illegal use of his authority to grant the deferments, by awarding them in exchange for the bankers' contributions to the ADN party's electoral fund, of which del Río was national treasurer (an extremely bitter presidential campaign was underway at the end of 1992 and the first half of 1993, with ADN candidate Hugo Banzer fighting hard against MNR candidate Gonzalo Sánchez de Lozada).

A senior SBEF manager who was involved in the decision to defer the losses in 1993 recalls the dilemma:

> "in retrospect, I guess it would have been better to liquidate the banks. In the end, we had to close them anyway. But we didn't know that at the time; we tried to do the right thing by deferring the losses. … There still wasn't a legal system that gave us options other than liquidation or deferment. We did what we had to do, there was no better choice at the time. The worst part was that del Río really lost our respect. His political side really came out at the end: he made the banks give campaign contributions, and he forced SBEF employees to contribute money from our salaries."[138]

By the time del Río left the SBEF, rumors of corruption and mismanagement were beginning to be heard. The bankers complained to President Gonzalo Sánchez de Lozada (inaugurated in August 1993), and he was concerned that under del Río the SBEF had become too independent and was not being held accountable for its actions. Sánchez de Lozada named Ramiro Cabezas as the new Superintendent. Cabezas, a technocrat sympathetic to the MNR, had a good reputation from his tenure as Minister of Finance and later Minister of Tax Administration, where he had led a highly successful tax reform during the Paz Estenssoro administration. Sánchez de Lozada reportedly appointed Cabezas with a mandate to "make the SBEF more accountable to the President, and cede some of its authority to the Central Bank."[139]

Cabezas spent 16 months as Superintendent before resigning, allegedly for personal reasons. There is general agreement among Bolivian observers that he was not up to the pressures of the job; in interviews, Cabezas himself recognized this. When he accepted the appointment, he found himself in the midst of a "house of cards" created by del Río, which was about to fall. Several major banks were in crisis and needed to be liquidated, including Banco Sur and Banco de Cochabamba. Their owners were powerful banker-politicians engaged in illicit activities, mainly the so-called "*créditos vinculados*" (loans they made to themselves with depositors' money, which they had no intention of repaying). These individuals fought hard against intervention by the SBEF, and launched a vigorously negative campaign against the agency and its executives. The effectiveness of this campaign, as well as a series of other factors, had a noticeable impact on depositor confidence in Bolivia's banking system, and deposits fell. During 1994 Bolivia's financial sector was sliding towards a systemic emergency, culminating in a banking crisis in 1995, with the government offering a US$250 million rescue plan. Cabezas was forced to implement tough decisions to try to defer or minimize the crisis. A Bolivian economist who

[138] This comment refers to a fairly prevalent practice in Bolivian public agencies, whereby a percentage of each employee's paycheck is deducted by the political party that controls the agency. Interview, La Paz, 14

has served in various administrations contends, “Cabezas had to crack down and take the hard decisions, he had to sign everything, sign the liquidation notices, because del Río had never signed anything.”[140]

When Cabezas stepped down unexpectedly in March 1995, President Sánchez de Lozada had to move quickly to find a replacement. A Bolivian observer who was involved in the selection process tells the story. The President negotiated with the Senate in compiling the list of three candidates, of which two were technocrats (Jacques Trigo and Fernando Kempff) and one was an MNR party loyalist. With a strong technical streak himself, the President preferred one of the two technocrats. He wanted to appoint Kempff, a former Central Bank president with a reputation for being very tough. But he first had to consult with ASOBAN, the Bolivian bankers’ association; ASOBAN felt that Kempff would be too strict. They preferred Trigo, executive director for Bolivia at the IDB and a former Central Bank bureaucrat who had a reputation for being “softer”. And so, although Trigo received the fewest votes from the senators, it was he who was appointed the new Superintendent just ten days after Cabezas resigned. According to a long-time SBEF official, “Trigo inherited a demoralized SBEF that had lost credibility and the public’s trust.”[141]

<u>Redefining the critical task: enforcement and growth</u>. Trigo decided that his principal challenge was to regain the credibility of the SBEF in the eyes of the financial sector, and to slowly reestablish depositors’ trust in the banking system. He began his term with a dual strategy. First, to impose order on the highly speculative financial sector, the Superintendency worked quickly to introduce new norms and legal changes, some

February 2000.
[139] Interview, La Paz, 14 February 2000.

specifically designed to prevent the kinds of corrupt lending practices that had brought down the two banks that were liquidated in 1994. It also cracked down on various bankers found to be involved in criminal activities, pressing charges against them a few months after Trigo's appointment.

Second, to improve the SBEF's public image, the new Superintendent invested in a communications strategy: throughout 1995 he participated in numerous national and international conferences, wrote letters to Bolivian newspapers, called press conferences, interacted with the business (non-banking) community, and granted multiple interviews with the media in which he emphasized repeatedly the health of Bolivia's financial system and pointed to the "stamp of approval" provided by on-going IMF supervision. He also promised to make the SBEF more transparent than it had been under his predecessors, publishing agency reports in newspapers and business magazines, and creating a public relations office.

Since 1995, Trigo has managed to have ten bankers tried for criminal activities declared guilty and jailed (although none remain in jail today). Not surprisingly, many banker-politicians have reacted negatively to the more aggressive SBEF. However, under Trigo the SBEF has carefully cultivated strong support from key actors: the President, technocrats in the Ministry of Finance and the Central Bank, the business community, and external actors (international banks, multilateral corporations, and the aid community). The positive performance of the banking sector,[142] though not directly attributable to Trigo's management, has certainly had a favorable impact on the SBEF's reputation.

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[140] Interview, La Paz, 15 February 2000.
[141] Interview, La Paz, 14 February 2000.
[142] For example, between 1995 and 1997 deposits rose by about 30 percent, and the average number of days of fixed term deposits rose by 20 percent. A rising number of foreign investors is another indicator of growing confidence in the Bolivian banking sector.

Since the mid-1990s, the organization's leadership has consciously tailored its official communications to publicize its critical task. For example, the official website states the SBEF's vision as "Winning public trust in the safety and efficiency of the financial system…". This vision necessarily implies winning public support for the SBEF itself. The vast majority of the public will never be able to assess whether or not the financial system is really safe. Therefore, it is crucial that they be able to rely on the SBEF's assessment.

In accordance with this view, the SBEF's annual reports primarily highlight the financial sector's performance during the year; the evolution of the SBEF itself; changes in legislation and norms; and the status of liquidation processes. The "Detailed Inspection Visits" is at the back of the annual report, and consists simply of a list with the name of the institution and the date inspection was completed.[143] This supports the contention that the SBEF does not view "bank examinations" as its primary product, even though that is what most of its employees spend the majority of their time doing on a day-to-day basis. Rather, bank examinations are seen as one component in the agency's efforts to achieve its broader goal of supporting private sector development for economic growth.

The evolution in the SBEF executives' strategies reflects both the shifting nature of the Bolivian banking sector as well as the maturation of the regulatory agency. Del Río's strong engagement approach focused almost exclusively on the banking industry, because he needed to create a connection with them in order to develop effective oversight mechanisms. While autonomy is essential for an oversight agency, it cannot develop a regulatory framework in a vacuum, floating above the supervised industry. After a time, however, the Superintendent's high degree of engagement was unsustainable, putting the agency at a severe risk of regulatory capture and (real or perceived) partiality.

Trigo adopted a more nuanced engagement strategy. In response to the SBEF's loss of credibility and the real possibility that it would become politicized, he broadened the range of actors with which his agency interacted and thus increased its support base. For an entrepreneurial agency such as the SBEF or the CGR, it is safer to cultivate support from a variety of sources. An agency charged with oversight is likely to encounter tensions with at least some members of its task environment from time to time, and if it relies exclusively on one source of support, it is more likely to find itself alone and vulnerable to attacks.

<u>The CGR and the utopia of individual accountability</u>. When Antonio Sánchez de Lozada was named CG in 1982, he faced the challenge of rebuilding the CGR's oversight function. Neither the pre-expenditure controls conducted by CGR *interventores* nor the limited ex-post audit exercises were effective at ensuring that public funds were properly spent and tracked. The CG encountered two immediate dilemmas in developing a stronger oversight capacity. First, there was a fundamental conflict of interest in the laws which mandated that the CGR audit expenditures that had already been approved by the agency's *interventor* (making the CGR *juez y parte*). Second, most public agencies did not even produce auditable financial statements, so there was little to audit.

Sánchez de Lozada knew that resolving those dilemmas would take a long time, but meanwhile the state of public management was abysmal. Even if he could not bring about an immediate legal change, the ambitious CG was determined to impose a cultural change on his own employees and on all Bolivian bureaucrats. At the core of his reform ideas was a

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[143] The SBEF conducted 152 inspection visits in 1998, 132 in 1999, and 95 inspection visits in 2000 (Annual Reports, 1998, 1999 and 2000). These numbers do not include "desk reviews" of banks and

fervent commitment to the concept of *individual accountability*. One veteran CGR official remembers, "He was a born businessman, and he thought the government should be run like a business. He tried to apply private sector management ideas to the public sector. One of those ideas was individual accountability. For a business to function, managers had to be able to delegate to their employees and the employees had to know that they would be held accountable for their actions. In Bolivia, you never knew who was responsible for what, so you could never punish anyone. Sánchez de Lozada wanted public employees to be held accountable for their actions."[144]

Under the new CG, the CGR's critical task was defined as *holding public managers accountable*. To an even greater extent than the SBEF, however, the CGR faced legal constraints that prevented it from carrying out its critical task effectively. The two dilemmas just mentioned (conflict of interest and lack of financial statements) made it nearly impossible to demand employee accountability. It was not long before the agency's top executives, with strong backing from the U.S. Ambassador in Bolivia as well as intensive involvement by bilateral and multilateral aid agencies, began devoting all their energies to breaking down the legal constraints and enshrining the new philosophy into law. In April 1989 President Paz Estenssoro issued D.S. 22165, establishing many of the elements of the ex-post oversight system later included in the SAFCO law. Sixteen months later, SAFCO was passed by Congress.

<u>SAFCO: an unaccomplished ideal.</u> SAFCO represents one of Latin America's earliest and most ambitious attempts to modernize public administration as part of a comprehensive response to the debt crisis. CGR reformers, government technocrats, and the

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financial institutions.

[144] Interview, La Paz, 19 August 1999.

donor community expected that SAFCO would provide the impetus for creating what Sánchez de Lozada referred to as "a new culture of public management."[145] The agency's official website states that the CGR's mission is "to strengthen the systems of the Public Administration through independent and objective audits and evaluations." The CGR "aspires to consolidate itself…into an effective and cutting edge institution that promotes a responsible, honest, and productive Public Administration serving the public interest."

SAFCO cast the CGR in an arms' length role even as an oversight entity. One of its primary missions was supposed to be the strengthening of the Internal Audit Units (UAI) in each public sector agency. The bulk of the auditing task was supposed to fall to the UAIs, purportedly independent units within each agency (similar to the Inspector General figure in the United States) which are supposed to ensure that their agencies have proper management control systems, offer recommendations to improve those systems, and provide support for managers in their compliance with public expenditure regulations. The CGR would then audit the UAIs' reports to ensure their quality, and would itself conduct only very selective audits of public entities.

In the ten years since the law's passage, however, very limited progress has been made towards SAFCO's goals. The CGR did set up a new organizational structure after SAFCO was passed, and has passed a number of follow-up regulations to help implement government control systems. For the CGR, however, enforcement of the new legal framework has been even more challenging than for the SBEF. The fact that most of the law's implementing regulations were not passed until 1997, and even then only under strong pressure from external actors, supports the hypothesis that there was minimal commitment among political leaders and agency heads to comply with SAFCO. The regulations for the

[145] Interview, La Paz, 1 February 2000.

government control component of SAFCO were approved in 1992, so the agency is able to conduct some audit activities, but the integral nature of the eight systems limits the extent of the audit. As one frustrated former CGR executive observed, "public managers have no intention of allowing SAFCO to work. They are finding that their position of passive resistance is very effective. In the end, chaos is the best way of avoiding responsibility."[146]

Redefining the critical task. The CGR's evolution since 1982 is a clear example of an agency that has found itself forced to choose between survival and autonomy. The agency was highly corrupt and discredited when it began its institutional re-creation in 1982. Under the leadership of a particularly influential CG, it laid the groundwork for recovering its once powerful role by narrowing its mission in exchange for increased managerial and technical autonomy.[147] And yet, with the limited implementation of the SAFCO management systems and the subsequent difficulties for the CGR in realizing its ambition of holding public employees accountable, the agency was forced to redefine its critical task. With its reformist mission under attack from all sides (including external actors unhappy with the slow implementation of SAFCO[148]), and its charismatic leader at the end of his term as CG, the CGR was confronted with a new environmental challenge: survival. Survival needs have driven the agency's executives to adopt a strong insulation strategy to minimize contact with the CGR's task environment.

[146] Interview, La Paz, 16 August 1999.
[147] See Wilson (1989) pp. 179-195 for an account of how agency executives sometimes gain more autonomy by reducing the number of tasks assigned to their agency.
[148] For example, a December 1992 internal World Bank memo complained that "due to frequent political changes in 1992, efforts directed at achieving progress in expanding national consensus concerning the need for managing public funds more efficiently, with transparency and responsibility, have not been sufficient. CONSAFCO has met only once in 1992, and higher-level officials in Bolivia, some even in the Ministry of Finance itself, do not demonstrate that they understand or appreciate the importance of the new law…".

The organization's challenge in 1982 was to rebuild internally and impose some degree of order on the public sector. Sánchez de Lozada took that relatively modest goal much further and attempted a profound, far-reaching public sector reform. But as the former CG himself admits, "the politicians weren't ready for SAFCO. I was the only one who might have been able to convince them, with time. But my time ran out."[149] Since the mid-1990s, the CGR has redefined its critical task in a much narrower way to fit the more immediate problem of organizational survival. Its employees are to focus on the goal defined for the CGR by SAFCO: the exercise of ex-post control over public expenditures, by performing external audits.

Why didn't the CGR persist in its struggle to change bureaucratic culture in Bolivia? Why did it behave like the proverbial ostrich and put its head in the sand? It did this in the interest of survival. Particularly after the departure of the powerful CG, Sánchez de Lozada, and the appointment of a much weaker successor, the CGR was threatened with political interference in its technical decisions and, according to some anecdotal evidence, in its managerial autonomy. It became apparent that the agency could not push too hard in its independent auditing activities. Instead, the best way of avoiding interference was to close itself off, keep a low profile, and try to be at inconspicuous as possible.

Today, the vast majority of the agency's auditing activities are not part of the agency's own annual work plan, but are so-called special audits, requested by members of Congress or the Executive. According to government audit expert Jim Wesberry, these requests are often used by the government as a way of controlling the direction of the

[149] Interview, La Paz, 1 February 2000.

supreme audit institution's scrutiny.[150] The current CG is criticized by the press and public opinion for being too docile, and CGR officials repeatedly seem to downplay their agency's role, for example by affirming that it is ***not*** part of the CGR's mission to fight corruption.[151]

The CGR seems to have made a Faustian bargain with politicians, renouncing a good deal of its technical independence in exchange for managerial autonomy and agency survival. Its staff has so little communication with the agency's task environment that one CGR official admitted that he has heard people refer to the agency as "the cave of Ali Baba", implying that it is a closed and secretive place. The CG himself, when asked why he grants so few interviews to the press, affirmed, "the Contraloría's policy is to work in silence. I don't grant interviews with the press because my job is not to provide information."[152] Furthermore, he affirms that since he accepted the post, he has never spoken to the President and rarely communicates with Congress. It seems clear that the CGR is not politicized in the way that most of Bolivia's public sector is, but the price it pays is the irrelevance of its role as an audit institution. Thus, although it maintains its formal managerial autonomy, it sacrifices its technical autonomy by isolating itself and losing its role as an effective member of Bolivia's political institutions.

Observing agency strategy

The goal of this chapter is to develop an explanation as to why two agencies with similar degrees of formal (structural) autonomy in managerial and technical decision-

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[150] In other countries, such as the United States, the supreme audit institution also conducts most of its audit work in response to requests by members of Congress. Unlike the CGR, however, the U.S. General Accounting Office engages in dialogue with legislators to ensure that the investigation is framed in an objective way, and can decline requests if the requestors are not willing to allow GAO auditors to look at all sides of the issue.

[151] Interview, La Paz, 19 August 1999.

[152] La Razón, 19 June 1996.

making in fact have very different levels of real autonomy in these areas. Drawing on the organizational theory literature, I contend that the type of strategy the agency adopts vis-à-vis its task environment is a key explanatory variable. Furthermore, I argue that a cautious engagement strategy – focused on the three areas of critical task (agency mission), agency expertise, and agency performance – will result in greater real autonomy and effectiveness than a strategy geared towards protecting formal managerial autonomy by insulating the agency from its task environment.

The agency's strategy can be observed along several dimensions. In her study of U.S. federal bank supervision agencies, Khademian (1996) identifies three factors that affect the degree of informal autonomy a public organization has: "structural autonomy does not guarantee an autonomous existence. Autonomy also turns on the consensus for and clarity of an agency's mandate, whether it has a monopoly on expertise valued by political overseers, and the presence of a clear measure of agency performance that motivates agency personnel" (85). Various empirical studies of organizational behavior, including the cases of the SBEF and the CGR, suggest that where an organization falls along these indicators is not pre-determined. Indeed, the agency itself often has the power to influence these factors. The manner in which the agency tries to influence these dimensions indicates its strategy.

Clarity and consensus for agency mandate As far back as the 1950s, attempts to explain why some organizations are more autonomous than others have emphasized the importance of a clear organizational goal that is generally accepted as important. As I observed earlier in this chapter, many public agencies are created with very vaguely defined goals. This can be either a threat or an opportunity. On one hand, it offers a chance for the organization to identify what it is able to do best (given the human and financial resources it possesses) and define that as its goal, thus maximizing its chances for successful performance. On the other hand, agencies with vague mandates that fail to define a clear goal for themselves, or that define a highly unpopular or controversial goal, run the risk of frequent attempts at political interference.

Khademian (1996) describes how the U.S. Federal Reserve has shaped its vague mandate to define its own role in monetary policy, eventually making monetary policy its primary mission (as opposed to its administrative functions of establishing Federal Reserve Banks and supervising banks belonging to the Federal Reserve system). Its managers are careful to protect the agency's reputation for consistent and prudent policies: "it maintains some consistency in its policymaking by adhering to internal standards such as management's definition of 'doing the right thing' rather than definitions of good policy determined by the current political climate…. [The Fed's expertise] requires constant vigilance to protect the system from the political pressures that would assert more control over the power to coin money and regulate its value" (Khademian 1996, 136-137). Khademian describes how federal policymakers view the Federal Reserve as an eminently collegial, fair, and reasonable oversight entity. The agency's commitment to consulting with the members of its task environment and taking the time to understand how regulations will affect those parties is part of what Khademian calls "an organizational commitment…to the preservation of the agency's autonomy" (138).

Wilson (1989) provides hundreds of examples of how U.S. government agencies shape their own mandates. For example, the Occupation Safety and Health Administration (OSHA) was created in 1970 by groups concerned with the dangers posed to workers by industrial health hazards (e.g., exposure to toxic chemicals). But in the 1970s, instead of emitting regulations mostly related to health hazards, the agency did much more to address worker safety issues. According to Wilson, "the reason has nothing to do with insidious interest-group pressures or distorted personal values. Regulation-writers find it much easier to address safety than health hazards. The former are technically easier to find, describe, assess, and control than the latter" (Wilson 1989, 42). Unlike the Federal Reserve, however, there is considerable disagreement among politicians about what OSHA should be doing. Congress, especially, is divided over which areas OSHA regulations should concentrate on, and how strictly they should be enforced. Thus, OSHA's autonomy has been compromised as Congress has tried to control the agency by controlling its procedures (Wilson 1989).

<u>Banking supervision for a strong financial sector</u>. The clearer the agency's mandate and the broader the support for that mandate, the less vulnerable the agency is to interference from politicians and supervised groups. Since 1987, SBEF leaders have had a very clear idea of what the agency should do: harness the information it gathers from the financial institutions it oversees to promote a strong, modern, and trustworthy financial sector. This is not surprising, given the primarily technocratic nature of most of the agency's employees (with the partial exception of the first Superintendent).

This mandate, however, places the SBEF in the midst of a struggle between those who benefit from Bolivia's traditional ways of running the financial sector, and those who are pushing for more modern approaches that have begun to emerge with the repatriation of younger Bolivians who received advanced degrees and worked in the financial sectors of industrialized countries during their exile, as well as the growing presence of foreign banks (which have to comply with their home countries' supervisory standards as well as the SBEF's). On the first side are the traditional bankers who own family-run banks; the traditional business elite who use personal connections to obtain loans; and their political cousins. On the other side are the younger generations with overseas experience; multinational companies; foreign banks; and the donor community.

A classic example of this dilemma is the BHN-Multibanco case. Until the mid-1990s, BHN was one of the top five banks in Bolivia, and enjoyed national and international prestige. One of the owners of BHN was Fernando Romero, a prominent member of the MNR party and a close friend of Gonzalo Sánchez de Lozada. In early 1995, BHN began to encounter serious internal problems due to a poor-quality lending portfolio, including a large number of "*créditos vinculados*" with low repayment rates. Romero wanted to sell, but the bank had so many problems that it was unlikely anyone would want to buy it. First it needed to be returned to health. The rescue fund (FONDESIF), created in 1995, came just in time for BHN. Based on information about the bank provided by Romero, FONDESIF developed a rescue plan for the bank. The rescue plan failed, though, and it was discovered that Romero had given false information about BHN.

Meanwhile, Sánchez de Lozada was eager to attract foreign banks to Bolivia. He and Romero (by then Minister of Finance) agreed that since the FONDESIF attempt to salvage BHN had not worked, perhaps the bank could be saved by a strong foreign bank. Superintendent Trigo wanted to intervene immediately and liquidate BHN, but the President himself telephoned Trigo at his office and forbade him to interfere. Fernando Candia, then-President of the Central Bank, also supported Romero and told Trigo to stay out of the matter. Trigo resisted this blatently political influence on what should have been a technical decision by the SBEF. However, he finally agreed to a second rescue plan, under the condition that Romero remove himself from BHN's management.

In 1996, a second rescue plan was developed, involving purchase of BHN by Citibank. Trigo required Citibank to conduct a financial audit of BHN, knowing what the audit would find. An SBEF official familiar with the case told me:

> "Trigo had just started his term as Superintendent, and he was too weak to fight against Goni [as Gonzalo Sánchez de Lozada is known in Bolivia] and the MNR. He had Citibank do the BHN audit because he knew they would find something and they would be able to do more than the SBEF could with that information. Goni really wanted foreign banks in Bolivia, he saw that as an important measure of the success of his economic reform program, so he would pay attention if Citibank said, 'We're not buying BHN until you fix these problems.' Goni wouldn't have paid any attention to the SBEF, but he would listen to the Americans."[153]

Citibank conducted the audit, frustrated by Romero's lack of cooperation and truthfulness. When the audit was finally completed, it found evidence of fraud, criminal activities (*créditos vinculados*), as well as a blatant disregard for prudential banking norms. Furious, Citibank's managers called off the deal. Sánchez de Lozada pressured Citibank, and finally they reached an agreement whereby Citibank would invest in Bolivia, but not through BHN.

When Citibank backed out of the purchase agreement because of the information it uncovered in the BHN audit, Trigo indicated that he would liquidate BHN. Romero complained to Sánchez de Lozada, who again telephoned Trigo and ordered him not to take this step. When Trigo ignored this order and continued with the liquidation proceedings, the President sent his guards to the SBEF and they obliged Trigo to stop.

The Superintendent finally obeyed the order for the time being, but the case did not die. After Sánchez de Lozada's term ended in August 1997, Trigo continued to investigate BHN, which eventually failed. In July 2000, the SBEF issued sanctions against Romero and his associates, forbidding them to engage in banking activities for the next 10 years.[154]

This incident reflects the SBEF's continual struggle to strike an appropriate balance between ensuring a healthy financial sector and not alienating the politicians whose support

[153] Interview, La Paz, 14 February 2000.
[154] La Prensa, 7 July 2000.

is still quite necessary for the organization's informal autonomy. A Bolivian observer familiar with the BHN case provided the following insight:

> "Despite how it looks on the surface, the SBEF didn't lose its technical independence during this incident. Trigo found a way to exert pressure on Romero without defying Goni too openly. He knew he couldn't beat Goni directly, so he used other methods: he demanded information from Romero, he imposed deadlines, etc. He made Romero's life as difficult as he could without openly going against Goni's orders. This worked because Trigo knew that Goni was also afraid of him [Trigo]. He knew he couldn't push too far against the SBEF, because Trigo could sound the alarm in the press, and more importantly, to the donors. They each knew they could only push each other so far, but Trigo won in the end because he had time on his side."[155]

In an environment that obliges it to make some allowances for politics, the SBEF has gradually succeeded in developing informal mechanisms to persuade bank management to change their behavior and thus avoid contentious liquidations. By convincing the regulated sector that the SBEF's success will be their success, the agency has won support for its mandate from most of the banking industry. The agency's strong performance has also convinced the more modern elements of the main political parties that a weak financial sector is a "public bad" that would ultimately hurt the country's politicians. This realization has encouraged most politicians (with a few notable exceptions) to refrain from intervening in the SBEF's technical decisions.

Under the first and third Superintendents, the agency also generated support among less closely connected groups. Both Superintendents developed very close ties with the IFIs, particularly the World Bank and the IDB.[156] While IFI support is not enough to guarantee sustained autonomy, the BHN case shows that it plays an important background

[155] Interview, La Paz, 16 February 2000.
[156] Superintendent Trigo was employed at the IDB, and according to some sources he hopes to return there when his term ends. See Schneider (1993) for a discussion of how regulators' future career prospects affects their regulatory decisions.

role. Finally, the SBEF's persistence in pursuing and if necessary sanctioning bank mismanagement, has earned it the support of depositors.

Auditing for accountability and results. Since its creation after the Kemmerer mission in 1928, the CGR has been embroiled in a controversy over its mandate. Essentially, the agency depends upon and responds to everyone and no one. It oversees public expenditures and management practices in the Executive, but legislation states that it depends only on the President (and to some extent on the broader Executive Branch, for budget allocations). Congress can also order CGR audits, and the CG is supposed to report to Congress about the agency's activities. Finally, since the passage of SAFCO the CGR has no power to impose any sanctions when it finds evidence of mismanagement or corruption; the decision to impose sanctions lies with the judiciary.

The CGR is a potentially powerful instrument of government control, and both the Executive and the legislature would like to use it, either out of a genuine interest to improve public management and/or out of a self-serving desire to discredit the political opposition. In practice, however, the complexities of coalition building that determine Bolivia's governability have rendered the CGR largely irrelevant (with the exception of politically-driven witch hunts that occur between rival parties that are not governing together in a coalition arrangement). According to my interviews in Bolivia, there is a sort of *de facto* understanding among the major parties not to uncover too much of each other's illegal activities or, if misdeeds are discovered, the politically powerful are not to be punished too harshly.

The CGR itself has contributed to this situation. Most public organizations are led by people who had nothing to do with the agency's creation and must find ways to work within the constraints contained in the legislation that established the agency. The CGR is unusual in this sense: as prominent players in drafting the SAFCO law, the CGR's leaders had a singular opportunity to shape legislation that fundamentally changed their agency's mandate. The way the CG and his reform team defined their critical task – holding public managers accountable – led them to introduce into SAFCO a highly ambitious and complex set of responsibilities.

Originally, the law was going to be limited to reforming financial management requirements, but several factors conspired to make it much more complex. First, the vigorous and idealistic personalities of the CG and his reform team led them to dream of the possibility of affecting a deep-seated change in Bolivia's public management. Second, their aspirations met their counterpart in an equally ambitious and fervent World Bank public sector reform expert who guided the development of SAFCO. Finally, the CGR reformers and the donors were working during a period when Bolivia represented the "Latin American miracle", a country which was turning its economy around almost overnight. There was so much to be done, and the euphoric mood made it seem that this was a unique moment when anything was possible.

Ultimately, the version of SAFCO that was passed by Congress sets out a very complex set of responsibilities in the exercise of the CGR's oversight function: a) to improve efficiency in the way public resources are used; b) to improve the reliability of information about those resources; c) to improve procedures through which public authorities are held accountable for the results of their decisions; and d) to improve the administrative capacity to prevent or identify inappropriate use of public resources.

Antonio Sánchez de Lozada recognized that it would take time to implement SAFCO. During his mandate, he had a clear objective: "the way to ensure that public managers would be held accountable was to force public agencies to set up the management systems that would provide information on what had been done. So, I spent most of my energy trying to get agencies to set up these systems."[157] Of course, since the Ministry of Finance delayed SAFCO's application by not passing the implementing regulations for the systems until 1997, the CGR had no formal means of obliging agencies to establish integrated management systems.

According to my interviewees, Sánchez de Lozada's successor has done much less to enforce the philosophical changes legislated under SAFCO. Comments about the CGR's current approach include, "the CGR is only concerned with procedures: did the agency follow the rules or didn't it?" "CGR audits look at tiny things, like whether there are the correct number of copies of a particular document, or whether the civil servant signed in the right place. But they don't look at the important things." "Under the current CG, the CGR is going more for quantity [of audits] than for quality. But their reports are very basic, they look at formal aspects but they don't look at the management questions." One former CGR official observed, "Of course the CGR can't do its job as defined by SAFCO, because most of the agencies don't have the systems in place, so there is nothing to audit!"[158]

Unlike the SBEF, the CGR has done almost nothing to try to generate a political and/or societal consensus around its mandate. Its closed attitude extends even to the donor community: the agency is notorious among donors as uncooperative, slow to provide information, and secretive. In the past four years, Bolivia has seen a growing movement among citizens, the media, and some political leaders to fight corruption and promote transparency in the public sector. This might be seen as a golden opportunity for the CGR to win widespread, nonpartisan support by presenting itself as a force for fighting

[157] Interview, La Paz, 8 February 2000.
[158] Interview, La Paz, 15 July 1999.

corruption. Instead, the CG persistently refuses to respond to this demand, affirming that the CGR's job is limited to conducting audits of the public sector, and that once the audit is completed, "the CGR has done everything it needs to do, and the problem is one for the judiciary, not the CGR."[159] This closed attitude is a strong indication of the CGR's attempts to insulate itself from all elements of its task environment, and the result is a notable lack of public support for the organization.

Value of agency expertise One of the primary motivations for politicians to delegate policymaking and other tasks to public organizations is that these agencies have developed, or are expected to develop, a degree of technical expertise higher than that possessed by the executive or the legislature. Once delegation has occurred, politicians are more likely to continue to respect the agency's technical and managerial autonomy if they rely on the agency's expertise to make policy, run the government, and meet other goals that they or their constituents have defined as priorities. If, on the other hand, the agency does not develop recognized expertise, or if politicians do not rely on the agency's expertise to fulfill some larger goal, they will be more likely to interfere in the agency's decisions. Especially in a politicized bureaucracy such as Bolivia's, autonomous agencies are under constant pressure to highlight their professionalism and remind politicians how important their continued independence is to the attainment of national goals.

How do they accomplish this? One way is through the development of professionalized staff. Both the SBEF and the CGR pride themselves on their meritocratic and highly publicized personnel policies, and it is widely recognized in Bolivia that in these two agencies people are hired for their technical abilities rather than for their political affiliations or family connections. Front-line employees who carry out the organizations'

[159] La Prensa, 11 December 1997.

main activity (bank examinations and government audits) are members of professional groups (economists, lawyers, public auditors or accountants) with their own set of professional standards. This affiliation with an outside group (the profession) drives the employees' behavior at least as much as their employment in the agency. As Wilson (1989) says, "because the behavior of a professional is not entirely shaped by organizational incentives, the way such a person defines his or her task may reflect more the standards of the external reference group than the preferences of the internal management" (60).

Another instrument for adding value to the agency's expertise is by becoming the country's "authoritative voice" on a particular subject. Particularly in subject areas where many opinions are launched from different parts of society, and clear information may be difficult to obtain, politicians value an agency that gives consistent, reliable pronouncements. Khademian (1996) cites the example of the Federal Reserve and its interpretation of the U.S. economy, on which Congress and many other economic interests depend: "this is not to ignore the vast number of institutions and economists competing to examine and give meaning to complex economic indicators, but it is precisely because of the competing sources (and the resulting noise) that the Fed's opinion carries the most weight" (108).

Weighing in on the state of banks. With the appointment of del Río as Superintendent, the SBEF began to develop its reputation for technical expertise. Initially, the agency did not have the capacity to conduct bank examinations, but with intensive and long-term guidance from donor agencies, it began to develop in-house knowledge. Del Río recognized that one of the main obstacles to the development of technical expertise in the Bolivian public sector is the extremely high rate of personnel turnover at all levels. One of his main priorities was to hire and retain a cadre of enthusiastic, intelligent young staff who would keep the resources spent on their on-the-job training inside the agency. By providing an attractive internal career path for SBEF employees, del Río laid the groundwork for good banking supervision.

This initial progress was bolstered by a strong donor presence *within* the agency. This was different from the usual pattern of aid agencies in Bolivia, which was to open special project units that were attached to, rather than integrated in, Bolivian state agencies. In the case of the SBEF, for example, if a congressional committee wanted more information about the health of Bolivia's banking industry, its members did not have to turn to a foreign consultant working in a discrete project unit; rather, they addressed the SBEF directly. Although the answer may have been provided to SBEF officials by a foreign consultant within the agency, it was the Bolivian SBEF official who delivered the reply to Congress. This conferred a greater appearance of technical proficiency upon the agency, allowing it to earn credibility with politicians as its employees' knowledge grew.

If it is true that greater agency expertise breeds greater autonomy, then it should also be true that when politicians come to doubt an agency's expertise they will be more likely to interfere in the agency. The SBEF case lends support to this hypothesis. The political scandals that occurred towards the end of del Río's term affected the SBEF's reputation during the term of Ramiro Cabezas and the beginning of Jacques Trigo's term.

In 1994-1995, the agency's technical decisions were subject to considerable scrutiny by Congress. In March 1995, for example, Cabezas testified before Congress about his decision to liquidate Banco Sur and Banco de Cochabamba. In July1995 Fernando Kieffer, a prominent congressman from the ADN party, told a national newspaper: "the SBEF must pass the test of fire and demonstrate its efficiency and responsibility in its supervisory activities by taking timely decisions… Ethical behavior and responsible management must be imposed on the banking system, and Congress will monitor closely the actions of the SBEF."[160] One month later, the president of the Senate's Commerce and Industry Committee told another newspaper that the MNR-controlled Congress should supervise more strictly the actions of the SBEF.[161]

There were also criticisms of the agency's personnel, ranging from complaints about their technical qualifications to allegations of corrupt behavior. In July 1995, a national newspaper referred to the SBEF's examiners as "either inept or working towards forbidden objectives."[162] In August 1995, COB demanded an investigation of SBEF executives to determine their knowledge of criminal activities undertaken by the owners of three Bolivian banks.

Under Trigo, the agency has recovered and indeed strengthened its reputation for technical expertise. The nature of the bank examiners' work renders politicians' and citizens' trust in the agency's expertise particularly important. As I discussed earlier in this chapter, the SBEF falls into the category of what Wilson refers to as a "craft" agency: managers can observe outcomes, but cannot observe outputs (either because employees work in an area physically removed from the manager, or because of the nature of the work itself, or both). The SBEF learned from its experience under Luis del Río that the outcomes of banking supervision are not as easily observed as outcomes in some other craft agencies (such as a police department's detective unit solving a crime, or public works department engineers building a dam or a road in a remote area). Outcomes from much of the activities that constitute banking examination take a long time to become apparent. For example, an examiner may recommend some changes in the composition of the loan portfolio but even if

[160] Presencia, 1 July 1995.

management accepts these recommendations the bank might still fail. Assessing the quality of bank management is especially difficult,[163] and yet Bolivian observers point to poor management as one of the main causes of bank failures in their country.

The difficulty involved in observing outputs has led agency managers to develop formal and informal means to control the activities of SBEF employees engaged in bank supervision. Formal methods include checklists and detailed examination manuals. Informal methods include, first and foremost, a heavy reliance on "the ethos and sense of duty of its operators to control behavior…[derived from] an internalized set of professional norms" (Wilson 1989, 167). This "profession-induced ethos" is reinforced by the development of a strong identification with the agency, through mechanisms such as regular training, organizational retreats, and frequent communication between examiner staff and other SBEF employees.

Auditing public management. One of the findings of my research is that despite the CGR's considerable degree of formal authority, its real autonomy is limited. Limited autonomy does not necessarily mean active political interference in the agency; it can also manifest itself in the scant impact of the agency's technical decisions. This has occurred in the case of the CGR.

Under Antonio Sánchez de Lozada, the CGR gained a reputation for conducting rigorous investigations and applying sanctions according to the law; he signed arrest orders with great enthusiasm. He was not afraid to audit the most powerful people in Bolivia's public sector, and punish them if necessary. In 1992 (the same year Marcelo Zalles replaced Sánchez de Lozada as CG), the CGR's power to judge the accused and impose sanctions

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[161] Última Hora, 6 August 1995. Jacques Trigo, the new Superintendent, was considered loyal to the MNR party, though he is officially politically independent.

("*juicio coactivo*") was transferred to the judiciary. This reform, combined with the low profile adopted by Zalles, has led to a marked reduction in the number of cases processed. The very small number of powerful people found guilty for SAFCO violations is particularly noticeable. Even when the CGR submits a finding of "responsibility" to the judiciary, the accused is rarely found guilty, or if he is, he successfully appeals the verdict.

The CGR is the only organization in Bolivia authorized to audit public sector expenditures and programs, and thus we might expect that its expertise would be valued, since it is the only agency authorized to gather potentially valuable information for the executive and legislators. Instead, Bolivian politicians, public employees, and citizens have little respect for the CGR's expertise. In recent years, the agency has even lost the respect of World Bank staff, although in 1995 the World Bank named it one of the top three supreme audit institutions in Latin America. A senior World Bank financial management expert told me, "I think part of the reason why the CGR isn't able to recover more misspent money is because it's incompetent!"[164]

A craft organization like the SBEF, the CGR has also focused on attracting technically-qualified professionals based on meritocratic selection and promotion procedures. Unlike the SBEF, though, former CGR employees report a negative work environment in the agency, including authoritarian leadership, absurd training requirements, and lack of team spirit among employees.[165] Public employees also complain that the CGR

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[162] Opinión, 28 July 1995.
[163] See Khademian (1996), pp. 37-39 for a discussion on the "art" of examining bank management.
[164] Interview, La Paz, 16 February 2000.
[165] Most of the information I gathered on the negative work environment at the CGR was from former employees. I was only allowed to interview three current CGR employees (including the CG), and one did confirm that the work environment is not entirely positive. While it is true that former employees may have had a bad experience at the agency and be more negative about it, I believe that the frequency of these comments as well as the former employees' different reasons for leaving (e.g., none were dismissed, all left voluntarily) makes their comments reasonably reliable.

adopts an uncooperative and even punitive attitude towards them. One Internal Audit Unit auditor told me:

> "the CGR is not helpful to internal auditors. If you call them to ask how a certain procedure is supposed to be done, they tell you, 'You just do the procedure. We are auditors, we'll do the audit after you've done it and we'll tell you if you've done it properly or not.' But if we've done it wrong, they'll emit a finding against us. They seem to see us as the enemy, and we definitely see them that way. They visit agencies to conduct audits and they are just looking for things they can write us up for. But they don't help us to avoid mistakes."[166]

The CGR does use formal mechanisms such as audit manuals to control its auditors' work, but they are mainly judged on the number of reports they submit and the number of observations in those reports. If these reports were an effective way of obliging public employees to run their agencies more efficiently, for example by improving service delivery, then surely the CGR would win public support. Instead, as I have described above, people see the agency as focusing on overly detailed, irrelevant "violations" of procedures, rather than on the results achieved by the program or agency.

Winning politicians' support in an environment as politicized as Bolivia is more difficult. A large part of the problem is that most politicians are not motivated primarily by public sector performance, except at the macro fiscal level. Unlike the SBEF case where politicians have a personal/electoral interest in ensuring that the economy works well, a well-performing CGR has not been as relevant for Bolivian politicians, because until very recently they have not been punished by voters for poor public sector performance or even for a corrupt administration. Thus, no matter how strong the CGR's technical expertise, politicians were not interested in using independent audits as an instrument for improving public administration.

When the CGR has on occasion emitted a finding that a prominent politician has violated SAFCO, or even engaged in criminal activity, the judiciary has often simply ignored the report.[167] When this happens, the damage to the CGR's reputation is magnified by commentary in the press complaining about the agency's weakness and ineffectiveness at fighting corruption. Under these circumstances, it is not surprising that the CGR has focused its energies more on survival: keeping a low profile and not conducting audits of high-level/high-profile agencies, unless requested by congressmen or the Executive.

Clear performance indicators Khademian (1996) hypothesizes that "an agency with…an unambiguous measure of how well it has achieved [its] goals is likely to have greater autonomy than an agency that labors in a less defined context. Political oversight will be less intrusive to the extent that elected officials and the public can refer to an immediate barometer of performance" (108). In principle, the existence of clear – preferably quantifiable -- performance indicators should reduce politicians' temptation to exercise micro-level scrutiny into an autonomous agency's actions, because it makes it easier for politicians and society to hold the agency accountable for its actions. This is especially true for agencies engaged in highly technical activities, where it is not easy for non-experts to assess performance.

This hypothesis, of course, is based on two assumptions: first, that a consensus exists among politicians and society about what the agency should be doing; and second, that politicians and society put high priority on this agreed-upon goal. In Bolivia, as in many countries, these assumptions are often not realistic. There are frequently very different preferences between political groups and social actors about what the state should be doing.

[166] Interview, La Paz, 14 February 2000.

Also, even when there is consensus about the general direction an agency should be working in, politicians' need to respond to patronage demands may result in behavior that threatens the agency's ability to perform optimally along the formal indicators. When political interference occurs regularly, the agency's employees learn that their formal performance indicators are not really the ones they are being judged by. This "gap" between formal and informal incentives can destroy an agency.

Agency executives, particularly in young agencies or ones that have undergone a profound internal reform (such as the SBEF and CGR in the 1980s) have the power to select, or at least shape, the performance indicators by which their agencies are judged. The type of indicators agencies choose for themselves is indicative of the kind of strategy they are employing to protect their autonomy.

<u>The health of the banking sector</u>. With an overall goal of ensuring a safe and sound financial sector, there are a number of indicators observers can point to when assessing the SBEF's performance. But the judgment of what qualifies as a "good" value on these different indicators is still subject to debate. For example, industry growth (in terms of numbers of banks, size of banks' assets, or banks' annual profits) might indicate a healthy banking industry, but could also be interpreted as danger signals (e.g., the concentration of assets in a few large institutions could lead to an unstable situation if those institutions failed) (Khademian 1996). In other words, there is not a "correct" number of banks or asset size that should exist in a country like Bolivia.

This ambiguity presents both a challenge and an opportunity. It is a challenge because there is no readily available, indisputable indicator by which to evaluate the SBEF's

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[167] In a recent example, the CGR found that the Prefect of La Paz – also President Banzer's son-in-law – had engaged in criminal activities using public funds. The case went to trial, and the Prefect was absolved.

performance, making it more likely that politicians will try to exert close political control. It also makes it harder for the SBEF to defend itself against accusations of poor performance by the sensationalist members of Bolivia's communications media. Ambiguous performance indicators also provides an opportunity, however, because the SBEF has been able to formulate indicators that lead its principals to focus on the areas it considers important.

When the SBEF was re-created, the first Superintendent developed performance indicators that reflected his intention to use an engagement strategy in ensuring his agency's autonomy. His main concerns were: 1) to conduct initial examinations of all Bolivian banks and identify which ones could be rescued; and 2) to develop a new regulatory framework (with a new banking law as the centerpiece). During his term, the agency was generally credited with doing a good job in emitting circulars and other regulations, as well as designing an acceptable banking law. The process by which he laid the groundwork for these norms was highly consultative. An ASOBAN official told me, for example, "Luis del Río was always very open to the bankers. When he was preparing a document or when he had to implement a new banking rule, he would let us know and we would talk about it. It wasn't that the bankers were writing the rules, but we knew del Río understood our needs."[168] On the bank examination side, he judged his own performance on the number of banks he could rescue. The fact that he rescued quite a few banks that were on the verge of failure also won him considerable support from the banking sector, since it suggested that he would go to extreme lengths to avoid bank liquidations.

Bolivian politicians and societal actors also (perhaps unknowingly) encouraged del Río's "bank rescue" indicator. When his successor, Ramiro Cabezas, liquidated two large banks, politicians immediately increased their scrutiny of the SBEF. However, Bolivians have come to realize that rescuing banks that are really poorly run is worse in the long run, so the unsophisticated "bank rescue" indicator has fallen out of favor.

The current Superintendent has been very adept at using the existence of international standards for banking supervision to the advantage of his organization. Not all sectors have widely accepted "best practice" standards, but banking supervision does. In the absence of agreement about what constitutes a "healthy" financial sector, the second-best option is for the SBEF to be able to show its supervisory practices are in compliance with state-of-the-art standards set by advanced economies. In addition to its attempts to clarify its performance indicators, the SBEF makes a concerted effort to inform the public about its activities. It regularly publishes information on the results of its supervision, available on its website and in paper reports.

Moreover, under Trigo the SBEF has worked to obtain greater control over the outcomes of liquidation processes, which remains one of the most problematic and public indicators for the SBEF to do well on. Traditionally, bank owners were closely involved in liquidation processes, and they were very effective at making the process extremely slow, posing a potential threat to the financial system if there is a generalized drop in depositor confidence. In 1999, the SBEF initiated a bill which was passed into law in May 1999, authorizing the agency to remove the owners of banks that are being liquidated and to replace them with an *Intendente*, who manages the asset valuation and other aspects of the liquidation process. By obtaining control over this indicator, the SBEF has been able to improve its performance in managing liquidation and has thereby increased its technical autonomy.

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[168] Interview, La Paz, 16 February 2000.

Counting audit reports. Based on the pattern described throughout this chapter, it comes as no surprise that the CGR has had difficulty in defining a meaningful performance indicator for itself. Its vaguely defined, controversial goals have driven its leaders to a kind of "tunnel vision" approach where they relentlessly focus on outputs and try to convince politicians and society that this is sufficient. Struggling to protect itself from political interference, the CGR has tried to simplify its managerial problem by attempting to recast itself as what Wilson (1989) calls a "production agency", in which both outputs and outcomes are observable. Hence, it defines its own performance in terms of "number of audit reports produced."

The most immediate problem with this performance indicator is that neither the CGR's political principals in Congress nor the Bolivian citizenry is satisfied with a supreme audit institution that, as one interviewee put it, "works as a paper factory." In April 1999, when the CGR was under a particularly strong attack by members of Congress, the CG offered several newspaper interviews in which he proudly pointed to a steady increase since 1992 in the number of annual audit reports the CGR produced.

Senator Gastón Encinas, a prominent member of the MIR party, countered the CG's insistence that the CGR was performing well because it was producing more audit reports than when he took over in 1992, by presenting the performance indicator that he and other Bolivian politicians consider most important. He argued that the CGR is an ineffective oversight agency because it was not successful at recovering the funds that its reports identified as having been misspent.[169] According to the CGR's 1998 annual report, in that year it detected a total cost to the state of US$11 million in misspent funds (whether through improper management or corruption). According to a World Bank report, "recent statistics quoted in the Bolivian media…only US$1 million have been recovered (just over 9 percent)" (World Bank 2000, Vol. 2, 30).

The CGR rejects the contention that it is ineffective because it does not succeed in recovering the misspent funds, by arguing that the real fault lies with the judiciary. It is undeniable that one of the results (perhaps unintentional) of the CGR reform has been to reduce the control the agency has over the results of its own work. This is one way in which its technical autonomy is severely compromised: if the agency does not expect to recover much, if anything, from its audit findings, then it has little incentive to risk alienating politicians by being aggressive in deciding what to audit. Thus, an innocuous performance indicator such as "number of audit reports" fits the CGR's survival priority and its insulated approach to retaining as much of its autonomy as possible.

However, the CGR itself contends that fighting corruption is not its main objective; rather, it claims to be trying to improve the quality of Bolivia's public administration. Clearly, though, it is not achieving this objective either. As I showed earlier in this chapter, the CGR's highly insulated and isolated behavior prevents it from acting as a constructive influence on the agencies it audits. Public managers I interviewed complained that the CGR was "destructive rather than constructive", made them feel "fearful" and "confused", and "did not make helpful suggestions to improve management". Even a high-level CGR official, in an unusually candid interview, admitted:

> "The CGR is supposed to be a control agency, not a sanctioning agency. But the system is set up in such a way that it encourages us to look for mistakes and impose sanctions. There is definitely a problem of communication between the CGR and the entities we audit. In my opinion, the CG should work on having a more friendly relationship with the public entities we oversee. But he doesn't want that… he doesn't really care if they are angry.

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[169] Última Hora, 17 April 1999.

The punitive aspect shouldn't be the most important in the audit work we do, but it is."[170]

The CGR finds itself in a difficult situation. It fears interaction with its political principals (the President and the legislature) because they threaten to limit its autonomy. It insulates itself from the public agencies it oversees because it is afraid they will capture CGR auditors, but this limited contact has the undesired effect of severely constraining the amount of a critical resource – information – the CGR can access. In the end, the CGR has isolated itself from all members of its task environment and given up its influence.

Summary Compared to most public agencies in Bolivia, the CGR and the SBEF are highly independent. Part of their independence comes from the formal structures contained in the laws that created them. Another important part, as I have shown in this chapter, has to do with the strategies developed by each organization as their leaders struggled with the dual objectives of independence and survival within a highly politicized context. Public organizations' informal autonomy is built upon how clear their mandate is, how much their expertise is valued, and how widely accepted their performance indicators are.

In developing countries even more than in the industrialized world, vague mandates often afford public agencies considerable flexibility to affect these three dimensions. This is where the agency's strategy comes into play. I have shown how an AOA that insulates itself, such as the CGR, usually has reduced independence. Its limited contact with its task environment reduces its ability to develop a clear mandate on which there is political and public consensus; it does not carve a role for itself as a valuable source of expertise; and the

[170] Interview, La Paz, 1 February 2000.

performance indicators it develops are unlikely to be meaningful to its potential constituencies.

A cautious engagement strategy, on the other hand, allows an AOA to communicate easily with members of its task environment, even those who are potentially hostile to its oversight responsibilities. The case of the SBEF shows how a prudent engagement strategy can enable an agency to strike an appropriate balance between independence and accountability.

Chapter 6. Final reflections

Introduction

In the preceding chapters, I have shown how Bolivian politics is driven by two powerful forces: one, the need to obtain and carefully distribute resources to ensure on-going political support, and two, the pressure to comply with the demands of external actors who have so often been the primary providers of those resources. For most of the 20th century, the two sets of demands produced considerable conflict in Bolivia.

In the context of the Bolivian bureaucracy, one of the manifestations of this conflict lies in external actors' demand for professionalized, technically competent public agencies to manage certain key government functions, while domestic political, economic and social actors expected to exert broad influence over all areas of public employment and government policymaking in return for their support. Chapter 2 described how external actors' continued interest in Bolivia (first because of its economic importance as a mineral exporter, later because of its geopolitical position, and finally because donors wanted to showcase it as an example of successful results of the "Washington consensus") was plagued by serious concerns about the quality of its bureaucracy. These concerns, combined with the country's highly dependent position vis-à-vis the industrialized world, fed multiple attempts to develop "parallel" public agencies that would circumvent the politicized morass of Bolivia's large bureaucracy.

Many of these parallel agencies were created to conduct oversight functions (which I categorized in Chapter 3 as Type I agencies). Such agencies were particularly attractive targets for politicization, and most of the autonomization efforts were short-lived, breaking down after the Executive changed hands or the agency head departed. A few of these oversight agencies, however, maintained at least some of their independence beyond the end of the president's or the agency head's tenure. The two basic questions I addressed in this thesis were, how did public agencies charged with oversight tasks become autonomous, and how did some of them retain their autonomy over a relatively long period of time?

Chapters 3 and 4 use a two-level game framework to explain how at certain times Bolivian presidents have been able to cast themselves in a strong Level 2 position (vis-à-vis domestic actors: legislators, business, and union groups), and thus enforce external actors' demands for creation of autonomous oversight agencies. By developing an explanation of factors that influence strength at Level 2, I go further than some authors who have used this framework. Specifically, my research shows that in the cases of the SBEF and the CGR, the political and administrative viability of ideas about autonomous agency creation constituted a key explanatory variable in determining presidents' Level 2 strength. Moreover, the two cases of AOA creation in the 1980s show that ratification of an agreement at Level 2 is not a guarantee that the agreement will be implemented. After ratification, Bolivian politicians and agency heads had to struggle to make the new agency fit with the political and administrative context of their country's bureaucracy.

Chapter 5 addressed the issue of sustainability: once an AOA is created, what factors account for its continued independence from interference by politicians and/or the regulated industry? While the degree of continued support by external and domestic actors is important, I showed how the behavior of top officials and front-line employees at the SBEF and the CGR also affected the degree of independence and relevance of these agencies. These individuals developed certain strategies that affected the degree of technical independence the agency could maintain. In the case of the SBEF, three variables were key for winning support from its task environment: its superior technical expertise; the high value placed on its activities by the IFIs, modernizing elements of Bolivian political parties, and the most successful members of the economic elite; and an aggressive communications strategy. On the other hand, the CGR began with a strategy of strong engagement with the task environment under the first CG, but since 1992 it has adopted an insulating approach to retaining its autonomy and as a result has had to resign itself to *de facto* political control over many of its auditing activities.

In this final chapter, the next section summarizes the main points of the argument I set out in chapters 3, 4 and 5, where I identified three explanatory factors that affect the dependent variable of AOA creation and sustainability. In the final section, I discuss how my findings may be relevant in light of the donor community's growing interest in autonomization as an instrument for state reform. I briefly explore the generalizability of the approach presented in this thesis to the other type of public sector agency discussed in Chapter 2: Type II agencies charged with public service delivery. This seems an appropriate way to conclude this dissertation, since in Bolivia the next wave of donor interest in autonomization has targeted service delivery agencies.

Explaining the creation and sustainability of autonomous oversight agencies

In my research, I identified two factors that increased the likelihood that Bolivian politicians would choose more autonomy in the creation of an oversight agency. First, pressure from external actors was a necessary, *but insufficient*, condition for the Bolivian government to consider autonomy. This empirical observation lends support to my argument that there is a middle ground between two popular hypotheses about the role of foreign aid in government reform decisions. One hypothesis that was commonly cited when developed countries first began providing aid to the developing world held that aid agencies could shape recipients' reform decisions *directly*, by linking policy conditions to resource disbursement. Although academia has rejected this hypothesis to a large extent, the donor community continues to lend as though it were true.

The second hypothesis, which is gaining ground among both academics and critics of the aid industry, is that external actors are *not* able to influence countries' reform decisions.[171] According to this hypothesis, years of experience by IFIs demonstrate that governments will not implement "good" policies simply because they receive aid. In an oft-cited example, Kenya and the IMF do the "reform dance," in which the IMF demands reforms in exchange for balance of payments support, Kenya approves the new policies and receives the IMF resources, and then retracts those policies almost immediately.

My research on administrative reform in Bolivia identifies instances where the government has adopted reforms under great pressure from external actors. In the first set of cases (Banking Superintendency and CGR in 1928), the agencies that were created under outside pressure were almost immediately captured by politicians or strong interest groups. In the second set of cases, however, autonomy has been retained. Again, I am not suggesting that external actors constitute the sole explanation for sustainability of AOAs in Bolivia; only that they constitute an important *part* of the explanation. For example, when Congress dismissed the Superintendent of Banks under pressure from one of ADN's coalition partners, strong informal pressure from the IMF, World Bank, and IDB obliged President Banzer to override the congressional decision.

In other words, there has always been considerable pressure from important outside actors whenever 20th century Bolivian governments have created an autonomous oversight

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[171] William Easterly's work (2000, 2001) on growth and development aid is among the most recent writing on this subject.

body. But external pressure *alone* is an insufficient explanation; the government's (particularly the President's) position vis-à-vis important domestic actors is also a vital element. Often, as Drake (1989) described in the case of the Kemmerer mission, domestic elites agree with external actors about the need for AOAs, and harness the influence of these external forces to push for a reform that they themselves favor.

At other times, however, domestic actors including elites strongly oppose the proposed AOA. Then, the government's position vis-à-vis *both* external and internal actors has an important impact on the outcome. In a country as highly dependent on foreign assistance as Bolivia, the government's negotiating position with external actors (Level 1) who can provide urgently needed resources is always quite weak. The President's position vis-à-vis key domestic actors (Level 2) has varied considerably in 20th century Bolivia. In the cases I studied, I found that a weak Level 1 position combined with a strong Level 2 position made it more likely that an AOA would be created. This occurred in three of my four observations: CGR and Banking Superintendency creation in 1928, and SBEF recreation in 1987. I also tested the counterfactual, that a weak Level 1 position combined with a weak Level 2 position made creation less likely, and confirmed this in my fourth observation: the failure to pass SAFCO legislation to grant the CGR renewed autonomy in 1987-1989.

This fourth instance of AOA creation is very important in disproving the first hypothesis mentioned above, that external pressure alone could be a determining factor in administrative reform decisions in aid-dependent countries. Despite sustained interest, resources, and pressure from the donor community to reestablish the CGR's autonomy as a necessary accompaniment to President Paz Estenssoro's structural adjustment program, the government was unable to muster enough strength to defeat strong resistance among other politicians upon whose support the government depended. Only in the subsequent administration was SAFCO passed – reportedly under an ultimatum from the World Bank. And in the decade since it was approved, it has not been fully implemented. This also lends support to a second – and seemingly obvious – point: that in matters of administrative reform, Level 2 ratification of a Level 1 agreement is not enough to ensure implementation. For unlike macroeconomic reforms which can generally be introduced by executive fiat, administrative reforms such as AOA creation require the participation of many different actors.

This leads me to a discussion of the second factor that emerged in my research as an important determinant in the government's decision to create an AOA: the proposed AOA's compatibility with the existing administrative and political environment. The stories of the SBEF's re-creation in 1987, and the struggle to regain autonomy for the CGR throughout the second half of the 1980s, lend support to the hypothesis that the strength of the President's position at Level 2 depends to a great extent on this compatibility. The more compatible the proposed AOA is with the existing institutional framework, the stronger the President's Level 2 position.

The cases of the SBEF and the CGR illustrate a point that is often overlooked in the literature on this subject. The President's Level 2 position is not monolithic; it may vary in different areas of administrative reform. As I showed in Chapter 4, President Paz Estenssoro's position vis-à-vis domestic political and economic actors was strong in the area of macroeconomic reform, thus contributing to the successful re-creation of the SBEF. During the same period, the President was in a very weak position in the area of internal government oversight, which explains his difficulties in getting SAFCO passed.

The implementation of reform in these two agencies certainly influenced Paz's Level 2 position. In the case of the SBEF, they had to build from the bottom up. Reformers were aware of the need to balance stricter banking supervision with the need to allow the industry to rebuild itself, and they were careful not to arouse resistance from the banking industry. The first Superintendent focused his attention on internal issues of selecting, training, and rewarding SBEF personnel, while allowing the banking industry to adapt gradually to the new rules of the game. Also, the President allowed his coalition partner, ADN, to select the Superintendent, thus conforming to the existing political environment with its ever-present patronage concerns. Patronage took precedence over familiarity with the appointee's technical expertise. Paz Estenssoro and his economic team had never heard of Luis del Río, but they allowed Banzer to select someone from outside the small circle of well-known technocrats (thus relinquishing any assurance that he would do a good job) because they knew they could win ADN support for the new SBEF by making a concession to patronage. This fit with the existing political environment in Bolivia's bureaucracy.

The CGR, meanwhile, already existed when the SAFCO law was proposed. The reformist CG aroused enemies immediately by trying to move rapidly out of the existing administrative and political constraints, and found itself facing enormous resistance from many domestic actors. The CG was successful in implementing changes within the CGR, but his attempts to push SAFCO through Congress flew in the face of Bolivia's administrative capacity, and of its politicians' ability to gather support for the reform.

According to a former high-level CG official, "SAFCO was written with the idea that strong internal controls [in all public agencies] would reduce the need for strong external controls… Its authors also assumed that by giving public officials individual responsibility for the results they achieved, these public officials would then behave more responsibly."[172] But in a bureaucracy where political patronage is the driving force, public officials' behavior does not respond to the logic of management systems. In the absence of a merit-based civil service, Bolivia's bureaucrats have a direct and immediate relationship with their political masters. These political masters, in turn, use their power to appoint and dismiss personnel at every level to control the day-to-day actions of the bureaucracy. In such an environment, SAFCO's presumption that giving public managers more individual responsibility would lead to results-oriented management[173] was unrealistic. When SAFCO finally passed, it was yet another example of a "law for export."

After identifying factors that help explain the political decision to create an autonomous oversight agency, I then turned to the question of sustainability. Given that autonomous agencies tend to have such short life spans in politicized bureaucracies such as Bolivia's, it is worthwhile to probe more deeply into the unusual cases where autonomous agencies do maintain some degree of independence in order to gain a better understanding of the conditions under which agency autonomy can be sustained. In the second part of this dissertation, I explored both political and organizational factors that contributed to the on-going autonomy of the SBEF and, to a lesser extent, the CGR.

In reviewing the literature on the behavior of regulatory agencies, I found that most analyses concentrated on the tools that elected officials have at their disposal in controlling agency action. Most of these studies concentrate on regulatory agencies in industrialized countries, whose bureaucratic environment differs markedly from that of many developing countries. In an industrialized country context, notwithstanding the considerable controls that elected officials can exert over government agencies, they are undeniably constrained by a series of

[172] Interview, La Paz, 1 February 2000.

legal and social controls that impose some limits on the extent to which they can shape agency action.

In developing countries, these legal and social controls tend to be much weaker. Thus, the sustainability of many autonomous agencies depends to an even greater extent on the favorable disposition of elected officials. Sometimes, however, agencies maintain their independence even in potentially hostile political environments. This occurred in two of the case studies presented in this dissertation: both the CGR (from the late 1980s to the present) and the SBEF (on and off since the bank liquidations of the mid-1990s) have faced opposition from powerful political forces that have attempted to undermine their independence. In both cases, I identified strategies that the agencies' leadership had adopted to guard against these political attacks and sustain the agencies' independence. I found that the SBEF's strategy of engagement with the task environment was more successful in the long run than the CGR's insulation tactics. This is somewhat counterintuitive: one might expect (and other studies have suggested) that the best way to retain agency independence is to minimize interactions with the environment.

In trying to observe the agencies' strategies, I focused on three variables drawn from public administration literature: agency leadership's ability to develop clarity and consensus around its mandate; the value placed by elected officials and other actors on the agency's technical expertise; and agency leadership's ability to create widely accepted, measurable performance indicators to show how well it is fulfilling its mandate.

For all three of these variables, the SBEF has been much more successful than the CGR. As part of their engagement strategy, Superintendents del Río and Trigo have made

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[173] "Results" as defined by objective auditors who would base their judgments on formal agency policies, rather than on what the agency's top executives were actually being directed to do by political party

the health of Bolivia's financial sector the cornerstone of the agency's mission. They have focused on achieving this goal by using a combination of tools to convince the financial sector to change its behavior, rather than by broadly imposing harsh punishments on banks and other financial entities. This mandate, and the way it is being implemented, appeals to a wide coalition of politicians, business groups, citizens, and donors. The CGR, on the other hand, faced the challenge of an ambitious mandate contained in the 1990 SAFCO law. Thus far, the agency has been unable to make much progress in fulfilling its mission. Although there is growing donor and citizen interest in fighting corruption in government, the CGR has failed to harness these demands towards achieving a popular consensus around its mandate.

Since its re-creation in 1987, the SBEF has created an image of an agency with highly specialized technical expertise, through very selective and transparent personnel policies. Only the top applicants are hired and promoted in the SBEF. The agency is known by politicians and the (informed) public as one of only a very few public organizations in Bolivia that have some kind of internal career path. In addition, the agency has managed to acquire responsibility for managing bank liquidations, another highly specialized activity that requires considerable training and experience. CGR staff, on the other hand, are described by the press and donors as inefficient and weak. Several newspaper articles have pointed out their inability to recover misappropriated funds. CGR staff defend themselves by arguing that their job is only to identify missing property or money, and that it is the judiciary's job to enforce punishment on the guilty parties. The judiciary responds by blaming the CGR for presenting inadequate evidence of wrongdoing. There is plenty of blame to go around for the lack of consequences for corrupt behavior in Bolivia's public

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leaders.

sector. However, the most important point is that the CGR's technical expertise is held in low regard in Bolivia, making it easy for elected officials and judges to ignore its findings.

Finally, although it is not able to establish direct performance indicators to measure its ultimate goal of developing a healthy banking sector, the SBEF has been able to develop indicators to measure how good its supervisory practices are. Under Superintendent Trigo, it has drawn upon internationally accepted standards for "best practices" in banking supervision to which it adheres consistently. For its part, the CGR has established as its quantitative performance measure the number of audit reports and findings it publishes every year. But far from satisfying politicians and the public as a way of observing how well the agency is performing, this measure contributes to the perception of the CGR as a "paper factory."

Instead of recasting itself as a valuable asset in the fight against corruption, Bolivia's CGR has tended to keep a low profile. Its current priority is to protect its independence at two levels. At the agency's highest level, its leaders have cut themselves off from the Executive and the legislature to avoid political interference in CGR's work program. In fact, though, the agency has consented to an unwritten pact in which it will not probe too deeply into sensitive political matters, and in exchange its political principals leave the CGR to its more mundane investigations of lower level public managers. At another level, the CGR is intent on protecting its auditors from interference by the agencies they audit (to avoid the previous situation of the *interventores*). In so doing, it has cut itself off from the public managers whose cooperation it requires in order to carry out its work. While avoiding political violations of its personnel and financial autonomy, the CGR has given up technical autonomy by failing to build the support it needs from its task environment in order to make independent decisions about which audits to conduct.

Autonomous agencies: the secret to state reform?

Since the mid-1990s, international aid agencies – arguably led by the World Bank – have paid increasing attention to the role of the state in developing countries. Particularly in its work with Latin American governments, the donor community has taken a renewed interest in reforming the state. While the structural adjustment programs that dominated lending in the 1980s helped Latin American countries achieve macroeconomic stability through fiscal discipline, this did not lead to the expected reductions in poverty and inequality. Indeed, as the World Bank recognized in 1998, "income-distribution problems have not improved in many countries, and have deteriorated in others, which has resulted in poverty rates that remain unacceptably high. In addition, economic insecurity for the poor and middle classes…has tended to increase" (1).[174]

Academics (North 1990; Knack and Keefer 1995, 1997a, 1997b; Mauro 1995) and senior staff in aid agencies have found evidence that lags in economic and human development can be traced to weak institutions. The quality of the bureaucracy, security of property and contract rights, reliability of the judiciary, and the nature of the regulatory environment are all examples of how a country's institutional environment affects its development path. This finding has had a somewhat sobering effect on aid agency staff, as many realize that despite their best efforts, the existing institutional frameworks in borrower countries are likely to undermine traditional aid projects.

The recognition that institutions have a very real impact on development has led to a renewed interest in autonomous agencies as a way of achieving certain goals while avoiding dysfunctional bureaucracies. But it is becoming clear that autonomous agencies can potentially impact institutional development in some negative, as well as positive, ways. To review the discussion in Chapter 3, on the positive side autonomous agencies can bring more independence to regulatory/oversight (Type 1) agencies, and more efficiency to service delivery (Type 2) agencies. Some authors (World Bank 1998, 2000; Taliercio 2000) see autonomous agencies as a way of promoting institutional change by raising standards for policymaking, oversight, and regulation in the bureaucracy as a whole, through the so-called demonstration effect.

On the negative side, however, autonomous agencies can undermine institutional development. For example, agencies with special employment regimes can result in "brain drain" in which the most qualified individuals leave traditional ministries in favor of the autonomous agency. Also, a proliferation of autonomous agencies can result in a series of "islands" that fight against legitimate oversight from parent ministries, leading to a crisis of accountability. In other cases, professionalized autonomous agencies may undermine policy objectives proposed by the government in power, causing serious policy coordination problems between agencies. In a weak bureaucracy, the presence of multiple strong autonomous agencies can actually slow efforts to improve the overall institution.

The donors' enthusiastic support for autonomous agencies during Fujimori's administration in Peru is an example of how this could become an undesirable trend, in the absence of careful consideration of the costs and benefits of autonomization on a case-by-case basis. Latin American governments, with the encouragement of aid agencies, have a history of rather indiscriminately following one public management trend after another in an attempt at finding some panacea for state reform. I hope that my study of autonomous oversight agencies in Bolivia can provide important lessons about the challenge of creating and sustaining independent agencies in a politicized bureaucracy.

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[174] *Beyond the Washington Consensus: Institutions Matter*.

In the case of Bolivia, my analysis is particularly timely in light of recent efforts by the government to create new autonomous agencies. The apparent success of the a series of Superintendencies (regulatory entities created in the mid-1990s to oversee different areas of natural monopolies, as well as the SBEF) at shutting out politics has led some of Bolivia's political actors to attempt a broader strategy of public sector reform based on the autonomous agency approach. While critics deride this idea as a "superintendencization" of the public sector, the idea finds considerable support among Bolivia's modernizing political factions. For example, the MNR candidate for the 2002 presidential elections, Gonzalo Sánchez de Lozada, told me that he would like to create Superintendencies for various social sectors. Under pressure from the *pitufo* faction of the current ADN government, several executive entities have been "institutionalized," (re)establishing them as semi-autonomous service delivery agencies.

While I do not expect that the analysis I conducted of autonomous oversight agencies can be directly applied to service delivery agencies, I will show in the following pages how it can serve as a starting point for explaining the successes and failures of autonomy creation and sustainability in Type 2 agencies.

Semiautonomous agencies: from patronage to professionalism? In the last three years, the Bolivian government has tried to create or profoundly reform three semiautonomous agencies: the Civil Service Authority (formerly *Servicio Nacional de Administración Pública* or SNAP, now *Superintendencia de Servicio Civil* or SSC), the Roads Authority (*Servicio Nacional de Caminos* or SNC), and the Customs Authority (*Servicio Nacional de Aduanas*). In all three cases, there has been consistent pressure from the donor community to make these reforms. All three agencies deliver services that over the years had become infamous as the most notorious of Bolivia's very corrupt public administration. In the first two cases, efforts to establish or reform the agencies dragged on without much progress over many months. In contrast, Customs reform was implemented relatively quickly and today, despite some undeniable setbacks, it is generally considered a successful case of autonomization. However, the Bolivian government has had to pay a price in the shape of sharp increases in social protest that at one point even threatened Bolivia's young democracy.

Can the framework I developed in previous chapters help explain why autonomization failed or succeeded in these three agencies? In the following paragraphs, I apply the explanatory variables I identified earlier in this dissertation to see if they are a useful starting point for explaining the creation of Type 2 semiautonomous entities. First, I examine the position of the Bolivian government vis-à-vis external actors (Level 1). Second, I look at the government's position vis-à-vis domestic actors (Level 2), taking into account the administrative and political viability of the reform proposals in Bolivia's bureaucracy. Finally, I consider the presence or lack thereof of an organizational strategy.

<u>SNAP/SSC and SNC: dancing with the donors</u>. The SNAP was one of the first semiautonomous agencies created in the 1990s. It began as a PIU for a donor-funded civil service reform project in 1990. When in 1997 the Bolivian government suspended the project, the PIU was charged with implementing a new human resource management initiative within the broader SAFCO reform program.[175] When the Banzer administration came to power in 1998, reformist Vice President Quiroga decided – with strong support from the donor community -- to write a new civil service law that would require all public employees to be hired and promoted based on merit. The former PIU became SNAP, a semiautonomous entity within the Ministry of Finance that was charged with overall human

resources management responsibilities (e.g., certifying years of service for public employees' retirement benefits; participating in government agencies' selection and dismissal decisions affecting individual public employees; and providing technical assistance to agencies in various aspects of personnel management).

Quiroga's commitment to civil service reform was mixed, as evidenced by the fact that he appointed a party loyalist, Mario Domínguez, as SNAP's Director. Domínguez, a businessman from Cochabamba, had no experience with personnel management and minimal government expertise. His main qualification, even by his own assessment, was that he was a "very good friend of Tuto" (Quiroga's nickname). The tendency to appoint personal supporters even to technical posts is an indication of the depth of the spoils system in the Bolivian public sector. This practice is especially prevalent in highly controversial areas such as civil service reform, because top officials need to ensure that they will have the flexibility to slow, halt or even retract reforms without the risk that they will be embarrassed by criticisms or even resignation of a technocrat. Appointing a loyal follower to lead these initiatives is a way to maximize that flexibility. For example, when powerful ADN government officials dismissed public employees for political reasons (even some whose positions were supposed to be protected under a donor-funded merit personnel program), Domínguez was silent.

Soon after SNAP's creation, it too became a source of political patronage. Recognizing that SNAP lacked the technical expertise and the moral authority to implement a merit-based civil service, donors pressured the government to create a new entity in its place, as part of the proposed civil service law. The government responded with the *Superintendencia de Servicio Civil* (SSC) proposal. The SSC would be led by a

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[175] Personnel reform is one of the eight SAFCO systems.

Superintendent, appointed by the President from a list of three candidates recommended by the legislature. The proposal was added to the bill that went to Congress in summer 1999, and passed in December of that year. But although the SSC's creation was approved in law, the delay in appointing a Superintendent dragged on for over 12 months. Donors applied enormous pressure to the government, but Vice President Quiroga's influence had fallen markedly during the second half of 1999 and throughout 2000, and the donors had difficulty in finding a sympathetic interlocutor. Ultimately, the donors threatened to stop disbursement on a large public sector reform project, and finally the government capitulated and a Superintendent was named in March 2001.

The Roads Authority (*Servicio Nacional de Caminos* or SNC) provides another example of an executive agency where the Bolivian government moved towards "institutionalization" only under intense pressure from donors. Until the 1980s, the SNC was widely recognized as a sound organization. Staff were selected and promoted based on merit, and clear career paths were defined for all levels of SNC personnel. Regular performance evaluations ensured that only competent employees were kept on. Financial incentives encouraged employees to obtain additional training and motivated work teams to keep their equipment in optimal condition. The continued close supervision of the SNC by USAID, combined with Bolivian military leaders' personal commitment to the roads sector, afforded the SNC protection from excessive political interference.

During the 1980s, this protection faded. The US withdrew resources from Bolivia in the early 1980s, and as some of the SNC's upper management layers gradually became politicized, the agency weakened. Finally, regional pressures to devolve authority for road construction and maintenance to the departmental (regional) level proved too strong for the SNC, and the central organization was dismantled in 1995. A strongly worded report, written by SNC engineers and World Bank employees and submitted to the highest levels of government, advised against radical decentralization in light of the regional governments' limited capacity to assume this new responsibility successfully. The government disregarded these recommendations, and moved ahead with the rapid deconcentration of decision-making and resources, creating departmental-level roads authorities. After obeying orders to transfer their systems and equipment to the newly created SDCs (*Servicio Departamental de Caminos*), most SNC staff resigned in protest.

Most of the SDCs were not capable of adequate road maintenance. Although some SDCs initiated large new construction projects, these stagnated in the face of lack of funds. In 1997, the new ADN government decided to reverse the policy and recreate the SNC. The expectation that the SNC could successfully carry out its new role of contract oversight was unreasonable, given the agency's extreme politicization after it was recreated. When ADN decided to retract the MNR decision to decentralize, the main opposition came from the Santa Cruz-based *Unión Cívica Solidaria* (UCS) party. Between 1995 and 1997, the Santa Cruz SDC had undertaken a number of lucrative road construction projects, and the UCS had been looking forward to participating in the spoils of those contracts when it joined the ruling coalition in 1997. To overcome this opposition, ADN "gave" the SNC to UCS. The new Director had plenty of posts to distribute among his supporters.

From 1997 to 2000, there was considerable turnover in SNC Directors (though all were from UCS), due to accusations of corruption and turmoil within the party. Each Director brought a new group of staff to replace those of the outgoing Director. Not surprisingly, the high level of turnover throughout the agency had a negative impact on the SNC's performance. For example, an international aid agency official complained that recent changes in senior level SNC staff (political appointees) had provoked an attempt to replace nearly all the employees in charge of supervising implementation of maintenance and construction contracts.

The donor community, led by the World Bank, was disturbed by the slow progress in road construction and the almost non-existent road maintenance activities. Donors recognized the economic benefit of a good road infrastructure for Bolivia (especially given the country's difficult topography), but they were not willing to continue disbursing funds in a sector overseen by such a corrupt agency as SNC. They began to scrutinize the roads projects more and more, and disbursements were delayed in several cases. In November 1999, the Executive submitted a bill to Congress that would recreate the SNC as a semiautonomous entity, purge almost the entire staff, and replace them with employees selected on a strict merit system. The donors loudly applauded this initiative, and announced that they would suspend disbursement on all projects until the bill was passed.

When the bill became law (despite considerable resistance from UCS, including threats to leave the coalition), Congress appointed a transitional Board of Directors to manage the agency while a new Director was selected. The transitional Board members were appointed in February 2001, and UCS immediately demanded that they not be allowed to award any contracts. Then began the difficult process of selecting a new Director. Over the next few months, Congress set and then cancelled several deadlines for submitting applications, as members of the coalition fought openly with each other to control the selection process. Political parties were surprisingly obvious in their attempts to resist the depoliticization of the SNC, infuriating the donor community. As one World Bank observer wrote in an internal memo:

> "The whole process of 'institutionalization' of SNC has shown, in fact, the repeated public recognition of the commitment of the coalition parties to political interference in the management of SNC; in fact, SNC has been confirmed as just another piece of pie to be disputed between political parties for the purposes of fraud and corruption."[176]

In September 2001 a Director was finally appointed and the SNC reform process began, but it is too soon to say what the outcome will be.

In these two cases – SNAP and SNC -- though the Bolivian government's heavy dependence on donors put it in a weak position vis-à-vis external actors, the government was even weaker vis-à-vis domestic actors. Despite strong external pressure and the government's high dependence on outside resources for its very survival, the government has been able to obtain concessions at Level 1 because of its weakness at Level 2 in these areas. Level 2 weakness persists because the political environment makes autonomization in such valuable sectors very difficult, if not impossible. Autonomization in these sectors is also difficult administratively, given the generally low quality of human resources in the public sector. This does not mean that Bolivia does not have highly skilled human capital, but well-trained people are usually reluctant to apply for government jobs (especially in an agency as corrupt as the SNC) because of the stigma attached.[177]

Although ultimately the new entities were created at least nominally, the donors are concerned that this was done solely to placate them (similar to the government's behavior after the 1928 Kemmerer mission). The government's success at delaying reform in these two sectors, by failing to create autonomous executive agencies to help implement the new policies, lends support to the explanation I developed in previous chapters.

[176] Anonymous memo, March 13, 2001.
[177] One former SNAP employee told me, "I cannot get a job in the private sector, because when they see on my curriculum that I have worked for SNAP, they think I must be corrupt."

Customs: a confluence of pressures results in reform. The relatively successful story of the autonomization of the Bolivian Customs agency is particularly surprising given its long-standing importance as a key source of financing for the country's political parties. As with the creation of a merit-based civil service and a professionalized roads authority, Bolivia's political environment was not at all conducive to Customs reform. Indeed, initial donor-supported attempts to reform the Customs agency (in 1992 and 1993) were piecemeal and achieved limited improvements. Persistant low collection levels in Customs (as well as in the internal revenue service) began to pose a threat to the country's fiscal situation.

When the Banzer administration came to power in August 1997 and, under pressure from the IMF, made institutional reform a key component of its political agenda, Customs reform was listed among the top priorities. During the new administration's first year an IMF technical assistance team in cooperation with Bolivian experts made some progress at planning Customs reform, but the Customs Director (Ruben Darío Castedo) named by President Banzer did not indicate a strong commitment at the highest levels of the administration. Castedo was a close political associate of Banzer, and he had worked as a high-level customs official during Banzer's dictatorship in the 1970s (Lanyi et al 2000). When he was named Customs Director in 1997, he continued to allow the agency to engage in its habitual corrupt practices. The planning that was taking place indicated that Banzer agreed with the need for Customs reform, but "in the absence of a full-fledged political decision" (Lanyi et al 2000, 35) reform was not yet underway. Banzer's reliance on a coalition of five political parties made building such a consensus a considerable challenge.

The government quickly began to feel compelled – both by external and domestic actors -- to take decisive action in this area. On the external side, in 1998 the IMF approved a three-year adjustment program for Bolivia and specified customs reform as one of its policy conditions. Customs, unlike civil service and roads, is an important source of government revenue, so continued low customs collection rates were arguably a more immediate concern to IFIs than poor highway infrastructure or a patronage-based civil service. This explains the decision by IFIs to focus on Customs as the first agency to be depoliticized.

In addition to the IMF program, Bolivia was also under consideration for participation in the World Bank-IMF Highly Indebted Poor Countries (HIPC) debt relief program. To be approved for debt relief, borrower governments were required to show progress on institutional reforms and governance. This was especially important for Bolivia, which in 1997 was named the second most corrupt in a survey of over 50 countries conducted by Transparency International (TI).[178] The IFIs were watching the Banzer administration closely to see whether or not it would convert institutional reform rhetoric into action.

Once again, certain domestic actors agreed with external actors' demands for reform and harnessed these to pressure the government to change. The illegal activities of customs agents, politicians, and members of the informal sector hurt many key elements of the private sector. For example, importers who did not want to pay bribes; formal retailers whose prices were undercut by the informal sector; transportation companies which did not want to engage in smuggling – all were opposed to the status quo in Customs, and for years had been pushing for reform. These members of the private sector, led by the CEPB discussed in Chapter 4, stepped up their lobbying powers. Leaders of the Chambers of Commerce, Customs Dispatchers, and Industry formed a coalition that drafted reform bills,

[178] A German-based NGO that studies corruption. While many people debate the methodology used by TI, its reports often act as a catalyst for public opinion.

and eventually "led the government in the process of drafting a new customs law" (Lanyi et al 2000, 36).

At the same time, a new source of domestic pressure emerged: the media. Within a year of his appointment, Customs Director Castedo's corrupt activities were revealed in the Bolivian press, and Castedo was forced to resign. Banzer then named a retired military general, Juan Carlos Monje, instructing him to take strong actions and use his military background to eliminate corruption in Customs. The media scrutinized Monje's behavior, and discovered that he too was engaged in corrupt activities. Press reports culminated in the publication in Bolivian newspapers of General Monje's personal notebook in which he documented extra-official payments by Customs officials to the ADN party. In April 1999, General Monje resigned. In addition to the evidence that the ADN party was financing itself in part through diversion of customs revenues, there were also widespread rumors that Banzer's wife had ensured that her relatives were hired by the Customs agency and that she was benefiting personally from the corruption ring. The public was disgusted by these revelations, and the Banzer administration's credibility was severely weakened.

In the summer of 1999, the government finally took a series of measures to implement reform, including passage of the General Customs Law in July 1999 and the establishment of the five-member Customs Board as the agency's governing body. Before the draft Customs Law went to Congress, Vice President Quiroga had been working on it with the private sector. Once the bill entered Congress, the government realized that it needed the cooperation of the other three parties in the coalition,[179] as well as the main opposition party (MNR). Quiroga was able to acquire the support of these parties and ultimately, ADN selected the President of the Customs Board while allowing the other four parties to choose the remaining four members of the Board. Customs Board nominations were negotiated among the five primary parties, thus ensuring that while all Board members have a known affiliation to one of the parties, none is "overly partisan."

Other important changes implemented under the Customs Law include: the criminalization of customs related offenses; the authority to imprison offenders; the centralization of customs administration so that regional offices are now accountable to La Paz; development and application of a new system of ex-post control; replacement of many customs employees (and elimination of the "ad honorem" workers, or *supernumerarios*) with new officials hired under an independent, merit-based, competitive process; and the launching of a public relations campaign to improve Customs' image.

One indirect indication that customs reform was truly moving ahead (unlike the more superficial SNAP and SNC efforts) was the determined resistance by many of the domestic actors who are losing out under these reforms. Between April and September 2000, across Bolivia there were massive demonstrations, roadblocks, and riots that turned quite violent.[180] By some estimates, as much as 70 percent of Bolivia's workforce depends on the informal economy, and many of these groups were relying even more strongly on revenues from the informal sector in light of the economic slowdown in the region.

By the time the protestors took to the streets, the government would have found it very difficult to retract its commitment to reform the customs administration. It had made the difficult step of winning support from the main parties (traditionally, a major roadblock),

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[179] The five-member *megacoalición* that began ruling Bolivia in 1997 had fallen to four members by summer 1999. CONDEPA, a populist urban-based party, had been forced out of the coalition during the administration's first year because of too many corruption scandals.
[180] It must be noted that some of these protests were also directed in part at the government's efforts at coca eradication.

and the strong pressure from the private sector was bolstered by a powerful coalition of a coordinated group of donors: the IMF, the World Bank, the Inter-American Development Bank, and the Japanese and Swedish governments. Bolivian officials involved in the reform process acknowledge that "this coordinated approach has…strengthened the pressure on the Bolivian government to lend its political support to the reform efforts" (Lanyi et al 2000, 34). The donor community also dangled the "carrot" of debt relief under HIPC, which the government knew it needed in order to increase domestic spending on poverty alleviation programs (some of which were intended to benefit the protestors).

Faced with massive demonstrations that blocked the country's highway infrastructure, invaded the streets of the capital city, and at one point even appeared to threaten Bolivia's still-fragile governability (especially since the *megacoalición* had now fallen to three parties, and one of these was also threatening to leave), Banzer declared a state of siege that lasted for several weeks. Unlike some of his predecessors he did not pass the customs reform while the state of siege was in effect, but he did use that weapon to try to strengthen his government's Level 2 position.

The government's ability to implement customs reform was also constrained by the limited administrative and political viability of the idea. Administratively, the new Customs agency faced serious challenges in finding qualified employees, particularly for managerial posts and the formerly lucrative border positions (Lanyi et al). In addition, the Bolivian judiciary has not proven very effective in enforcing the new Customs Law. Bolivia's weak judiciary has constituted an administrative obstacle to state reform in several other instances, including both the SBEF and the CGR. The government has also had to struggle to make customs reform politically viable. Vice President Quiroga worked to convince the traditional factions of the major political parties that in the absence of customs reform, they would face serious long-terms losses from donor sanctions (e.g., possible exclusion from HIPC debt relief), dissatisfaction among parts of the private sector that the government wanted to support, and voter frustration. Quiroga presented customs reform to these politicians as a bitter pill that they had to swallow now, to avoid greater losses in the future.

The new Customs Board also recognizes that it needs to overcome public resistance in order to survive. While the government has focused more on the "stick" of stifling demonstrations, the Customs Board began almost immediately to develop an organizational strategy to win public support. According to a recent article, "there is no doubt in the mind of the Customs leadership that because of the importance of mobilizing and maintaining public – and thereby political – support for this effort, communications with the public will need to be…carried out with both energy and skill" (Lanyi et al 2000, 30-31).

Final reflections

We might expect autonomous service delivery agencies to be easier to create than oversight agencies, since unlike "entrepreneurial agencies" where benefits are spread so widely that they may be imperceptible, presumably a professionalized entity would quickly deliver improved services and citizens would appreciate a direct impact on their quality of life. Taking this argument one step further, we might assume that citizens would *demand* professionalized public agencies, at least in certain sectors.

In fact, the evidence on the ground is mixed. Haggard and Webb (1994) have shown that citizens in many Latin American countries do not vote for certain kinds of reform such as creation of a merit-based civil service. They hypothesize that citizens have more faith in the possibility that they will enjoy immediate patronage benefit themselves or through a relative or friend. In his study of revenue authorities, Taliercio (2000) found that citizens did respond positively to improved tax administration once reforms were implemented, but the authorities he studied were not created in response to citizen demand; instead, citizen satisfaction was a by-product of reform.

In Bolivia, autonomization of both Type 1 and Type 2 agencies has arguably been undertaken not primarily in response to public demand, but in response to external pressure. In areas such as improved roads and creation of a merit-based civil service, Bolivian citizens have not yet raised their voices to demand that the government take seriously its initial steps in creating the professionalized SNC and SSC. In other areas, such as Customs, citizens' demands for change were essentially ignored until donors insisted that reform was necessary. Well-organized business groups were able to help shape the reform once it got underway, but their pressure alone was insufficient to get Customs reform on the political discussion table.

Bolivian experiences with the creation of autonomous agencies suggest that external actors play a key role in catalyzing reform where domestic pressure is insufficient, as it often is in the developing world. External actors also make an important contribution in keeping reforms on track, by applying formal and informal pressure to the government at key junctures. As the Bolivians learned from their experience with the Kemmerer reforms, external actors alone cannot force the government to create AOAs, but external demands combined with domestic ones are a powerful combination.

The sustainability of the service delivery agencies discussed in this chapter remains to be seen. As I showed in the previous chapter, sustainability depends not only on overcoming domestic resistance and continued external and internal support; it also requires successful implementation of a careful strategy by the organization itself. Once created, it is the agency that must win its own autonomy.

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