

**BUREAUCRATIC CIRCUMVENTION: POLICY DELEGATION STRATEGIES AND  
IMPLEMENTATION SUCCESS IN LOW CAPACITY BUREAUCRACIES, WITH  
EVIDENCE FROM LATIN AMERICA**

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University of Pittsburgh, 2015

Politicians in the developing world are often faced with the challenge of delegating policy to non-professional bureaucracies who cannot guarantee outcomes consistent with lawmakers' expectations. This raises important questions. First, how does low bureaucratic capacity affect politicians' decision-making and behavior? Second, what explains policy success in low capacity environments? This book tells the story about how political strategies and behavior change as bureaucratic capacity decreases. It argues that in a low capacity context, politicians are increasingly unwilling to depend on their administrative apparatus, and may instead resort to "bureaucratic circumvention": creating new agencies, turning to out-of-jurisdiction agents, or outsourcing to the private or non-profit sectors.

The first part of the book focuses on the determinants of circumvention. It shows that this is more likely as existing bureaucratic capacity decreases, a politician's ideology grows farther apart from that of the existing bureau, the cost of going outside the bureaucracy decreases, or policy importance increases. These hypotheses are supported through an analysis of an original dataset of delegation decisions from over 45,000 Latin American executive decrees. The second part examines the effects of agency choice on policy implementation. It argues that when politicians' interests are aligned with those of their political allies, implementation is likely to be successful; when interests are unaligned, implementation will be

less successful. These propositions are supported through evidence from six controlled case studies of public policies in Brazil, Ecuador, and Venezuela.

The implications of bureaucratic circumvention are manifold. First, this concept provides a framework with which politicians may achieve policy success. However, second, since a politician may also now choose the agent closest to her preferences, implementation tends to become more politicized. Third, since the politician may prioritize either capacity or ideology, policy success is never guaranteed. As a result, while circumvention may provide short-term gains, it is not a long-term panacea for the development of a professional, meritocratic bureaucratic corps.

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## **PREFACE**

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## **1.0 LOW CAPACITY BUREAUCRACIES, POLITICAL DECISIONS, AND POLICY SUCCESS**

Popular depictions of government bureaucracy in the developing world, like their developed world counterparts, range from the comical to the dreary. The iconic Argentine cartoon strip "Mafalda", which follows the exploits of the eponymous character, an optimistic girl, whose innocent observations are often wry double *entendres* and veiled criticisms of society and politics, is illustrative. In one memorable sequence, Mafalda adopts a pet turtle that she names Bureaucracy. The metaphor is used to devastating effect in different situations: in one, her friend Felipe visits to see Bureaucracy, is given the runaround while the turtle is sleeping, and then is told to return the following day at an unspecified time; in another, a solitary Mafalda yells "Bureaucracy!" in the first panel, followed by four panels without dialogue as Mafalda pulls out and patiently reads a book, and finally Bureaucracy's arrival in the sixth panel. Other characterizations are darker. In *Orfeu Negro* (Black Orpheus), the 1957 Franco-Brazilian film adaption of the Greek myth of Orpheus, the protagonist searches frantically for Eurydice in a labyrinthine Bureau of Missing Persons during Carnival. This agency, the Brazilian equivalent of the entryway to Hades, overflows with papers and files and is staffed by a solitary janitor. He tells Orpheus that Eurydice must be lost in the building.

This work departs from the insight that many places in the world suffer from some degree of low quality bureaucracies, a phenomenon that greatly impacts politicians' strategic decision-

making and behavior. Many agencies have earned their reputations as constrained, disorganized organizations whose myriad rules and regulations seem better intended as dilatory tactics than mechanisms to expediently carry out policy. Street-level bureaucratic operators in these places often do not fare better, as prison guards, police, judges, and other low-level bureaucrats are rank among those professions routinely criticized in the forum of public opinion. Yet, despite this popular image of a bloated, incompetent public administration, there have also been numerous, well-publicized policy successes, such as the highly influential microcredit and poverty alleviation programs in Bangladesh, and oft-duplicated conditional-cash transfer (CCT) programs in Mexico and Brazil, two economically unequal societies with weak social safety nets. In all of these cases, the programs have proven politically fruitful while yielding impressive returns in the form of poverty reduction and increased economic productivity.

This raises a number of questions. First, how does bureaucratic capacity—especially low bureaucratic capacity—affect *politicians'* decision-making and behavior? It is clear that low organizational capacity causes inefficient policy outcomes, but how does it affect politics? Further, how were the aforementioned policies so successful if government agencies were really as corrupt and inefficient as portrayed in popular culture? How do politicians guarantee predictable bureaucratic outcomes in contexts of low bureaucratic capacity, or ones in which they do not trust their bureaucracy? Is successful implementation repeatable in these contexts? And most importantly, what can politicians and policymakers learn from these experiences?

At its core, this book tells the story about how political strategies and behavior change as bureaucratic capacity changes. Honoring policy commitments is germane to politicians' and political parties' electoral prospects. Making good on these commitments influences how politicians and their parties are perceived and ultimately judged at the ballot box. However,

politicians are often faced with the challenge of delegating policy to non-professional bureaucracies who cannot guarantee outcomes consistent with lawmakers' expectations. Therefore, as organizational capacity decreases, politicians are increasingly unwilling to depend on their administrative apparatus and instead take policy into their own hands. In doing so, they seek other implementation agents outside the jurisdictionally appropriate bureaucracy through a set of strategies I refer to as "bureaucratic circumvention": the creation of new agencies, out-of-jurisdiction agents such as the military, or third party outsourcing. Politicians are then able to choose their implementation agent based on both agency capacity as well as preference convergence.

This proposal has broad implications for politicians, voters, and policy. The first implication is that, counterintuitively, low capacity of the existing bureaucratic apparatus may actually improve certain policy outcomes by driving politicians to choose more efficient agents. The lower the existing bureaucracy's capacity, the more likely a politician is to bypass the public administration, and the greater ability she has to seek higher capacity agents. However this is not *always* the case: the second implication is that since a politician is able to choose the agent closest to her preferences, policy implementation may also become more politicized. The reason for this is that when an existing bureaucrat is low capacity, policy uncertainty grows and a politician will tend to refrain from delegating to that agent—which means taking things into her own hands. And given that the politician can now choose the agent, she is able to pick one closest to her preferences.

That leads to the third implication, which is that that policy success is never guaranteed. Bureaucratic circumvention is a type of high wire act in which the politician often faces a tradeoff between agency capacity and agency ideology. What is more, it may incur a number of



negative externalities as well. Leaders that engage semi-regularly in this strategy will be more likely to face overstretched budgets and will lack resources to invest in existing agency improvement, creating a vicious cycle in which low agency capacity forces politicians to bypass that bureaucracy, limiting the time, personnel, and resources the government can invest in the existing administration. The main takeaway, therefore, is that while circumvention may be able to improve policy outcomes under some circumstances, it is always better to have a good bureaucracy than to circumvent it.

Political science has rigorously studied the ways in which laws are made in congress and the president's office, but has focused far less on the role of bureaucracy and how those laws are carried out. This project seeks to address this lacuna through use of a novel theory, quantitative analysis of original data of presidential delegation and administrative capacity, and qualitative analysis via an in-depth examination of policy delegation decisions and outcomes. As I show in the following chapters, governments throughout the world follow the recipe of bureaucratic circumvention to implement policies. Although my substantive focus is on Latin America, this strategy is used everywhere from Afghanistan to Zimbabwe. Beyond merely describing this phenomenon, the dual objectives of this project are to explain what circumstances help determine the delegation strategy used by politicians, and then evaluate how politicians' decision-making calculus behind each strategy affects policy outcomes.

## **1.1 WHY STUDY BUREAUCRATIC DELEGATION AND TASK ALLOCATION IN LOW (CAPACITY) PLACES?**

The overarching questions motivating this research are how bureaucratic capacity affects political decision making, how politicians implement policy if they cannot depend on many of their bureaucratic agencies, and how these delegation strategies impact policies' implementation success. Unfortunately, the literature offers limited answers to these questions. The simple takeaway supported by sophisticated general models is that low organizational capacity causes inefficient policy outcomes (Huber and McCarty 2004; Ting 2011), yet it says far less about how characteristics of the bureaucracy, specifically its organizational capacity, affect politics and politicians. Similarly, there is no framework to explain how policy can be successful under sub-optimal institutional or political conditions—the actual context pervasive in much of the world. Some, such as Sloan (1984) and Geddes (1994), cogently mention strategies used by developmentalist Latin American regimes of the mid-twentieth century, such as the creation of autonomous agencies and executive groups to execute certain policies, but they do not present the full range of tools available to political operators to ensure predictable policy outcomes, nor do they explore how these tools are exercised.

Substantively, delegation and implementation are prominent concerns across every political context. There is a rich and detailed literature in comparative politics that explains how different constellations of actors and powers converge to produce policies (e.g. Cox and McCubbins 1993; Krehbiel 1998; Haggard and McCubbins 2001; Tsebelis 2002; Cheibub et al. 2004; Tsebelis and Alemán 2005; Alemán and Tsebelis 2005; García Montero 2009; Saiegh 2010; Sin and Palanza 2014), but save for a series of Inter-American Development Bank studies that tend to focus on ideal policymaking conditions (Scartascini et al. 2011; Scartascini et al.

2010; Stein and Tommasi 2008; Stein et al. 2006b), there remains a large “black box” between those legal instruments and the final policy outcomes that drive the subsequent behavior of societal and political actors (Easton 1957). Comparativists’ understanding of policy inputs tends to be strong, but the concomitant understanding of the output side of the equation is still weak. Guided by the extensive public policy and management literature examining the process of implementation in theory and practice (e.g. Bardach 1977; Lipsky 1980; Mazmanian and Sabatier 1983; Pressman and Wildavsky 1984 [1973]; Hill and Hupe 2008; Segone 2010; Patton 2012), I wish to unpack this black box to understand how institutional and political factors shape delegation decisions in different contexts, and how those delegation decisions in turn affect policy outcomes. In doing so, I aim for an explicative analysis of the “what”, “where”, “when”, and “how” of the provision of public services applicable to all types of bureaucratic environment, from low to high capacity places.

From a theoretic perspective, it is imperative to engage the study of bureaucratic behavior and policy implementation while eliminating unrealistic assumptions such as uniformly high organizational capacity. This assumption undergirds many of the canonical explanations of bureaucratic behavior (e.g. Downs 1967; March and Simon 1993 [1958]; Simon 1997 [1947]) that have become accepted wisdom. With few notable exceptions (Huber and McCarty 2004; Ting 2011), existing models of delegation (Bawn 1995; Volden 2002; Fiorina 1986; Epstein and O'Halloran 1999, 1996; Huber and Shipan 2002) almost uniformly assume Weberian bureaucratic agencies that possess high capacity. From the perspective of political principals, this assumption generates a tradeoff of informational gains from agency expertise and distributive losses from bureaucratic drift, the fundamental tension that motivates much of the literature. But what happens when these parameters change, and the informational gains are

reduced? What choices and new tradeoffs must politicians—or bureaucrats—consider as they convert laws into policies? Are policies doomed to failure under suboptimal conditions?

My proposal that politicians are not restricted to delegating policy implementation authority through the existing bureaucratic apparatus addresses some of these questions, but it raises other ones that reach out to other fields and disciplines. For example, when, how, and to whom are policy tasks delegated? Which expectations hold from the conventional theory, and which change? And what is the role of the market and “matching” agents to policies (Besley and Ghatak 2003)? The answers to these questions have implications for schools of thought and analysis, from organizational theory to public choice theory, and they are relevant to a broad range of social science fields, from political science to public policy, organizational sociology, public administration, and economics. In other words, relaxing the assumption of high bureaucratic capacity is a broad invitation to question and redefine the accepted theories regarding the relationship between politicians and bureaucrats (“bureaucratic politics”), and bureaucrats and policy outcomes.

## **1.2 THE CONVENTIONAL WISDOM: DELEGATING POLICYMAKING**

### **AUTHORITY**

#### **1.2.1 Policymaking Authority**

Politicians often delegate aspects of their lawmaking authority to other institutions, particularly administrative agencies. In the U.S., such delegations have been criticized as inconsistent with the constitutional separation of powers, an abdication of Congress’s responsibility to make the

policy choices that shape citizens' lives (the so-called "Abdication Hypothesis") (Schoenbrod 1993). Yet others vigorously defend this delegation, arguing that the U.S. Congress lacks the time, resources, foresight, and flexibility to attend to every conceivable detail of regulatory policy (Mashaw 1985, 1997; Spence and Cross 2000). Kiewiet and McCubbins (1991), in fact, propose that it is possible for political principals to delegate authority and still achieve desired outcomes. They argue that oftentimes the most desirable outcomes are only possible *through* delegation.

According to this literature, lawmakers are confronted with a fundamental tradeoff between achieving higher policy expertise and policy control when they delegate policymaking authority to the bureaucracy (McCubbins et al. 1987; Epstein and O'Halloran 1994; Bawn 1995). Since the agent (the bureaucracy) is assumed to possess knowledge and expertise that the principals (usually a legislative majority) lack, the agent can either use those information advantages to carry out policies that are far more extensive than what was defined in legislation, or use that knowledge and expertise to further personal goals contrary to the politicians' ultimate expectations. Therefore, elected officials are confronted with the question of how to ensure that their policy intentions are faithfully carried out as they intended. The literature examines two chief types of political control: *ex ante* controls, referring specifically to statutory design and administrative procedures (McCubbins et al. 1987; Moe 1990; Kiewiet and McCubbins 1991; Gailmard 2009b), and *ex post* controls, referring to the monitoring, rewarding, and punishing of agents through such things as hearings, investigations, budget reviews, or legislative sanctions (McCubbins and Schwartz 1984).

Procedures can limit or empower a range of the agency's feasible actions. For example, Huber and Shipan (2002) argue that lawmakers shape the policymaking process by writing

specific legislation when they try to limit the amount of discretion exercised by bureaucrats, and writing deliberately vague legislation when they are willing to delegate higher levels of discretion. Using comparative evidence from developed countries, they show how distinct institutional configurations such as divided government shape the language of statutes and control of the bureaucracy. Under unified government, statutes tend to be shorter and more vague, thereby delegating more discretion to bureaucratic agents to carry out policy. Under divided government, statutes tend to be longer and more detailed, more clearly specifying bureaucratic actions.<sup>1</sup> Similarly, MacDonald (2010) explores how limitation riders in the appropriations process reflect the U.S. legislature's desire to exert greater or less control over the bureaucracy.

There is some consensus in the vast literature on procedural controls. First, lawmakers provide greater discretion to agencies as policy complexity increases—even when lawmakers expect that agencies will make policy decisions that stray from lawmakers' priorities (Bawn 1995; Epstein and O'Halloran 1999, 1996; Huber and Shipan 2002). From a perspective of lawmaker expertise, this "Uncertainty Principle" predicts delegation of greater policymaking autonomy to bureaucrats when politicians are more uncertain about which policy will yield the best outcome. In other words, politicians are more willing to abrogate authority as their own uncertainty increases. A second piece of established wisdom is the "Ally Principle", which predicts that politicians will delegate more policymaking autonomy when politicians and bureaucrats share similar policy preferences. Essentially, politicians are willing to give more discretion to the bureaucracy as the probability of the implemented policy diverging from their

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<sup>1</sup> Volden (2002) formally shows that the possibility of a presidential veto may allow discretion to increase or decrease under either divided or unified government.

ideal point decreases. Yet, as Huber and McCarty (2004) find, and as I explore throughout this book, relaxing the ideal of high bureaucratic capacity can vastly change the applicability of these principles. In particular, when the bureaucrat is low capacity, policy uncertainty grows and the politician will tend to refrain from delegating to the bureaucracy altogether—which means taking things into her own hands.

Oversight mechanisms of monitoring and sanctions provide additional ways for lawmakers to remedy bureaucratic violations of legislative goals. McCubbins and Schwartz (1984) explain oversight of administrative compliance with legislative goals in the U.S. as a combination of costly “police patrols”—congressional examination of executive-agency activities—versus “fire alarms”—a system of rules, procedures, and informal practices that enable interest groups and citizens to examine administrative decisions and charge agencies with violating congressional goals. According to McCubbins and Schwartz, legislators tend to favor fire-alarm oversight to police-patrol oversight, given the legislature’s limited resources and ability to spend time on other profitable activities. This type of control is of course inextricably tied to the amount of bureaucratic autonomy that lawmakers delegate: the more opportunities for ex post monitoring and sanctions, the more policymaking autonomy will be initially delegated to bureaucrats.

### **1.2.2 Implementation**

Despite its theoretical sophistication, the bureaucratic politics literature tends to overlook a key phase in the policymaking process, namely, how the bureaucracy carries out those laws. Once the government has legitimized some form of public policy and delegated authority to an agency or agencies, that policy must be enacted, administered, and enforced to bring about the desired

change sought by lawmakers. The degree of discretion afforded to bureaucrats is a critical aspect of the policy implementation process, but equally important in achieving implementation success are the organizational culture, resources, and task-setting of the agency, as well as the commitment and expertise of the bureaucratic “operators” tasked with distributing the good, upholding or enforcing the law, or otherwise interacting with non-bureaucrats (Kaufman 1960; Wilson 1989). No matter the initial level of policy authority politicians delegate to an agency, bureaucrats who interpret legislation and put regulations into effect make important decisions while applying laws and regulations to individual cases.

However, policy is not self-executing. A first generation of implementation analysts (Van Meter and Van Horn 1975; Pressman and Wildavsky 1984 [1973]; Bardach 1977) discovered this uncertain relationship between policies and implemented programs: the consequences of even the best planned, best supported, and most promising policy initiatives depend finally on what happens as individuals throughout the policy system interpret and act on them. They showed how local factors such as size, intra-organizational relations, commitment, capacity, and institutional complexity mold responses to policy. A second generation further unpacked the implementation processes and zeroed in on the relationship between policy and practice, reaching similar conclusions (McLaughlin 1987). For example: policy cannot always mandate what matters to outcomes at the local level; individual incentives and beliefs are central to local responses; effective implementation requires a strategic balance of pressure and support; and policy-directed change ultimately is a problem of the smallest unit. More recent research has tried to link the macro policy process to local needs, advocating such things as decentralization of service provision to raise productivity by “matching” motivated workers to their preferred missions (Besley and Ghatak 2003), or emphasizing the role of program evaluation in improving



the policy implementation process (Segone 2010). Throughout this scholarship, one thing is clear: even with well-written policy, a high capacity administrative apparatus, a sufficient budget, and political agreement between officials and private concerns, the degree of difficulty in successfully implementing policy remains high. Implementation must be flexible, adaptable to evaluation recommendations and changing circumstances.

### **1.3 LIMITATIONS OF THE CONVENTIONAL WISDOM**

The conclusions reached in the literature make a number of assumptions about institutional arrangements, bureaucratic capacity, and the policy process that are empirically implausible and others of which are not mirrored by political realities. These differences cast doubt on the validity and applicability of the theoretical wisdom in contexts with different institutional setups or bureaucratic capacities, or even in places that meet these prerequisites but do not match other stylized assumptions. Much scholarship on delegation assumes, 1) systems of one or more principals and a single agent, 2) the possibility that principals may refrain from delegating, and as described, 3) high expertise bureaucracies. From an implementation perspective, the literature identifies at least two methods for improving policy success that may not be generalizable, including, 1) New Public Management (NPM) reforms or decentralization to improve implementation, and 2) the outsourcing services to improve efficiency and lower costs. In reality, some or all of these assumptions may apply under different contexts, but they leave a greater number of policy processes unexplained.

### 1.3.1 Delegation

The first strong assumption that limits generalization is based on institutional design. Theories of delegation and oversight are based largely on the U.S. case, a separation-of-powers system where statutes are a product of the legislature. In this context, bureaus are the “agents of different and divided masters, and so their daily operation neglects the ongoing tensions between the White House and Capitol Hill” (Wilson 1989: 259). The literature is therefore careful to emphasize the importance of multiple principals and common agency in understanding political control of the bureaucracy.

Still, this balanced separation-of-powers government is not shared the world over. In Latin American and other places, constitutional design has often led to a usurpation of power by strong presidents. Throughout Latin America presidents have the constitutional power of policy initiation, and many also possess broad decree-making powers that they wield with high frequency (Carey and Shugart 1998). One consequence is that legislatures are much more reactive in character than proactive (Cox and Morgenstern 2001)—to say nothing of an often subservient judiciary (Pérez-Liñán and Castagnola 2009). In most cases, then, bureaucracies in strong presidential democracies are not subject to competing sources of authority that create a tug-of-war for bureaucratic control. Instead, a more direct principal-agent relationship emerges between the president and the public administration.

Further, with exceptions such as Bendor and Meirowitz (2004), delegation games fail to model the existence of multiple agents. This is a significant and consequential simplification. Scholars such as Kaufman (1976) and Quirk (1980) have long recognized that political principals choose between a multiplicity of potential agents, with Niskanen (2007 [1971]), even arguing that competition between agents for policies encourages efficiency gains. Two or more agencies

may possess similar technical capacity and orientations, allowing principals to delegate to one of them or separate the policy and distribute its implementation amongst all relevant agents (Figueiredo 1999; Ting 2002). In either case, the presence of multiples agents gives politicians greater leverage over dictating policy outcomes than a scenario of only one agent. Depending on any number of factors, politicians should be able to avoid ideologically divergent or less competent agencies in favor of those more likely to guarantee control or success. Further, the presence of competition weakens agencies' bargaining power vis-à-vis the political principal.

A second major assumption in the delegation literature is that political principals have the option and ability to refrain from delegating. This may be technically true in delegating policymaking authority—politicians may postpone or limit discretion—but not with policy implementation. The execution of political action necessarily requires some type of hierarchical organization with lower-, mezzo-, and high-level bureaucrats beyond the president's office or congress to carry it out. Because they are dealing with questions of authority and not necessarily implementation, canonical models give the principal the ability to observe the potential agent and delegate or not based on such things as information and ideology. In reality, this is not entirely the case, since (alliteratively) presidents have powers of persuasion that go beyond constitutional rules (Neustadt 1990; Bond et al. 2003; Canes-Wrone 2001; Morgenstern et al. 2013). This fact again changes the dynamic interaction between political principals and their bureaucratic agents.

Perhaps the most consequential assumption, and the one that is at the center of this analysis, is that government agencies possess high capacity. This is a key component of the logic of delegation, and although less explicit, it also drives aspects of the implementation common wisdom. "Bureaucratic capacity" is an essentially contested concept with myriad

definitions in the public administration, political science, sociology, and economics literature.<sup>2</sup> Broadly, “capacity” refers to the ability of an agency to deliver policy programs as they were designed, and is conceptually distinct from the idea of “bureaucratic expertise”—although it is defined in different ways and along different dimensions.<sup>3</sup> The former refers to the ability to accomplish intended actions, such as turning a statute into the organization’s anticipated policy, while the latter refers to individuals’ specialized knowledge or informational advantages about a certain policy domain. In fact, the distinction between senior bureaucrats’ expertise and their organization’s ability implement policy effectively is at the core of Huber and McCarty’s argument about low capacity bureaucracies (Huber and McCarty 2004).

Following the established literature, and for the purposes of this book, I use the term bureaucratic capacity to include the following elements:

- 1) Individuals’ personal capacity to execute orders effectively (which may depend on personal motivation as much as expertise);
- 2) The ability of senior administrators to control their subordinates (which depends on the effectiveness of bureaucratic hierarchies or structure);
- 3) Departmental budget or resources to undertake implementation actions; and
- 4) Organizational corruption or probity.

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<sup>2</sup> In fact, more articles on Latin American bureaucratic politics deal with defining bureaucratic capacity, bureaucratic expertise, or state capacity than any other topic, including topics like political control of the bureaucracy, bureaucratic appointments by politicians, and even administrative reform (Polga-Hecimovich and Trelles 2015).

<sup>3</sup> Carpenter, for example, highlights analytic (or informational) and programmatic (or planning) capacity (Carpenter 2001: 28-29). Following this distinction, the former refers to the ability to analyze increasingly complex social problems, while the latter is the ability of the bureaucracy to carry out programs in accordance with previously specified plans. Meanwhile, Krause and Woods (2011) define capacity along different dimensions, resources and structure-process, which share similarities with programmatic capacity. “Resources” refers to the budgetary, personnel, and reputational resources to effectively administer tasks, while “structure-power” is what provides agencies with a formal organizational context to perform their tasks, such as systems of diffuse power, merit-based recruitment practices, and promotion.

As is clear from this definition, I assume expertise may contribute to capacity, while also acknowledging the possibility that an organization may possess relatively high capacity even when it lacks that expertise (since it is such a small component of the larger concept). An agency may be staffed by experts, yet be poorly managed, in which case it would have high expertise but low capacity. Likewise, an organization may be staffed with underqualified bureaucrats, but be brilliantly managed.

In either case, policy implementation is likely to suffer, although for different reasons. For example, a given country's Ministry of Health may be composed of high-quality, well-educated, and well-meaning experts of public health, giving the organization a high level of expertise. Nonetheless, the organization may be underfunded, poorly organized, badly coordinated, or improperly managed, in which case the agency's expertise—or rather, the expertise of its bureaucrats—is undermined by its poor organizational capacity, likely translating into uneven policy implementation.<sup>4</sup> On the other hand, the ministry may be well organized, funded, and coordinated, but staffed by untrained, political appointees who are simply happy to collect a government paycheck. It is likely, though not necessarily in all cases, that the senior bureaucrats' lack of expertise translates into weaknesses along the other dimensions and poor policy outcomes (it is also possible, if the organization to resist the influence of these appointees if it is resistant enough and has highly trained enough lower level employees). Yet, along any dimension, models and logic assuming high capacity are limited in their predictive power.

In reality, of course, many bureaucratic agencies do not fit the Weberian characteristics of professionalized, high-capacity bureaus. This is especially true in the developing world,

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<sup>4</sup> Huber and McCarty say “it may be very difficult for bureaucracies to implement policies effectively, even when leaders within the bureaucracy have sufficient expertise to understand which policies will yield desired outcomes (Huber and McCarty 2004: 481).

where the civil service and bureaus are routinely criticized as the “weakest link” in the policy process. Low administrative capacity is a relevant concern in Africa (Levy and Kpundeh 2004), Southern Europe (Sotiropoulos 2004), the Middle East and parts of Asia (Tummala 2005), and Latin America (Scartascini et al. 2010; Grindle 2010; Zuvanic and Iacoviello 2010). In a comparative regional perspective, Evans and Rauch (1999) examine 35 developing countries from around the world from 1970 to 1990 and find only Singapore, Korea, Taiwan, and Hong Kong to possess above-average bureaucratic capacity, ranking higher than Southern European countries such as Spain, Portugal, and Greece, and significantly higher than other Asian countries and especially Latin America and Africa. Yet, organizational capacity also varies greatly across agencies and over time in the U.S. and the developed world (Barrilleaux et al. 1992; Gingerich 2013; Soifer 2012). Verkuil (2007), for example, describes some of low capacity agencies in the U.S. in the past decade, including the Federal Emergency Management Agency (FEMA) and the Federal Aviation Administration (FAA), while Gingerich (2013) uses survey data from Bolivia, Brazil, and Chile to show that intra-country variation in agency capacity is much higher than inter-country variation.

Allowing organizational capacity to vary, or assuming low capacity under some contexts, affects policy delegation and implementation in at least two ways: 1) pure efficiency loss, and 2) discouraging effective political control (Huber and McCarty 2004). By definition, low capacity bureaucracies are less capable of implementing the policies intended by lawmakers than their high capacity counterparts. For example, Taylor (1995) uses evidence from Costa Rica to show in a simulation that elected officials will often be unable to make a low capacity bureaucracy respond to the popular will, frustrating electoral ambitions and perhaps weakening democratic legitimacy. Still, Huber and McCarty (2004) find that this efficiency loss is compounded by the

fact that low bureaucratic capacity diminishes the ability of politicians to influence the actions of bureaucrats. They show that with low capacity, bureaucrats recognize that their ability to take actions that comply with legislation declines, diminishing their incentive to try to do so. Politicians, then, are less able to use legislation to influence bureaucratic actions when bureaucratic capacity is low.<sup>5</sup> As a result, it may be difficult for bureaucracies to implement policies effectively, even when leaders within the bureaucracy have sufficient expertise to understand which policies will yield desired outcomes.

Furthermore, many conventional assumptions and predictions regarding the political-bureaucratic relationship and bureaucratic behavior break down. In low capacity cases, tools theorized to be essential to the policy delegation game, specifically procedural control and monitoring, are costlier and less effective. Huber and McCarty (2004) also conclude that when bureaucratic capacity is low, some standard principles in the literature such as the Ally Principle and Monitoring Principle no longer hold. For them, bad bureaucracies are harder for politicians to control because administrative incompetence diminishes bureaus' incentives to implement the policies politicians describe in legislation; politicians then have greater incentives to induce desirable outcomes from competent but ideologically divergent bureaucrats.

Monitoring and oversight also become more difficult. If police patrols are not always possible in the U.S. due to their high cost (McCubbins and Schwartz 1984), they should be far less likely in the developing world where they are costlier—or where principals have fewer resources with which to pay them. Siavelis (2000) broadly attributes corruption and

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<sup>5</sup> Interestingly, while Epstein and O'Halloran (1999, 1996, 1994) refer to the political principal as a legislature, Huber and McCarty instead use the generic term "politician". This second term is actually more appropriate for the low capacity bureaucratic systems to which Huber and McCarty refer: delegation in Latin America is often (but not always) a presidential rather than legislative directive. I also refer to the principal as a "politician" or "lawmaker".

administrative inefficiency in many Latin American countries to government institutions' lack of oversight capabilities. He finds that even in Chile, a regional outlier for its relatively capable bureaucracy, historically strong police patrol and fire alarm legislative oversight have eroded over time, largely undermined by the 1980 Constitution that weakened legislative powers. In his analysis of methods Chilean legislators exercise control over their bureaucracy, Ferraro (2008) does not even discuss formal methods of oversight. Instead, he describes informal mechanisms of congressional influence (legislative patronage, networks of contacts, frequent meetings between members of Congress and public officials, and specialization of senators, deputies, and parties in public policy areas). Despite this, scholars—including Huber and McCarty—do not address how variation in capacity affects delegation strategies (bureaucratic capacity is instead assumed to be uniformly low), and they do not generate a testable theory of what successful policy implementation should actually look like under these circumstances.

### **1.3.2 Implementation Success**

In addition to the pure efficiency loss, implementation becomes more limited in other ways. Specifically, adopting reforms from the “New Public Management” (NPM) or outsourcing the provision of public goods in a low capacity environment may not be as effective as in high capacity cases. The first of these strategies, the oft-discussed NPM, has been the dominant pattern of reform of the public sector over the past several decades (Hood 1991; Christensen and Lægreid 2001). The basic idea is that government should be made to be more efficient and effective, and that the best way of achieving these goals is to make the public sector perform more like the private sector. One component of these reforms has been to enhance the autonomy



of managers and their organizations, with the assumption that if managerial talent were unfettered by internal rules then the public sector would be more efficient.

However, Guy Peters argues that Weberian reforms ought to precede NPM in less-developed democracies that tend to also possess low organizational capacity. In his words,

for Central and Eastern Europe and Latin America, those pressures are likely to do more harm than good. Despite the appeal of ideas such as deregulation and flexibility, governments attempting to build both effective administration and democracy might require much greater emphasis on formality, rules, and strong ethical standards. The values of efficiency and effectiveness are important but in the short run not so crucial as creating probity and responsibility. Once a so-called Weberian administrative system is institutionalized, then it may make sense to consider how best to move from that system towards a more “modern” system of [public administration].  
(Peters 2001: 176)

In fact, these reforms that began in Australia, New Zealand and the UK have now spread into developing countries, including Latin America (Barzelay 2000). They have found limited success. Narbondo and Ramos (1999), for example, highlight a number of problems with the implementation of NPM reforms in Uruguay—one of Latin America’s strongest democracies—in the 1990s.

Market-based solutions (i.e. outsourcing to the private sector) offer another solution to improve bureaucratic inefficiency. However, as I will discuss at length in Chapter 7, there are at least three weaknesses with outsourcing that limit its application. First, presidents (or congress) must voluntarily relinquish a large measure of control. As a result, outsourcing does not obviate the “fundamental tension” inherent in delegation that exists, for example, between Congress and the bureaucracy in the U.S. Consequently, it is unlikely to be pursued in places where presidents aim to maintain a level of control over the implementing agent. Second, market-based solutions may not be applicable in the provision of many public goods, chiefly those that are not profitable

(Downs 1967). Third, regardless of outputs and efficiency gains, outsourcing may not be ideologically palatable for the political principal or coalition pursuing the policy.

In sum, key assumptions such as a true separation-of-powers system and high organizational capacity for bureaucratic agents the give conventional wisdom regarding policy delegation and implementation a more limited reach. What is more, none of these theories paints a complete picture of successful policy implementation in countries with low agency capacity.

#### **1.4 A PROPOSAL: BUREAUCRATIC CIRCUMVENTION**

Democratic politicians in low capacity bureaucratic contexts are therefore faced with generating predictable policy outcomes in environments that hinder them. This is not because lawmakers necessarily care about the ultimate success or failure of the statute (which they might, of course), but because voters ultimately make electoral judgments based on real or perceived outcomes of the laws they write. However, existing empirical explanations of the policymaking process do not capture the range of delegation and implementation strategies used by presidents and legislatures.

I argue there are a multitude of implementation strategies available to lawmakers, and that politicians facing low capacity bureaucracies will sometimes use “bureaucratic circumvention” to seek agents outside traditional jurisdictions, specifically: 1) new agencies, including such things as executive groups (Geddes 1994), executing units (Conaghan 1989), autonomous organizations, and independent corporations (Sloan 1984; Wilson 1989; Taylor 1995), as well as the more traditional ministries, secretariats, commissions, committees, and

working groups; 2) the military (Coletta 2010; Trinkunas 2004); and 3) outsourcing to the private sector (Galiani et al. 2005), or non-profit organizations (Besley and Ghatak 2003).

Others have made overtures to what I call bureaucratic circumvention. In writing about Brazil, Prado and Chasin (2011) argue that modification of a dysfunctional institution is not the only—or necessarily the most effective—way to promote institutional reform. They argue that “institutional bypass” that creates new pathways around clogged or blocked institutions is also a tool that politicians can and do use to pursue reform.<sup>6</sup> Further, some administrative law literature recognizes that beyond resolving policy itself or delegating it to public agencies, the U.S. Congress has the ability and desire to sometimes delegate policy to the federal courts as a “court-versus-agency” decision (Lemos 2010). Nonetheless, to the best of my knowledge, there is no existing scholarship that systematizes politicians’ abilities to bypass appropriate or corresponding bureaucratic channels in favor of agents outside that existing administration.

From a theoretical perspective, this project provides answers to specific questions regarding the use and success of bureaucratic circumvention, while more broadly contributing to the accumulation of knowledge of bureaucratic politics and policymaking. It also clearly links the motivations behind the politician’s choice of implementation agent and delegation decision to the ultimate implementation success. I conduct an analysis of institutional, policy-specific, and agency-specific factors that determine which mechanisms are utilized when in the provision of public services, as well as policies’ relative success or failure. This theory recognizes the dichotomy of public and private organizations, and—recognizing the gap between the formal rules and “the actual rules that are being followed” (O'Donnell 1996)—it argues that the palette

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<sup>6</sup> Unlike the present project that is focused on the relationship between politicians and bureaucrats, however, Prado and Chasin examine how *citizens* may bypass inflexible, inconvenient, and difficult to access public agencies through an examination of the Brazilian *Poupatempo* (“timesaver”) (Prado and Chasin 2011).

of options for most politicians is actually larger than those considered by theorists. While this theory maintains a principal-agent framework, it theorizes a delegation process as one with a single principal and multiple agents, rather than a game with one or more principals and only a single agent.

Under this framework, circumvention offers advantages over delegation to conventional, jurisdictionally appropriate agencies. Further, these advantages are exacerbated in the hyperpresidential and low-to-middling bureaucratic capacity environments of Latin America, which hold presidents more accountable for outcomes than congress while simultaneously empowering them to make political decisions unilaterally; under the institutional conditions commonly assumed in much of the literature, circumvention becomes a less attractive option. Still, circumvention is not always employed in low capacity countries despite improving the probability of policy success due to the high costs of using it. This is because creating agencies requires concrete temporal, monetary, and personnel resources, delegating to the military is likewise costly when the armed forces possess technical and organizational limits, and outsourcing incurs a significant loss of political control. As a result, circumvention is more likely when the expected gains are greater than the certain costs.

I also develop a two-stage theory of delegation under which a single principal must first choose between delegating to an agent within the existing bureaucracy or to a third party, and then choose among different possible third parties. The formal backbone of these games—or more accurately, variations on a single game—builds on canonical delegation models, with a few simplifications discussed in Chapter 2. Under this model’s assumptions, I find that bureaucratic circumvention increases as: 1) existing agency capacity decreases, 2) politicians’ preferences diverge from their assumed preferences of relevant agencies, 3) the political and economic costs

of building an agency, seeking out the military, and outsourcing decrease, and 4) policies increase in importance. While some of these conclusions may seem intuitive, they speak to other conclusions in the literature. Unlike Huber and McCarty's (2004) delegation game, this model shows that when a politician is confronted with delegating to one of two agents with varying levels of capacity, the Ally Principle, which predicts delegation to ideological allies, holds.<sup>7</sup> These parameters then figure in the politician's decision-making calculus in choosing from among the circumvention alternatives.

This theory explicitly touches upon areas such as agency design, political-military relations, the private sector, and the role of non-governmental organization and international organizations in policy implementation. This knowledge is relevant to the developing world, but the explanation travels to other parts of the developing world for which existing theories and empirical explanations of policy delegation and implementation are not totally applicable. The concept of circumvention is even surprisingly relevant in the developed world: in the U.S. the creation of the Department of Homeland Security (DHS) in the wake of agency coordination failures preceding the terrorist attacks of September 11, 2001, and the contracting of privately contracted military units to carry out portions of wars in Iraq and Afghanistan are only two recent examples of circumvention employed to improve efficiency and solve personnel or organizational problems.

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<sup>7</sup> It also holds that if the old bureaucracy is better trained than the alternative, at some point the capacity of an ideological enemy will compensate for the uncertainty regarding an ally. This explains, for example, why presidents delegate monetary policy and nuclear weapon policy to highly trained technocrats, even if they are not ideological allies.

## **1.5 RESEARCH DESIGN AND CASE SELECTION**

I test the theoretic propositions regarding policy delegation, implementation, and success using a comparative research design, cross-national and historical data, and a mixture of quantitative and qualitative methods. The first part (Chapters 2 and 3) develops the logic of circumvention and then exploits data from presidential decrees in Latin America and regression analysis to evaluate the determinants of bureaucratic delegation/circumvention, viewing the delegation decision as a dependent variable. The second part (Chapters 4 through 8) uses controlled comparisons of policies in three Latin American countries to analyze the impact the delegation decision has on the degree of policy success, understanding the delegation decision as an independent variable. Latin America is an excellent laboratory from which to choose cases. While agency creation and private sector outsourcing are common phenomena across polities, non-profit outsourcing is limited to economically underdeveloped countries, and military delegation is further restricted to a smaller subset of cases where the armed forces are not insulated from civilian affairs. Latin America therefore provides a varied menu of circumvention options.

### **1.5.1 Delegation Decision as the Dependent Variable**

To evaluate the determinants of the delegation strategy, I utilize the Latin American Executive Decree Database (LAEDD), a comprehensive and original database of over 45,000 presidential decrees across ten countries (Bolivia, Brazil, Chile, Ecuador, Guatemala, Nicaragua, Panama, Paraguay, Uruguay, and Venezuela) and 27 presidential administrations, spanning a total of thirteen years. Through the LAEDD, I systematize and code executive decrees for the delegation decision taken in each, including both a dichotomous coding for delegation to the existing

bureaucracy or circumvention, as well as a categorical coding into five categories: delegation; new agency creation; military delegation; private sector outsourcing, and; non-profit outsourcing.<sup>8</sup> The chief independent variables—bureaucratic capacity, agent ideology, circumvention cost, and policy importance—and additional system- and administration-level factors come from various sources, including the corresponding decrees, the World Governance Indicators Database, and a number of other sources. Their impact on 1) the probability of circumvention and 2) the probability of choosing individual circumvention strategies is modeled using nested logit and multinomial logit (MNL) estimators.

The scope and breadth of these data, summarized, offer great empirical leverage given the variation in the incidence of circumvention types across countries and over time within countries. Overall, the phenomenon appears widespread: as Table 1-1 shows, 9.6% of decrees in the LAEDD resort to this strategy. There is also a broad range of employment across countries, from 3.7% in Paraguay to 18.4% in Chile in the sample period, with five countries rising above 10% and the other five falling below that threshold. In addition to providing ample evidence for statistical modeling, the aggregation of these data into a single database provides a foundation upon which future research may continue to build, including additional countries (and regions of the world), years of analysis, and legislation.<sup>9</sup>

**Table 1-1.** Countries and Time Periods of Decrees

<b>Country</b>	<b>Period</b>	<b>Delegation (%)</b>	<b>Circumvention (%)</b>	<b>Total % (Raw)</b>
Bolivia	2003-2011	84.3	15.7	100 (3827)
Brazil	2000-2012	86.7	13.3	100 (7843)
Chile	2000-2005	81.6	18.4	100 (3232)
Ecuador	2007-2012	92.1	7.9	100 (3391)
Guatemala	2000-2010	85.1	14.9	100 (2190)

<sup>8</sup> Details of the coding process are further explored in Chapter 3 and explained in Appendix B.

<sup>9</sup> Cases were chosen on the basis of data availability, meaning that data from neither Argentina nor Mexico were included. This is discussed at length in Chapter 3.

Nicaragua	2000-2010	86.5	13.5	100 (996)
Panama	2000-2010	91.8	8.2	100 (3002)
Paraguay	2009-2013	96.3	3.7	100 (6998)
Uruguay	2000-2010	95.1	4.9	100 (7252)
Venezuela	2000-2010	92	8	100 (7147)
<b>TOTAL</b>	2000-2013	<b>90.4</b>	<b>9.6</b>	<b>100% (45878)</b>

### 1.5.2 Policy Outcome as the Dependent Variable

After quantitatively testing the causes of circumvention, I then explore the influence of delegation strategy on policy outcomes through controlled comparisons of six different policies. Given the involvement in quantifying policy outcomes, especially for the number of cases needed for quantitative analysis, I opt for a qualitative approach that permits a greater emphasis on causal complexity and a number of ways to gauge policy success or failure, such as that policy's reputation in the press and among politicians and public policy experts. My research design uses three different circumvention mechanisms—agency creation, military delegation, and outsourcing—in controlled comparisons of six policies from Brazil, Venezuela, and Ecuador. These countries vary in size and are chosen to represent different regions of Latin America: a large country from the Southern Cone (Brazil), a medium-sized Caribbean country (Venezuela), and a small Andean country (Ecuador). If the logic of circumvention holds in these divergent cases, it is likely to be more generalizable across a broader range of political environments.

The validity of causal inferences in qualitative research depends on the selection of cases. Plümper, Troeger, and Neumayer (2012) show that causal inference from qualitative research becomes more reliable when researchers select cases from a larger sample, maximize the variation in the treatment, simultaneously minimize variation of the confounding factors, and



ignore all information on the dependent variable. This selection algorithm is commonly advocated in the literature: it is a variant of Seawright and Gerring's (2008) "diverse" design, which—setting aside knowledge of the dependent variable—draws on Przeworski and Teune's (1970) "most similar system" design. Furthermore, it avoids selection bias inherent in selecting on the dependent variable (King et al. 1994; Geddes 2003). By maximizing the reliability of inferences, this technique maximizes the probability that the generalization derived from the comparison is unbiased.

As shown in Table 1-2, I use these principles to select my cases—two for each of the three circumvention mechanisms, with two policies per country. The comparisons are based on policies that are different in their treatment but match on all other dimensions, such as policy type, government ideology, bureaucratic context, and policy scope. Whenever possible, I have used "before and after" comparisons, looking at a single policy whose management or executing agent changed from a government agency to a third party or vice versa over the course of the policy. This strategy therefore maximizes similarities in the cases while isolating the implementation mechanism.

**Table 1-2.** Controlled Case Studies

<b>Policy</b>	<b>Agent</b>	<b>Policy Domain</b>	<b>Country</b>
<b>Agency creation</b>			
Ten-Year Education Plan	Universalization Unit	Education	Ecuador
Urban Development	Ministry of Cities	Urban	Brazil
<b>Military delegation</b>			
Growth Acceleration Program	Armed Forces	Infrastructure	Brazil
Plan Bolívar 2000/ Nutrition Mission	Armed Forces	Food	Venezuela
<b>Outsourcing</b>			
Great Venezuela Housing Mission	Foreign Governments	Housing	Venezuela
Roadway Revolution Plan	Private Sector	Infrastructure	Ecuador

## 1.6 PLAN

The rest of this book is divided into eight chapters. Chapter 2 opens with background on bureaucratic circumvention, providing concrete examples from Latin America, but is largely devoted to developing a theory of bureaucratic circumvention. It posits advantages of circumvention vis-à-vis delegation to existing administrative agencies (as well as decentralization and reforms), emphasizing the gains of agency capacity and presidential control, before delving into the concrete and theoretical costs associated with circumvention. Given the advantages offered by circumvention strategies, transaction costs are one of the main obstacles preventing circumvention from always being more appealing than delegation to traditional agents. I then develop a formal model based on existing delegation games, in which I show that delegation strategies are the result of a delicate balance of factors: politicians will be more apt to circumvent as the existing bureaucratic capacity decreases, the costs of circumvention decrease, policy importance increases, or their ideology grows closer to the agent's ideology. I finish by showing how deciding among circumvention strategies represents a tradeoff between cost and control for politicians, and generates additional testable hypotheses.

In Chapter 3, I empirically test this theory of bureaucratic circumvention through the more than 45,000 Latin American decrees from the LAEDD. I justify my use of decrees over other types of legislation, justify the time period under study, and then define and operationalize the concept of circumvention. The first set of statistical models tests the conditions propitious to circumvention, concentrating on the role of four specific variables: agency capacity, circumvention cost, policy importance, and ideology. The second set of econometric models tests the determinants of individual circumvention types, using variables from the first set of tests, but including additional controls accounting for country-specific constitutional rules.

Chapters 4-8 link the politician's delegation decision-making calculus and use of circumvention to policy outcomes, showing how similarly constructed policies can achieve vastly different outcomes. Chapter 4 develops a theory of implementation success that links politicians' motivations for agency choice to policy outcomes. Its straightforward explanation says that politicians favoring efficient agents over ideologically proximate ones will enjoy higher implementation quality—and that the decision to favor capacity or ideology depends on the degree of alignment of interests between voters and the politicians' political allies. In higher capacity environments, potential efficiency loss for privileging ideology over efficiency should be attenuated by high performing agencies. As such, the tension between control and expertise put forward in much of the delegation literature remains, but overall efficiency loss of the implementation is minimized. By contrast, if a politician is forced to make a tradeoff between capacity and ideology in a low capacity environment and chooses ideology, it is more likely that implementation quality will be poor. Chapter 4 also lays out alternative explanations for implementation success in the cases of new agency design, the military and for outsourcing, unlinked to the politician's motivation for circumventing the existing bureaucracy.

Chapters 5-7 are composed of the comparative case studies. Chapter 5 examines the implementation of urban policy in Brazil with a case study of the creation of the Ministry of Cities and its subsequent performance, and then compares education policy in Ecuador carried by a semi-autonomous executing unit to the same policy after said unit was dissolved. Chapter 6 focuses on military delegation, beginning with a comparison of infrastructure projects carried out by civil and military authorities in Brazil's *Programa de Aceleração do Crescimento* (Growth Acceleration Program). In the second part of Chapter 6, I evaluate the performance of the military-implemented Plan Bolívar 2000 project in Venezuela with the civilian-implemented

*Misión Alimentación* (Nutrition Mission). Chapter 7 concludes with a comparison of housing projects undertaken by the Ministry of Housing and Habitat and foreign firms in the *Gran Misión Vivienda Venezuela* housing project, and the performance of public and concessionary roads under the *Revolución Vial* (Road Revolution) plan in Ecuador. Each case study follows a similar format: 1) a description of the policy problem and the government's solution, including the setup and execution of the policy and administrative strategies; 2) politicians' motivations for agent choice, providing evidence for or against the influence of each of the four factors proposed in the second chapter; and 3) a test of the effect of agent choice on implementation outcomes using a quasi-experimental design (three cases) or a before-and-after comparison (the other three cases), and 4) a comparison of the results.

Chapter 8 summarizes the links between circumvention motivation and policy success in the six case studies as a function of Chapter 4's theoretical expectations. I first compare the causes and effects of the same circumvention mechanisms (i.e. outsourcing) in different places, inferring as to why the mechanism may work in one circumstance but not another. Next, I use in-country comparisons for different mechanisms to explain why politicians turn to one circumvention agent under one circumstance, and a different one under another. This second set of comparisons makes it clear that circumvention was most successful when policy efficiency resulted in the highest political gains for politicians. Additionally, it is quite difficult for the state to escape its own weaknesses; strong state capacity is most likely to guarantee efficient policy outcomes, even when the central government decides to circumvent the existing bureaucracy.

The book concludes with a discussion of the study's main empirical, theoretical, and policy implications, including an examination of relevant research questions and some suggestions for future avenues of investigation.

## **2.0 RING-AROUND-THE-RED-TAPE: A THEORY OF BUREAUCRATIC CIRCUMVENTION**

In order for presidents or legislators to successfully carry out their oath of office, it is their responsibility to ensure the effective implementation of policy. Fenno (1978) ascribes public policy motivations to legislators, but only after the chief incentives of reelection and power (in congress). In many ways, these three motivations dovetail into each other quite nicely. Beyond this, the degree to which programs reflect their legislative intent affects politicians' electoral success, perceptions of the governing party, and even government stability. In addition to following partisan attachments, ideology, and their own pocketbooks, voters assess elected officials based on the officials' policy performance—casting their referendum at the ballot box. A popular, visible, well-implemented policy will tend to have positive repercussions for politicians, earning them more power and greater chances at re-election (if applicable), while a poorly executed policy will do the opposite. Bureaucratic competence is an essential prerequisite to successfully convert political decisions into practice, making the bureaucracy one of the keys to political success.

So, what happens when bureaucratic competence does not reach its Weberian ideal? Huber and McCarty (2004) show that a low capacity bureaucratic agents confounds methods of control by a political principal, leading not only to poor policy outcomes but lowering incentives for reform. In theory, policies are bound to suffer efficiency loss as non-professional

organizations are unable to coordinate, work with a lack of personnel or resources, and generally fail to meet their expectations. Still, policies are effectively carried out around the world in places with low- or mid-capacity bureaucratic agents, leading to the puzzle of how this empirical reality may diverge from theoretical expectations.

I argue that most models are unable to explain policy success in low capacity bureaucratic environments because of unnecessary simplifications they make regarding the scope and number of potential bureaucratic agents, as well as important inter-agency differences in capacity. The literature acknowledges that politicians may delegate tasks to more than one agent through redundancy (Landau 1969; Bendor 1985; Ting 2003) or by separating across jurisdictions (Ting 2002), but it does not consider politicians' power to create organizations to carry out specific tasks, the possibility of outsourcing, or assigning tasks outside traditional jurisdictions. Given these possibilities, politicians face a different array of options and strategic choices in their desire for policy implementation. Instead of passing down policy to an unwieldy established bureaucratic agent, politicians can create access to agents with higher capacity or those who are easier to control, a process I refer to as bureaucratic circumvention.

This occurs quite regularly across the world. Rodrigo Borja Cevallos, of Ecuador's center-left *Izquierda Democrática* (ID, Democratic Left) won the 1988 elections with the campaign promise of helping to cure the country's social ills. While his government was not able to fulfill this grandiose plan, the Borja administration did undertake a massive countrywide literacy project, the five billion *sucre* (~US\$200 million) Monsignor Leonidas Proaño National Literacy Campaign. This project was proposed by the ID and supported by the government's center-left ally, the *Democracia Popular* (Popular Democracy, DP) and launched on September 8, 1988, only 28 days after Borja took office through Executive Decree No. 203. Instead of

directly delegating implementation to the Ministry of Education to whom the campaign corresponded, however, President Borja formed a National Executive Council under the aegis of technocrat and academic Raúl Vallejo, which then delegated the actual convening and teaching to a number of non-executive actors: the Catholic Church, Christian churches, the Armed Forces, Chambers of Commerce, and over 65,000 secondary school volunteers. Isaacs (1993) argues that the role of the military was particularly important in organization and transportation. This program was ultimately successful, benefiting 155 thousand people and reducing illiteracy from around 13.9% to 9.6% (Torres 2004), despite—or perhaps because of—bypassing ordinary bureaucratic channels.

This episode raises a number of provocative questions: what delegation strategies define circumvention? What is its logic? Why and when is it preferred to policy delegation to existing agencies? Lastly, and perhaps most important from a policy perspective, does circumvention really improve implementation success? This chapter and the next seek to answer the first of these questions, while the remaining chapters address the question of implementation success.

In the first part of this chapter, I explain the concept of bureaucratic circumvention as a policy delivery system, as well as its history, evolution, and logic. In the second part, I discuss the advantages of circumvention vis-à-vis delegation to existing administrative agencies. In parts three and four I model the political decision to delegate policy to an existing agency or to instead rely on circumvention as the first step in a two-step process. This model, which I sustain formally, generates a number of different propositions and hypotheses for each of four parameters. Lastly, I develop the second step of the circumvention process by showing under what circumstances the political principal is more likely to choose one strategy among the multiplicity of circumvention options, focusing on the tradeoff among ideological proximity,

efficiency gains, and the cost of circumvention as a function of the policy importance. This stage, which follows a similar logic as the first one, engenders additional hypotheses based largely on each possible agent's technical capacities and associated circumvention costs, all of which address some common assumptions regarding agency creation, the role of the military, and outsourcing. I empirically test these hypotheses in Chapter 3.

## 2.1 DEFINING BUREAUCRATIC CIRCUMVENTION

Political delegation to the bureaucracy and bureaucratic circumvention are related, but distinct terms. "To delegate" means to give, to commit, or to entrust to another, while "to circumvent" means to find a way around, to bypass, or to overcome. I use the former term to refer to all instances of action in which a politician or other principal entrusts policy to some type of agent, usually a public agency, but possible the military, a new agency, or the private or non-profit sectors. Meanwhile, circumvention refers to the specific type of delegation outside of the existing jurisdictionally appropriate bureaucracy. When the principal delegates policy to the jurisdictionally corresponding agency, I try to refer to it as such.

Further, there are at least two different types of delegation in the policymaking process: 1) delegation of *policymaking authority* (which is often the focus of the bureaucratic politics literature); and 2) delegation of *tasks* in the policy implementation process. These often, though not necessarily, go together. Politicians do not have to delegate policymaking authority to the bureaucracy (though they almost always do), but they must delegate the implementation of those policies. In large part, the extant literature is concerned with a political principal's choice to delegate policymaking authority, and if affirmative, how much discretion the principal allows to



the agent or how to control the amount of discretion (e.g. Gailmard 2009b, 2002, 2009a; Gailmard and Patty 2007; Epstein and O'Halloran 1999, 1994; Bawn 1995; Ting 2002). However, in the delegation of implementation tasks, political principals are not given the choice to refrain, effectively changing the “game” being played between principals and agents.

The term bureaucratic circumvention, then, refers to a task allocation strategy and policy delivery system in which politicians bypass established bureaucratic channels with the goal of achieving higher implementation efficiency or improving political control over the policy. Depending on a number of policy-, administration-, and country-specific factors, this mechanism can take—but is not limited to—at least three discrete forms: 1) new agency creation, including ministries, executing units, secretariats, institutes, commissions, councils, autonomous agencies, and even government corporations; 2) out-of-jurisdiction agents, such as the armed forces carrying out social policy or infrastructure development; and 3) outsourcing to the private or non-profit sectors. I consider circumvention to be conceptually and operationally distinct from “bureaucratic redundancy” or “parallel bureaucracy”, concepts that refer to duplication or overlap in the agencies’ areas of expertise (Landau 1969; Bendor 1985). Circumvention is not a mechanism to suppress potential errors by another agency or check reliability, but to avoid or replace the role of that agent entirely.

The first strategy, agency creation, is simple to define: the creation of a new government agency, small or large, temporary or permanent, autonomous or not. Of course, not all agencies are created equal. Short-term commissions, councils, or working groups are created with fewer resources and personnel than cabinet ministries, secretariats, or autonomous agencies. Each reflects specific presidential (or congressional) goals: short-term, targeted policy recommendations (e.g. presidential commissions), oversight capabilities (e.g. autonomous

commissions or agencies), long-term, national policy (e.g. entire ministries), and implementation following strict presidential directives and allowing high degrees of presidential control (e.g. executive groups). While it is true that agencies may not necessarily be created in order to carry out a specific task or set of tasks—public employment as a form of patronage is a real concern in many places—agency creation is an inherently political process (Howell and Lewis 2002; Lewis 2003). Consequently, this work assumes that all creation represents at least some desire to circumvent the established public administration and/or carry out newly defined tasks (as proposed, for example, by Kaufman 1976).

Agency creation offers real advantages over reorganization or reform. First, agency creation does not *replace* administrative reorganization as a presidential tool but rather *complements* it. Chief executives are constantly reorganizing their branch of government (around 5% of Brazilian decrees, according to the LAEDD), and new agency creation is merely one way for presidents to change the structure and hierarchy, responsibilities, or jurisdiction of their public administration. In this sense, agency creation is itself a type of administrative reform, since most new agencies bring together bureaucrats of different backgrounds or smaller administrative units from other ministries or secretariats.

Second, politicians usually enjoy more discretion in planning and designing a new agency than reorganizing an existing one, where entrenched bureaucrats and other foes may be resistant to organizational change. For instance, the New Institutional Economics (NIE) literature identifies numerous obstacles to institutional change, including strong political resistance, informal rules and norms that reinforce the status quo, and path dependency (North 1990; Mahoney and Thelen 2009; Trebilcock and Daniels 2009). Other factors may affect the institutional change of organizations. Trebilcock and Daniels hypothesize three impediments:

first, technical or resource-based impediments, where despite a political will for change, a lack of financial, technological, or specialized human capital impairs change; second, certain social-cultural-historical factors may create a set of values, norms, attitudes, or practices that, while not immutable, are pervasive and enduring within organizations; third, vested interests may render organizations resistant to reforms (Trebilcock and Daniels 2009). Unlike reform, then, the creation of a new agency allows the president (or congress) *carte blanche* in setting the organizational mission, staffing the agency, determining a unique administrative structure, and imposing varying levels of political insulation (Lewis 2003).

Furthermore, given the possibility of resistance and the difficulty of achieving institutional change, new agencies may also come better equipped to deal with policies that require rapid political responses. Achieving organizational change through administrative reorganization is difficult and requires patience from politicians, bureaucrats, and citizens—as well as favorable circumstances—in order to be successful. Unfortunately for many politicians, many policies possess time horizons that necessitate rapid implementation.

Last, some policy domains or policies simply require agency specialization that existing agencies do not possess. Space exploration, for instance, is a policy that requires the formation of an administrative agency dedicated to this pursuit. In sum, new agency creation offers concrete advantages to politicians not afforded by administrative reform that allows them to bypass the institutional constraints of existing agencies.

The second strategy, military delegation, is really a subtype of out-of-jurisdiction delegation. It refers to entrusting non-defense policy to any branch of a country's armed forces. I focus on this particular subtype because of its systematic use and across countries and administrations. It may seem odd to characterize the delegation of policy to an organization

considered part of the bureaucracy as “circumvention”, but policy content does not always match an agency’s primary stated purpose. Militaries are formed and trained with the purpose of protecting countries from external—and at times, internal—security threats. However, given their professionalization, training, funding, and at times even their stated goals such as development, governments depend on them to participate in carrying out policies that are explicitly unrelated to security, from undertaking infrastructure projects, to mobilizing state elections and transporting goods, to teaching and carrying out social policies (Pion-Berlin and Arceneaux 2000; Centeno 2007; Cruz and Diamint 1998; Pion-Berlin and Trinkunas 2005; Trinkunas 2005; Brömmelhörster and Paes 2004). The fact that these actions overlap the responsibilities of another agency that would normally be tasked with the policy’s implementation indicates a deviation from what can be considered “normal” delegation patterns. Of course, there are other examples of this phenomenon outside of this subtype: *Petróleos de Venezuela, S.A. (PDVSA)*, the state oil company, administers and carries out large portions of Venezuela’s national food program *Misión Alimentación* (D’Elia and Maingon 2009; D’Elia and Quiroz 2010), while another example is the U.S. National School Lunch Program, overseen not by the Departments of Education or Health, but the Department of Agriculture (the program was designed as a way to provide substantial welfare to commercial farmers as outlet for surplus commodities) (Levine 2008). However, the incidence of these other out-of-jurisdiction cases in comparison to policies entrusted to the armed forces appears to be quite low.

The last type of circumvention I consider is outsourcing, a term used to denote the contracting or enlisting of third parties from the for-profit or non-profit sectors to carry out public policies (Freeman and Minow 2009; Goldsmith et al. 2014). The first type of outsourcing, whose primary goal in carrying out tasks is monetary profit, includes private sector contracting,

selling and leasing government properties and resources, and disinvestment. The second group, non-profit outsourcing, encompasses the delegation of policy implementation to non-governmental organizations (NGOs), international organizations, multilateral institutions, and technical assistance from foreign governments or supranational polities such as the European Union, usually without monetary incentives (although as I will explore in Chapter 7, this can become ambiguous when foreign governments are involved).

Private sector outsourcing is a common practice in governments around the world and across myriad types of social services. It is also a highly contentious issue that provokes vigorous debate over the role of the market versus the role of government, and the division between public from the private (DiIulio 2003; Minow 2003; Verkuil 2007; Freeman and Minow 2009). Advocates trumpet the gains in efficiency, cost, and predictability, while detractors highlight outsourcing's contribution to fraud and waste, lack of oversight, illegal conduct outside public sanctions, undermining of norms of transparency and accountability, and contribution to diminished government capacity (Freeman and Minow 2009). Out of necessity, this book targets only two dimensions of this debate, focusing on its relative costs and benefits from the perspective of a political principal (this chapter), and on how private sector outsourcing can affect policy outcomes (Chapter 7).

Outsourcing to non-profit organizations, including NGOs, IOs, and foreign governments (despite the sticky questions of sovereignty that this last one raises), represents a “third sector” of public service provision, after government agencies and the private sector. These actors are unique because they produce goods and services, but do not do so for profit, making this a much less contentious topic than private sector outsourcing. Non-governmental and international organizations are much younger than for-profit firms, and the use of non-profits as tools to

address salient health, social, or human rights concerns, did not begin in earnest until the mid-twentieth century (Werker and Ahmed 2008).<sup>10</sup> According to the World Bank, NGOs are, “characterized primarily by humanitarian or cooperative, rather than commercial, objectives... that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development” (World Bank Operational Directive 14.70). Accordingly, NGOs and non-profits are largely financed from rich countries and implement policies in poor ones with significant “implementation gaps” (Grindle 2009).

## **2.2 COSTS AND BENEFITS OF CIRCUMVENTION**

### **2.2.1 Advantages: Efficiency and Ideology**

These circumvention strategies share common costs and benefits in comparison to more conventional delegation, or alternative strategies such as political decentralization and public administration reforms. As with any choice, these costs and benefits must be interpreted as relative to the other options and the status quo. Banks and Weingast (1992) point out that not all agencies are equally desirable for politicians, since they have varying abilities to serve constituencies and generate votes. When selecting (or creating) a single agency, then, a politician will consider an agency's value vis-à-vis alternative agencies. From a political

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<sup>10</sup> Despite the assertion in the literature, I agree with the point made by Aníbal Pérez-Liñán in private conversations that this probably occurred much earlier. For instance, the Catholic Church acted as a publicly funded provider of social services in the nineteenth century in Latin America, and probably much earlier there as well as in Europe.

principal's perspective, bureaucratic circumvention offers both pure efficiency gains as well as an increased ability to exercise political control over an agency. From the existing agencies' perspectives, circumvention is detrimental: it detracts from their organizational missions, limits budget allocations that may otherwise be employed to attend to those policies, and may even decrease the resources the government can spend to improve the quality of the existing bureaus.

Nonetheless, new agencies, the military, and the private or non-profit sectors represent the possibility of improvements in capacity or political control over the existing public administration. Politicians can often mold new agencies to their liking, using agency structure, budget outlays, and personnel requirements to optimize efficiency. Further, as Chapter 5 shows, organizational learning may be accelerated by reassigning technocrats or trusted officials from existing agencies. As a result, new agencies should, at a minimum, represent the possibility of improvement in implementation efficiency. Similarly, militaries are often organizationally distinct from other administrative bodies due to their strict hierarchical structure and comparatively high budgets. The professionalization and training of the armed forces means that they are often more capable of performing certain tasks than even more jurisdictionally appropriate civilian agencies (Pion-Berlin and Arceneaux 2000). Like that, outsourcing can generate lower implementation costs, higher performance, and greater agent responsiveness than the equivalent public sector bodies. The literature is replete with studies showing how outsourcing often represents improved policy success through firms' experience and expertise (Robinson 1999; Kakabadse and Kakabadse 2001; Savas 1987; Stein 1990). At the same time, there are a number of pernicious perks in these strategies, such as opportunities for patronage appointments (Gallo and Lewis 2012) and kickbacks from the private sector in awarding

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Paradoxically, nineteenth-century Latin American Liberals hoped to "circumvent" the Church by creating a

contracts (Verkuil 2007; Mayer 2007), two things that will be explored in the case studies in Chapters 5-8.

Beyond efficiency, circumvention also permits politicians to choose agents more closely aligned to their ideological than the jurisdictionally appropriate agency. The ideal of neutral competence—the ability to do the work of government expertly, and to do it according to explicit, objective standards rather than to personal or party or other obligations and loyalties—has been debated long before Kaufman (1956) first defined it, dating back at least to the nineteenth century in the U.S. (Carpenter 2001). While many scholars highlight approximations of neutrality by agencies, even in developing countries (Asmerom and Reis 1996; Mengistu and Vogel 2006; Huber 2007), other literature forcibly argues against the full realization of neutral competence under any circumstances (Hammond and Thomas 1989). More recent literature considers all agencies to possess ideological predilections (Bonica et al. 2012; Clinton et al. 2012). When deciding policy assignments, it follows that politicians should prefer more ideologically proximate agencies.

If delegation inherently involves some loss of control, principals should prefer loyal agents. This “Ally Principle” (Epstein and O'Halloran 1996, 1994) states that the principal minimizes the possibility of bureaucratic drift that results when an agency uses its informational advantages and expertise to implement policy in a way that deviates from the principal's expectations. Meanwhile, agencies seek greater discretion from politicians to implement policy as they see fit (Gailmard 2002; Huber and Shipan 2002; Duvanova 2012). In this case, given multiple agents of equal technical capacity—any number of agencies within the bureaucracy, a new agency, the military, or any number of private firms or NGOs—but different ideologies, the

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professional public bureaucracy.



principal should choose the agent whose own ideology most closely resembles its own, and who will thus use informational asymmetries to benefit the principal.

### **2.2.2 Disadvantages: Concrete Costs and Technical Limitations**

If circumvention offers these advantages, then it should always be used instead of delegating to the existing bureaucracy. This is obviously not the case. So, why do politicians not always employ circumvention? One reason is that each solution presents a cost not incurred by utilizing traditional bureaucratic channels: concrete monetary expenditures and the use of a finite amount of personnel and resources. New agencies require different degrees of planning, resources, and most importantly, bureaucrats. Infrastructure must be purchased, leased, rented, or built, offices designed and set up, office supplies added, and materials printed with that agency's stamp. The creation of the Department of Homeland Security (DHS) in the U.S. involved merging 22 existing bureaus and their respective budgets and hiring new employees to coordinate and oversee this administrative structure, creating the third-largest cabinet agency in the U.S. with over 180,000 employees and a 2003 FY budget of \$37.7 billion (U.S. Department of Homeland Security 2013).<sup>11</sup> Of course, most agencies are not as large (or unwieldy) as the DHS, but not even presidential commissions are costless. Further, even militaries and other out-of-jurisdiction agents must reassign personnel or even budgets from other responsibilities. Under President Felipe Calderón (2006-2012), the Mexican military exercised an increasingly large share of its resources and personnel on domestic security to combat the violence and reach of drug cartels.

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<sup>11</sup> The DHS still does not share a single building in Washington, D.C., and President Obama even proposed construction of a \$3.9 billion headquarters for FY 2014—which would have been the largest federal construction project since the Pentagon in the 1940s (Leonard 2013).

While doing so, it follows that the same military was most likely much less capable of attending to developmental policies outside of its jurisdiction. In broader terms, an institutional maintenance problem emerges, not only for delegation to the military, but to other organizations outside the bureaucracy as well: if all politicians circumvent, costs accumulate until the executive branch is broke (with regards to agency creation, for instance, public service laws usually prevent the closing of old bureaucracies when new ones are created).

There is even a cost in outsourcing: the potential limit on private capital and non-profit assistance. This cost can be conceptualized as use of finite resources that may be larger or smaller under different circumstances. Venezuela's Bolivarian Socialist Revolution, for instance, has been unfriendly to the private sector. Even if private sector outsourcing was an ideologically palatable strategy under Hugo Chávez or Nicolás Maduro, government intimidation of private companies and expropriation of businesses have severely restricted the amount of private capital available for public projects.

Bureaucratic agents are also limited in what types of policies they can carry out, depending on organizational expertise and the area of the policy. Organizations may be highly capable in certain policy domains (e.g. construction of infrastructure), but much less capable in others (e.g. fiscal policy). Therefore, in addition to the degree that a bureau is professional, well organized, and well equipped, its design and training must match the technical needs of the task to be executed. In this sense, all types of out-of-jurisdiction delegation involve tasking agents with carrying out policies for which those agents were not trained, perhaps ensuring greater ideological congruence between politicians and agents, but at the potential loss of policy effectiveness.

Presidents and congresses, however, do sometimes employ costly delegation strategies for certain policies. This suggests that ideological or capacity gains may offset the circumvention cost. Yet, the public visibility and importance of the policy to the politician(s) are additional considerations. If circumvention is costly and the policy is a relatively unimportant or non-public, the politician should be less concerned with how it is carried out. However, if the policy is a central pillar of a politician's electoral platform, she should be more willing to absorb the circumvention cost in order to guarantee a more effective or ideologically consistent outcome. As a result, it should only be used when the political benefits to the politician—and the uncertainty involved in collecting those benefits—are greater than the cost and hassle of creating a new agency, involving the military, or outsourcing. Further, as the stakes go up (a challenger emerges, elections near, etc.), politicians' willingness to incur greater costs of circumvention should also rise. It follows that implementation of only the most important policies should be allocated outside of the existing bureaucracy.

### **2.3 STAGE 1: DELEGATION VERSUS CIRCUMVENTION**

In conventional principal-agent delegation games, a politician may either delegate to a high capacity bureaucrat who knows the direction of a policy shock, relinquishing some control over the policy in exchange for greater expertise, or refrain from delegating, gaining full control over the policy but establishing the policy with a lower degree of expertise. However, when the bureaucrat is low capacity, policy uncertainty grows and the politician will tend to refrain from delegating to the bureaucracy—which means taking things into her own hands and bypassing public agencies. It is at this point that she can now delegate to a number of agents. Her decision

to circumvent and eventual choice of an agent is a function of agency capacity, ideology proximity between the principal and agents, the costs of circumvention, and the importance of the policy being delegated.

In contrast to many established delegation models that assume a single agent, the interaction takes place here between a principal and multiple agents: at least one existing government bureau and one of four circumvention options (new agency, military, private firm, non-profit). I conclude that all things equal, politicians will be more apt to circumvent as 1) the existing bureaucratic capacity decreases, 2) the jurisdictionally relevant existing agent's preference divergence from the president grows, 3) the circumvention cost decreases, 4) policy importance increases. The key phrase here is "all things equal"; I also find that politicians may prefer a more *distant* agency or a *less* capable one, but only when that agency is much more capable or much more ideologically congruent, respectively, to the politician. In reality, the *ceteris paribus* conditions rarely hold, creating a series of tradeoffs that politicians must consider when choosing an appropriate implementation agent, and explored in Chapter 4.

More technically inclined readers may refer to Appendices A and B to see a formal derivation of this model in two stages, and the resulting formal propositions. Here, I focus on the intuition of these interactions and the expectations.

### **2.3.1 The Delegation Process**

The policymaking process is often long and convoluted, involving discussion, negotiation, approval, and implementation among a multiplicity of political actors. After approval, the

political principal<sup>12</sup> passes policymaking authority and implementation responsibility of the law, decree, or legal norm to an agent (or more than one agent). The policy then filters down through agency's hierarchy from the minister, secretary, or other "executive" who delegate to mid-level managers, and then from this mezzo level to the operators tasked with the actual implementation (Wilson 1989). The agency's eventual implementation reflects the ideological preferences of different levels of the organization, while its quality is a function of the organization's capacity, reflected in the agency's budget and organizational quality as well as the professionalism and quality of the individuals involved. Politicians reap the benefits or bear the costs of the policy outcomes, which not only depend on the quality of the implementation but the range, scope, and visibility of the policy—in short, the policy's political importance. The agency, by contrast, may realize ideological gains from the implementation.

The politician's choice between delegating to a jurisdictionally appropriate agent and a third party begins by evaluating how she expects each agent to implement that policy, a consideration that is the fruit of the agency's ideological preference and organizational capacity. The lower the capacity of the agency, the higher the degree of implementation error, and the more difficult it is for principals and agents to predict exactly how the policy will be executed. In more formal terms, both the principal and the agent are unable to account for the variance in error, although they can anticipate and take measures to offset the *mean* level of variance. Since agencies cannot predict how their implementation will ultimately turn out, then, they should choose to implement on their ideal point (see Proposition 1 in Appendix A). For instance, if an low capacity, ideologically centrist Ministry of Social Welfare were to design and implement a

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<sup>12</sup> Although the political principal may be an assembly or other deliberative body, I simplify it here to be a president. This decision is further explained in Chapter 3.

school lunch program, the high degree of error variance means that the policy could not only be inefficient, but significantly to the left or right of what the policy designers intended.

Politicians should be able to anticipate the bureau's actions and the implementation outcome. They must consider four chief elements: 1) the agent's ideal point (since this determines where in the ideological space the agent chooses to implement), 2) the agent's expected implementation error, 3) the cost of delegating to that agent, and 4) how important the policy is to the president—essentially, whether circumvention is worth all the trouble. The president's final calculus in deciding her mode of delegation therefore involves comparing how each agency will implement the policy by taking into account all agents' capacity and ideology, while also considering the cost involved in circumventing and political/electoral importance of the policy (see Proposition 2 in Appendix A). As explained, bureaucrats will always prefer to execute the policy according to their preferences.

### **2.3.2 Hypotheses**

Assuming that all other elements held equal and the circumvention cost is non-zero, the four variables have intuitive effects on the likelihood of a politician bypassing the bureaucracy when considered separately. The first of these is the value of agency capacity. It is uncontroversial that politicians will be more willing to circumvent when a third party has greater capacity than an jurisdictionally appropriate bureau. The logic behind is straightforward: the weaker the capacity of the existing bureaucratic agents, the larger the possible implementation error, and the more likely the president is to look outside the jurisdictionally appropriate agency to execute the policy. As this capacity decreases, the president should be more and more willing to look outside the bureaucracy to implement policy, provided that the alternatives are not too costly. Therefore,

H1: *The likelihood of bureaucratic circumvention will increase as the appropriate existing agency's capacity decreases.*

However, this Capacity Hypothesis assumes that all agents share a similar ideology, and given that circumvention requires an additional cost, a politician will only have sufficient incentives to bypass the existing bureaucracy when the third party's capacity is higher than the existing jurisdictionally appropriate agent (formal derivation in Propositions 3ii in Appendix A). In fact, when agency ideologies are not equal—as is most often the case—this relationship should *not* hold.

If the existing agency and the president are more closely aligned than the third party and the president, than H1 is still true (Proposition 3iii). The existing agency capacity must simply be much lower, or the expected capacity of the new agency must be much higher to offset the ideological proximity of the existing agent and the president. By contrast, when the existing bureaucratic agent is *less* ideologically congruent to the president than the new agent, it is possible that the president will prefer circumvention even when the existing agent is more capable (Proposition 3i)! This implies that an agent who is loyal to the president but completely inefficient may be preferred by the president to an alternative agent who is more efficient but more ideologically distant.

Similarly, ideology is also decisive, but only under artificial conditions agency capacities are equal *and* there is no large circumvention cost. Assuming that all agents share a similar capacity and the circumvention cost is larger than 0, a politician will have incentives to bypass the existing bureaucracy only when the third party is closer ideologically than the existing agent (formal derivation in Propositions 4ii in Appendix A). This expectation follows the logic of the Ally Principle, which holds that politicians should delegate more policymaking autonomy when

politicians and bureaucrats share similar policy preferences. Unlike Epstein and O'Halloran (1994), Bawn (1995) or much of the other delegation literature, the question at hand is not whether a political principal should delegate policymaking authority or determining how much discretion to delegate, but—like Ting's (2002) theory of jurisdictional allotment—which agent to choose. Holding all agents' capacities and costs of circumvention equal, the president should always prefer to delegate to the agent with the most similar ideology. So,

*H2: The greater the preference divergence between the third party and president, the greater the likelihood of bureaucratic circumvention.*

As above, varying the capacity of the relevant agents should alter the president's behavior. If the existing agency possesses higher capacity than the third party, then H2 remains valid (Proposition 4iii). The third party agency's ideal point must simply be much closer to the president's, or the existing bureaucrat's ideal point must be much farther from the president to counterbalance the existing agent's higher capacity. Yet, other behavior is also possible. When the existing bureaucratic agent is *less* capable than the new agent, it is possible that the president will prefer circumvention even when the existing agent is more ideologically distant (Proposition 4i). That is to say, when a third party agent possesses (or is thought to possess) very high capacity in relation to the existing bureaucracy, or the existing bureaucracy has incredibly low capacity, a president may turn to the third party *even when the existing agent's ideal point is closer*; this is described in further detail below.

Despite its seeming intuition, this expectation is also noteworthy because it does *not* hold in low capacity, single-agent contexts or even in certain simple high capacity circumstances (Bendor and Meirowitz 2004). The reason it holds here is because the president enjoys multiple agents, and she is not allowed to refrain from delegating. In most low-capacity contexts the



president can find a substitute agent that has at least the same level of (in)competence as the original bureaucracy; when the new agent is slightly less competent, loyalty—that is, ideological similarities—should be enough to compensate for that loss.

A third consideration for presidents in deciding amongst agents is how much that delegation decision costs. Normal jurisdictional assignation is essentially cost-free, since agencies are ideally designed to carry out policies in their relevant jurisdiction. Circumvention, on the other hand, almost always implies an exogenous cost: the money, personnel, time, and planning needed to create a new agency, the use of precious military resources, or finite investment capital from the private sector. Further, the costs differ by strategy and by specific decisions within each strategy. For example, it is much costlier to establish a new ministry, secretariat, or regulatory agency than it is to establish a presidential commission or working group. Politicians—like any consumer—will want to minimize, if not avoid, paying these costs.

The value of the circumvention cost serves as a barrier keeping less important policies from bypassing the existing bureaucracy. Politicians rationally want to minimize costs, so when agency capacity and ideology are roughly similar across agents, presidents will choose the agent with the lowest associated exogenous cost. This means that when the existing bureaucracy is in consideration and its capacity and ideology are identical to third party agents, it will *always* be preferred. As the cost grows, the existing agency's ideal point must move closer to the president's ideal point or the policy importance must increase for the president to prefer it (Proposition 5 in Appendix A). This conclusion makes intuitive sense, since all else equal presidents should be less likely to incur any transaction cost related to circumvention for an insignificant policy, but more likely to for an important policy. Therefore,

*H3: As the circumvention cost decreases, the likelihood of circumvention will increase.*

The last factor that politicians have to consider has nothing to do with the agencies themselves, but rather the policy. Decree content can range from largely administrative or symbolic procedures with few implications or repercussions (declaring national holidays or promoting public servants), to more important issues (issuing treasury bonds or building a road), to highly important programs (welfare reform or establishing conditional cash transfer programs). Poor execution of an inconsequential, largely invisible policy will have minimal political consequences, if any, while similarly poor execution of a highly visible, national program in, say, education, should have an effect on the relevant president (or assembly). This parameter also indirectly responds to the circumvention cost in the sense that the policy will have to be dear for a politician to incur the cost of circumventing; the cost is essentially a barrier that keeps unimportant policies from being reassigned to third parties.

Lastly, given a stable exogenous cost, more important policies should have a greater chance of being reassigned than less important ones. This is consistent with anecdotes of presidents resorting to the military, new agencies, and other non-traditional bodies to implement highly visible, often national, public policies around the world. It may be possible in the implementation of relatively unimportant policies, for example, that bureaucratic capacity is sufficiently low. However, since circumvention involves a cost, the president will prefer to suffer the high possibility of a small utility loss from the unsuccessful implementation of that policy than the larger certain cost of circumvention (Proposition 6 in Appendix A). So,

*H4: As policy importance increases, bureaucratic circumvention will also increase.*

### 2.3.3 Comparative Statics

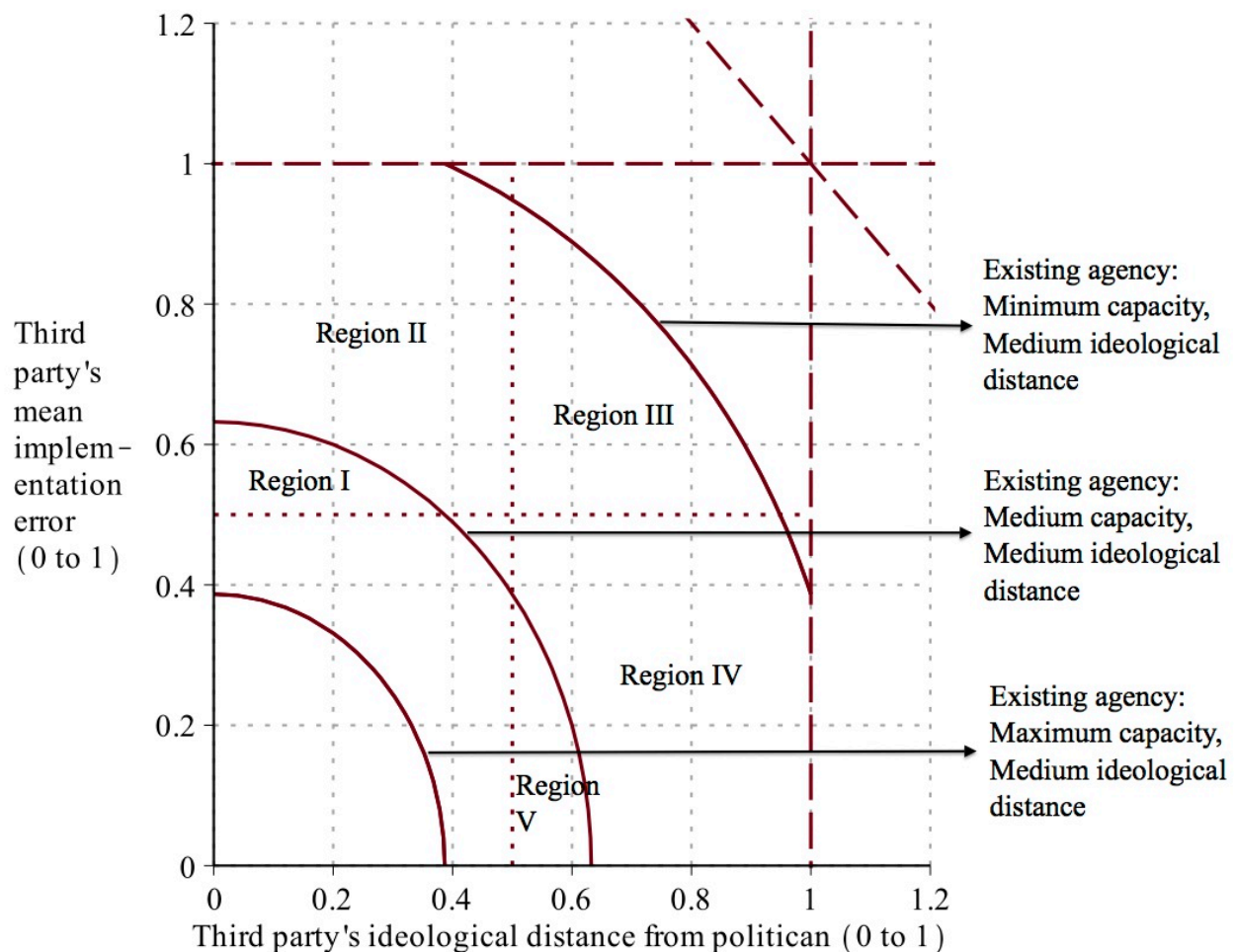
To illustrate the intuition behind these hypotheses, I plot the relationship among these four variables in Figure 2-1 below. The area under each curve represents the conditions under which a president will circumvent the bureaucracy; all space above these curves represents those under which she turns to the prevailing bureaucracy. In the plot, circumvention cost and policy importance are both held at their maximum theoretical values, while the third party's mean implementation error and ideological preference divergence from the president are allowed to vary from their theoretical minimum (0) to theoretical maximum (1). The three curves, which are different equilibria, represent three stylized depictions of existing agencies: high (1), medium (0.5), and low implementation errors (0), with ideological distance at a midpoint (0.5) (keeping in mind that there is no "cost" involved in delegating to the existing bureaucracy, and policy importance remains high).

It is clear that the cost incurred in circumventing pushes the curves outwards from the origin. Following H3, this means that given similar ideological ideal points and capacity between a jurisdictionally appropriate agency and a less-appropriate third party, a president should always opt for the existing corresponding bureau. Similarly, lowering policy importance would also exercise a centrifugal effect on the curves, supporting H4.

However, the major value-added in this figure comes in plotting the tradeoff between ideological distance and capacity. As described in H1 and H2, there are circumstances under which the president will prefer to circumvent the bureaucracy even when, 1) the existing agent is more capable than the third party, or 2) the existing agent is more ideologically congruent to the president. As Regions I and V under the middle curve and bordered by the dotted lines in Figure 2-1 show, third parties may have capacities (Region I) or ideologies (Region V) farther from the

president than the existing bureaucracy, but they are preferred due a closer ideology or higher capacity, respectively, in the two cases. As the existing bureaucracy's qualities become less attractive, the curve moves outward away from the origin, and this area increases. When the existing agent's capacity is at its minimum, it offsets equal or worse preference divergence from a third party as described by Regions I-IV. Likewise, a third party may possess equal or worse capacity (Regions I-III), since the existing agent's ideological distance is so large.

Still, the question of choosing among circumvention strategies remains.



**Figure 2-1.** Comparative Statics for President's Circumvention Decision

Note: Policy importance and circumvention cost held at their maximum values

## **2.4 STAGE 2: CHOICE AMONG CIRCUMVENTION ALTERNATIVES**

Simply circumventing the bureaucracy does not obviate the fundamental principal-agent game that characterizes hierarchical relationships, but it does allow politicians to construct a more favorable principal-agent relationship since agents essentially compete against each other for policies. If capacity is low, then the range of discretion delegated to bureaucratic agents should not greatly affect the policy outcome (Huber and McCarty 2004). However, circumventing the established bureaucracy recreates the principal-agent relationship under more conventional parameters, or a generalized version of the initial decision: a principal chooses among two or more agents, and the agent then uses his technical expertise to carry out that policy. In other words, circumvention reproduces the fundamental tension, but with the principal's advantage of being able to stack the deck in her favor by choosing among multiple strategies.

Unlike models exploring mechanisms of control over a single agent who enjoys a fixed amount of expertise, the second decision level of bureaucratic circumvention provides the principal with additional agents of varying issue domain expertise and circumvention costs. In fact, this second level of strategic decision-making is the same as the first stage, except that all agents have a circumvention cost (the first stage is actually a special case of the more general setup, in which one of the agents does not carry an added cost). As a result, politicians must therefore weigh all four factors—ideology, capacity, costs, and policy importance—when choosing among agents. Intuitively, politicians will be most likely to choose the agent that 1) minimizes implementation error, 2) minimizes preference divergence (or maximizes preference convergence), and 3) minimizes circumvention costs. As above, I formally derive theoretical expectations in Appendix A. Yet here, policy characteristics and agents' policy domains are determinant.

### **2.4.1 The Delegation Process and Theoretical Expectations**

Once the president has decided to circumvent the bureaucracy, she must decide on which third party agent to choose. As in the first level of decision making, this choice is based on the anticipated costs and benefits of delegating to each, taking into each agency's ideology (or in the case of new agencies, anticipated ideology), capacity, and policy importance, as well as the associated cost of delegating to each of these agencies. Yet, each possible strategy involves a non-zero cost—even the relatively inexpensive outsourcing—and each actor possesses expertise in distinct issue domains. The president's chief advantage is that she is not limited to a binary decision (bureaucracy/non-bureaucracy), but may choose the least costly option among four different types of agents.

As before, the principal makes this decision by evaluating how she expects each potential agent to implement that policy, based on the agency's ideological preference and capacity. Further, since as in the first stage, the agent's implementation error varies, neither principals nor agents are able to predict exactly how it will affect a policy's execution. Therefore, the agent chooses to implement on its ideal point (refer to Proposition 1 in Appendix A).

The president can anticipate the agent's action, and therefore must consider, 1) the agent's ideal point, 2) the agent's capacity, and 3) the cost of delegating to that agent, and 4) how important the policy is to the president, since this directly affects the magnitude of the exogenous cost. The president's expected utility from delegating policy implementation to any of the possible third parties is a combination of these four elements. The president's decision therefore involves comparing how each agency will implement the policy by taking into account all agents' capacity and ideology, while also considering the cost involved in circumventing and political/electoral importance of the policy (see Proposition 7 in Appendix A for a formal

derivation). Bureaucrats, unable to anticipate potential implementation errors and ideological drift that result from differences in agency capacity and ideology, will always prefer to execute the policy according to their preferences.

As a result, three of the hypothesized relationships from stage 1 hold when elements are in equilibrium: 1) *As an agent's capacity increases relative to the others, the likelihood of delegation to that agent increases* (Proposition 8ii); 2) *As the ideological distance between an agent and the president decreases relative to the president's distance to other agents, the likelihood of delegation to that agent increases* (Proposition 9ii); and 3) *As the circumvention cost of an agent decreases relative to the cost of other agents, the likelihood of delegation to that agent increases* (Proposition 10ii). By contrast, at this level, as long as circumvention cost is equal, changing levels of policy importance independent of circumvention cost has no systematic effect on whether one agent is preferred over another.

Further, the tradeoffs between agency ideology and capacity as explored in question one above (and shown formally in Propositions 3i and 4i of Appendix A) also remain. However, since circumvention cost may also vary among agents, there is an additional layer of tradeoffs to consider. As an agent's ideology grows closer to the president's ideology than all other alternatives, that agent may be less efficient or capable or its circumvention cost higher than that of the alternatives, and it will still be preferred (Proposition 8i). Likewise, if one agent's capacity is higher than alternative agents' capacities, than that bureaucrat may be ideologically more distant from the president than an alternative and/or its circumvention cost higher than the alternatives', and that bureaucrat will still be preferred (Proposition 9i). Lastly, if one agent's circumvention cost is lower than that of the alternatives, then that agent may be ideologically

more distant from the president than the alternatives and/or less capable than the alternatives, and it will still be preferred (Proposition 10i).

In sum, conditions exist under which 1) an inefficient and costly agent who is completely loyal to the president may be preferred to an alternative agent who is more efficient and/or less costly, but more ideologically distant; 2) an ideologically distant and costly agent who is completely efficient may be preferred to an alternative agent who is more ideologically distant and/or less costly, but less efficient, and lastly, 3) an ideologically distant and less efficient agent who is nearly costless may be preferred to an alternative agent who is ideologically close and/or more efficient, but very costly. This last case recalls the general conditions of the first stage of the model under which a distant and less efficient existing agent may be preferred to a costly third party.

#### **2.4.2 Matching Agency Expertise to Policy Domain**

In practice, however, there are real differences in agencies' issue domains or technical expertise. In this sense, the real deliberation for the president involves "matching" her policy to an agency while of course weighing the level of control she hopes to maintain, the circumvention cost, and the policy importance. *Ceteris paribus*, the decision should be dependent on both policy-specific and agency-level characteristics. The former is often overlooked in the literature on delegation, where all policies are treated equal. Instead, I follow the implementation literature and assume the content and nature of policies are of central consequence to the implementation strategy pursued, and that implementation processes depend on the nature of the policy to be carried out.

Domain expertise measures how well an organization's mission, purpose, and technical training aligns with a task. Following the conventional wisdom, I assume that all else equal,



politicians prefer to arrange task allocation according to technical criteria.<sup>13</sup> In high capacity circumstances, an existing organization familiar with related tasks would seem likely to perform it most effectively. Policy-specific characteristics are integral to this decision. Any type of policy implementation strategy is highly dependent on the content of the policy (Grindle 1980: 8-15), since different decisions will display “characteristic processes, structures, and relationships among factors that influence the execution of public policy” (Van Meter and Van Horn 1975). Tasks involving fiscal policy should be assigned to the Ministry of Finance or Central Bank, tasks related to labor stoppages should be assigned to the Department or Ministry of Labor, and completely new and unrelated tasks should be assigned to new agencies (Kaufman 1960; Hammond 1979; Ting 2002). In situations of low existing bureaucracy capacity where circumvention becomes a viable option, the range of possible agents decreases from the total number of government bureaus to the four strategies (and variations thereof) highlighted here.

The issue domains of the four strategies are straightforward. Militaries boast the ability to quickly mobilize and respond to domestic or international crisis with manpower and operational support, but are not trained in the majority of policy areas: monetary, health, education, and on and on. The private sector may present a broader range of policy expertise, but as I will explain, this risks a loss of political control by politicians. Non-profits, on the other hand, have greater fiscal limitations and risk capacity than private firms, and are more restricted to implementation of programs in social and health areas. This leaves agency creation, a versatile political tool that can take the form of inexpensive commissions or quite expensive regulatory agencies or cabinet-level agencies.

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<sup>13</sup> Ting (2002) suggests that task allocation to bureaucracies goes beyond assignment according to technical criteria, and that optimal jurisdictional allocation may involve separating tasks which share technical similarities across agencies to further legislative goals. This is a possibility that merits empirical testing in future work.

#### **2.4.2.1 New Agencies: The Most Versatile Strategy**

While new agencies' technical capacity is impossible to determine *ex ante*, these offer a route for politicians to define the amount of control they exercise over an agency as well as a high degree of capacity through such things as personnel appointments and managing specific of the budget distribution. While Wood and Bohte (2004) argue that political principals seeking favorable administrative designs are often constrained by the nature of political coalitions at the time of policy enactment, Macey (1992), Horn (1995), and others have shown how legislators apply statutory authority and administrative form to agencies to protect both bureaucratic and legislative drift. Agency creation can of course result in unintended consequences, as Selznick's (1980) classic study of the Tennessee Valley Authority attests, but direct establishment can help ameliorate this possibility. Lewis's (2003) comprehensive examination of agency design in the U.S. in part examines how agencies created by executive actions are less likely to be insulated from presidential control than agencies created by congress; he also finds that presidents have unilaterally created over half of all administrative agencies in the U.S. since World War II through such acts as executive orders, department orders, and reorganization plans.

In additional to this control, new agency design also offers the possibility of improved capacity. To begin with, presidents can staff unilaterally established executive agencies with top technocrats, bureaucrats, or private sector employees, ensuring optimal levels of professionalism and individual capacity. Secondly, the political principal(s) can impose an organizational design aimed at maximizing organizational (not technical) efficiency through the facilitation of decision-making and budget processes (Simon 1997 [1947]: 150-171); this is studied in-depth in the public administration literature that examines the design, innovation, and rationality of organizations. Costs and ideology being equal across strategies, it appears that agency creation

should *always* be the preferred circumvention strategy. As the data show, however, this is clearly not the case. I explore this question below.

#### **2.4.2.2 Militaries: Mobilization and Organization**

Militaries possess more specialized training and narrower expertise across policy domains. On one hand, the armed forces generally enjoy higher funding, better equipment, and more disciplined personnel in comparison to other state institutions, yet they are also more technically limited. To begin, since governments tend to prioritize national defense over other state responsibilities, the armed forces receives ample financial backing not equaled by other state agencies. Secondly, organizational capital is high. Military academies produce well-trained, professional “bureaucrats” (i.e. soldiers, officers, etc.) unmatched in many places by similar institutes of public administration. Furthermore, militaries are hierarchical organizations intended to carry out orders points to a relatively high capacity vis-à-vis other professional organizations. As a result, militaries boast the ability to quickly mobilize and respond to domestic or international crisis with manpower and operational support, such as food distribution or emergency medical services (Rey Marcos 2009). That is, militaries may be more able to carry out policies more quickly and effectively than civilian bureaucracies (Mani 2011; Cruz and Diamint 1998), due to a lack of capacity by civilian state institutions to provide the services (Brömmelhörster and Paes 2004). Crisis situations or urgent developmental tasks need to be met immediately, and under many circumstances, the military represents the only organization capable of meeting those needs—especially missions that require large amounts of human capital or mobilization.

At the same time, political elites may also turn to the armed forces for developmental tasks to curry favor with them (Mani 2011; Cruz and Diamint 1998; Pion-Berlin and Trinkunas

2005). As explored in Chapter 6, President Hugo Chávez deepened the role of the armed forces in Venezuelan politics and society, giving them a higher degree of autonomy and discretion over policy (Trinkunas 2004, 2005, 2002), while his successor Nicolás Maduro has continued favorable policies towards the armed forces to cultivate support and buttress his own political stability (LAWR 2013). The logic is also true in places where military influence is less overt. In Brazil—as in Ancient Rome—political elites prefer to use soldiers as a labor force for the construction of roads and other infrastructure projects to avoid having them sit idly in their barracks (Ribas 2013b). At the same time, as other out-of-jurisdiction agents, the armed forces are not trained in the majority of policy domains such as monetary, health, education, foreign policy, and on and on, and are likely to carry out these functions far worse than an established bureaucracy. A military’s strengths, such as mobilization or organizational support, are of little value in the vast majority of policies carried out daily in a polity.

#### **2.4.2.3 The Private Sector: Profitable Public Services**

Outsourcing is a form of privatization defined by choice of a different means of resource provision.<sup>14</sup> It offers risk mitigation, technical expertise, and efficiency in the provision of public services. This type of subcontracting is a core tenet of the policy discussion and administrative philosophy of the New Public Management (NPM), which advocates smaller government, outcomes-based budgeting, and privatization or quasi-privatization in order to attain a more efficient provision of public goods (Hood 1991; O’Looney 1998).

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<sup>14</sup> Note that this is different from the other major form of privatization, the more controversial “load shedding”, or withdrawal of government-provided services. This second form is the type of privatization where the government sells off assets entirely to the private sector.

The manifestation of NPM reforms and outsourcing have shifted considerably from country to country (Hood 1995). The first generation of reforms in Anglo-American states in the 1980s and 1990s sought to decrease the size of the government, while the second generation of reforms looked to make structural and cultural changes to the public administration (Christensen and Lægreid 2007). This philosophy spread to Latin America soon thereafter. Brazil, Chile, Colombia, Mexico, and a host of other Latin American countries began to pursue varying degrees of administrative reforms in the 1990s, often at the behest of right-of-center governments (Pereira and Spink 1999; Barzelay 2000; Pereira 2001; Ramió Matas 2001; Arellano-Gault and Gil-García 2004). As part of this movement, governments outsourced in the fields of education (Levin 2001), health care (Avery 2000; Duggan 2000; Kessler and McClellan 2002), water provision (Galiani et al. 2005; McDonald and Ruiters 2005), correctional facilities (Savas 1987), defense (Verkuil 2007), social security (Diamond 1993), and information technology (Lacity and Willcocks 1998).

However, market-based solutions may not be applicable in the provision of many public goods, chiefly those that are not profitable (Downs 1967). Since firms' *raison d'être* are economic profit, they should be unlikely to bid on concessions or seek to provide government services that they suspect will be unprofitable. Most firms are not created to receive concessions in social welfare or foreign relations, for example, but rather areas like energy, infrastructure, natural resources, and telecommunications. Consequently, government outsourcing to private firms makes the most sense for policies that offer the possibility of profit, and for those where agency discretion matters less. Technical policies, such as potable water projects, bridges, and road maintenance, are one example of this. Outsourcing of infrastructure development is also consistent with historical accounts. Novak (2009), for example, identifies the keeping of public

order and the construction and management of roads and public works as the primary modes of outsourcing employed by English lords in the Middle Ages. Conversely, the characteristics of private firm outsourcing should preclude the delegation of politically sensitive policy and non-profitable collective public goods.

#### **2.4.2.4 The Non-Profit Sector: Other Collective Goods**

Outsourcing also includes technical NGOs, international development/cooperation organizations, and multilateral financial institutions, and even other countries (O'Looney 1998: 23).<sup>15</sup> These organizations provide a solution to the provision of less-profitable collective public goods (Besley and Ghatak 2003; Werker and Ahmed 2008; Hansmann 1980; Weisbrod 1988). Non-profits are far more restricted than private enterprise in the kinds of activities they can engage in, yet they fill an important role alongside governmental and proprietary institutions in the provision of public services, providing non-profitable collective public goods. Non-profit managers may have fewer incentives to implement policies efficiently, since the market does not reward them. On the other hand, much of the scholarship on the non-profit sector (e.g. Werker and Ahmed 2008; Hansmann 1980) emphasizes that its effectiveness of this type of policy provision is driven largely by altruistic or ideological motives. Similarly, Besley and Ghatak (2003) raise the possibility that non-profits may achieve high efficiency by matching motivated workers to their preferred missions. In short, weaker market incentives detracts from the range of possible relevant policy areas for non-profits (Glaeser and Shleifer 2001), although they should be advantaged in providing goods and services where quality is difficult to verify and

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<sup>15</sup> It excludes, however, non-departmental public bodies (NDPB) like quangos (quasi-autonomous non-governmental organizations), semi-public administrative bodies outside the civil service but financed by the exchequer and having members appointed by the government (Pifer 1967; Barker 1982).

where the temptation for a for-profit provider to shirk on quality may be especially high (Werker and Ahmed 2008).

Like private sector outsourcing, however, non-profit outsourcing exists outside of the state apparatus and thus hinders the possibility of a high level of political control. Non-profits in an international setting seek to provide public goods or services where they are most lacking. The organizations generally choose where to operate and dictate their programs to (or in coordination with) the government, and not the other way around. The central government cannot appoint officials to a non-profit organization, nor dictate the policy specifics. NGOs or IOs essentially replace the service that the government would provide, and therefore operate with much greater autonomy than most government agencies or the military. In sum, non-profits are most likely to be used to offer collective public goods that are not politically sensitive, and offer few monetary incentives, specifically social welfare.

### **2.4.3 Additional Mitigating Empirical Factors**

Finally, the decision calculus is also shaped by pragmatic considerations. The first of these is simple: are all four circumvention strategies possible under the law or political-economic reality of the country? Unilateral agency establishment is not always possible; for example, a 2008 law in Colombia prohibits the president from decreeing the creation of new agencies. And while outsourcing is the norm in the United States, most other democracies restrict and regulate outsourcing more than the U.S. (Verkuil 2007) German law, for example, requires that all persons involved in carrying out national policy must be supervised by a government official. Similarly, not all countries have national armies or armed forces' large enough or equipped

enough to carry out national policies. Costa Rica's military was abolished in 1948, in the wake of the country's civil war, while Panama permanently abolished standing armies in 1990.<sup>16</sup>

A more generalizable restriction comes from the fact that non-profit outsourcing is not always possible. More developed countries are much less likely to be offered the technical and humanitarian help often offered by NGOs, IOs or foreign governments than those suffering through a crisis or fighting their own weak economic situations. The United Nations, World Bank, International Monetary Fund, Organization of American States, Inter-American Development Bank, and the Latin American Development Bank all carry out development projects in the Western Hemisphere, but their activities are almost exclusively restricted to the poorest countries—and the most needy places within those countries. As the empirics in Chapter 3 will show, it is clear which countries most often count on foreign non-profit outsourcing (Bolivia, Guatemala, Nicaragua) and which do much less (Brazil, Uruguay). Therefore, the poorer the country, the more likely it is to use non-profit outsourcing.

President-specific factors are likely to influence delegation patterns as well. Specifically, presidents should be more likely to trust known institutions and individuals that share common personal ties or professional experiences. Personal and professional networks should endure throughout a president's time in office, affecting how willing he or she will be to rely on a given institution. For example, a president who served in the armed forces is much more likely to trust the military to carry out policy than an ex-lawyer or businessperson without ties to that institution. Likewise, businesspeople that win office should show a greater preference for outsourcing to the private sector than non-businesspeople. These are summarized as: military

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<sup>16</sup> A 1994 constitutional amendment by the legislature allows the establishment of a temporary military in Panama to counter acts of external aggression



delegation should be more likely if president is ex-military, and outsourcing to a private firm is more likely if the president is a former businessperson.

## **2.5 ALTERNATIVE HYPOTHESES**

There are, expectedly, a number of more commonly accepted alternative hypotheses to account for agency creation, delegating to the military, or outsourcing, all of which are unrelated to the logic of bureaucratic circumvention. These can be summarized as: 1) agencies are created to attend to new issue domains; 2) the military's role in developmental policy or infrastructure projects occurs in contexts of governments of civilian-military partnerships, and 3) outsourcing is a strategy pursued most often by right-of-center governments.

### **2.5.1 New Agency**

A number of scholars propose that agency creation (federal or otherwise) is taken as a response to the emergence of new tasks for which the existing public administration is not technically equipped. Grafton (1975) suggests that a majority of agencies are created as a last resort response to large scale socioeconomic-technological discontinuities, such as the expansion of the electrical grid or the onset of the Great Depression, which he calls "novelties." Similarly, Kaufman (1976) and others (Grafton 1991; Ting 2002; Wilson 1989) argue that new agencies are created to assume responsibility of new tasks, such as the creation of the National Air and Space Administration (NASA) in the U.S. by President Eisenhower in 1958 to coordinate the nascent space exploration program. New agencies may also come about to replace weak existing

agencies. For instance, Piovesan and Labra (2007) argue that the 1999 creation of the Brazilian National Health Surveillance Agency Technical (ANVISA), the country's first social policy regulatory agency, was due to coverage gaps and inefficiencies in ANVISA's predecessor, the Health Surveillance Secretariat. At the same time, ANVISA took control over a policy domain—health care regulation—largely overlooked until that time. In that sense, the agency was essentially taking over a “new” task as the examples in the U.S. attest. In sum, new agency creation is more likely to occur in policy domains not covered by existing agencies.

### **2.5.2 Military Delegation**

Common wisdom also says that the armed forces carrying out policies is unique to places with military or civil-military governments (Coletta 2010; Fitch 1998). In Latin America, the armed forces has historically played a protagonistic role in domestic affairs, ranging from economic development to counterinsurgency efforts (Linz and Stepan 1978; Stepan 1988; Fitch 1998).<sup>17</sup> Stepan (1988) has argued that Latin American militaries extracted important institutional prerogatives during democratization in order to shield themselves from civilian control, to keep watch over civilian forces, and to interfere in many arenas of democratic politics. It thus makes sense that the armed forces should be more likely to participate in civilian politics or continue to play a role in internal development in places where they have traditionally done so. As a result, military delegation is more likely under civilian-military government partnerships, and in places with recent military governments.

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<sup>17</sup> Perhaps surprisingly then, the armed forces is an institution with high levels of trust in society. Aggregate survey responses from the Latin America Public Opinion Project (LAPOP) show a degree of trust (nearly 60 out of 100) in the armed forces that greatly outperforms trust in institutions of representation, such as political parties or congress.

Other scholars have increasingly contested this conventional wisdom. In fact, the historical military autonomy in many countries has eroded sharply since the Third Wave of Democratization. Pion-Berlin (1992) shows decreasing military autonomy over time in five South American countries, especially Peru, Uruguay, and Argentina. He also disaggregates two dimension of military autonomy—institutional, referring to internal professional independence and self-reliance, and political, referring to involvement in civilian affairs—and argues that levels of autonomy are higher along the internal professional dimension than in the political sphere in most countries. Hunter (1997a), meanwhile, adds that the same pattern of decreasing autonomy can be in Brazil.

### **2.5.3 Outsourcing**

Finally, regardless of outputs and efficiency gains, outsourcing may not be ideologically palatable for the political principal or coalition pursuing the policy. This is certainly true across the developing world, where the implementation of neoliberalism and the Washington Consensus since the 1990s has been contentious, to say the least (Weyland 1996, 1999, 2002; Campbell and Pederson 2001). Venezuelan President Carlos Andrés Pérez's *gran viraje* in 1989 resulted in massive protests, two failed coup attempts, and the eventual impeachment of the president (McCoy and Myers 2006). Similar patterns of neoliberal adoption and protest occurred across Latin America, from Peru under Fujimori (Conaghan and Malloy 1994; Mauceri 1995) and Argentina under Menem (Stokes 2001) to Brazil under Collor de Mello (Flynn 1993; Weyland 1993).

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Montalvo (2009) shows that this phenomenon is driven largely by citizens' association between the military and

Backlash against these policies has led to the success of the so-called “New Left” of Latin American presidents elected since the mid-2000s: Nestor Kirchner and Cristina Fernández de Kirchner in Argentina, to Evo Morales in Bolivia, Lula and Dilma Rousseff in Brazil, Rafael Correa in Ecuador, Daniel Ortega in Nicaragua, Tabaré Vázquez and José “Pepe” Mujica in Uruguay, and Hugo Chávez and Nicolás Maduro in Venezuela (Panizza 2005; Castañeda 2006). A central tenet of many of these presidents’ rhetoric is anti-neoliberalism and a greater reliance on the state to solve economic problems. Given these politicians’ lack of trust in the market, it makes sense that the ideological Left will eschew outsourcing, especially to private firms. So, to conclude, outsourcing to the private sector *or* the military is more likely if the president is rightist.

These expectations—four regarding the initial decision to delegate or circumvent, four hypothesizing the conditions under which each circumvention strategy is pursued, three empirically-generated ones, and three alternative hypotheses taken from the conventional wisdom—are wide-ranging, yet still only deal with one phase of the policy process. The last question, and one which I investigate in chapters 4-6, asks: what is the effect of these delegation decisions on actual policy outcomes?

## 2.6 CONCLUSION

I argue in this chapter that politicians in low bureaucratic capacity contexts may be able to achieve policy success through policy delegation to new agencies, the armed forces, and non-

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economic growth.

governmental actors, including both private firms and non-profits. This is a significant departure from the bulk of the policy delegation literature, which assumes that policy delegation and oversight is a strategic interaction between one or multiple principal(s) and a single agent, and thus generates predictions relating to the amount of discretion delegation to the agent and forms of political control. Instead, I widen the set of potential bureaucratic agents, changing the decision-making process from one of simply exercising oversight to one of choice among potential agents. This theory of circumvention also addresses disparate literatures on agency creation, military participation in civilian affairs, and outsourcing, showing that instead of occurring as responses to the emergence of novel tasks, civilian-military governments, or right-leaning politicians, these phenomena can be viewed together as rational presidential responses to poorly performing government agencies.

This theory of bureaucratic circumvention has two levels of decision-making. At the first level, it says that the decision to circumvent the bureaucracy is driven by: 1) a decrease in the capacity of the relevant government agency; 2) an increase in the preference divergence between the principal and the relevant agency; 3) an increase in the political importance of the policy; and/or 4) a decrease in the cost of circumvention. If the president chooses to circumvent, then she re-creates the basic principal-agent model that permeates high bureaucratic capacity environments, a pervasive tension between policy efficiency and policy control, and the same expectations from the first stage apply. This leaves the principal with a second decision, choosing the appropriate circumvention strategy, which I argue is driven in large part by the same logic of the first stage, especially the tradeoff between ideology and agency capacity. However, empirical factors also clearly play a role. Depending on the policy domain and policy complexity, presidents should be more likely to use one or more of the four highlighted agents.

As the anecdote about the Ecuadorian literacy campaign from the beginning of the chapter illustrates, many of these theoretical expectations appear compatible in the real world. The literacy campaign was one the Borja government's pet national policies, indicating a high level of political importance, and it was unwilling to entrust the policy to an underfunded, resource-poor Ministry of Education (Isaacs 1993). In this context, the president was able to rely on the military for technical resources and mobilization help, as well as non-profit organizations (churches, chambers of commerce, and volunteers) to carry out the actual teaching—an activity whose reward is not monetary, but altruistic. I systematically test these hypotheses in Chapter 3.

### **3.0 EMPIRICALLY TESTING THE THEORY OF BUREAUCRATIC CIRCUMVENTION**

Scholarship examining delegation decisions and the bureaucracy has shown a preference for generating theoretical predictions rather than empirically testing those predictions, in part because of the difficulty of quantifying many aspects of bureaucratic politics. This is certainly one reason why the bureaucracy is far less studied than mass behavior, elections, political parties, or legislatures in political science. Huber and Shipan (2002) are one exception to this rule, as they code the text of labor laws in Michigan and Western Europe to test expectations about the bureaucratic control exercised over implementing agencies by legislative bodies in separation-of-powers systems. Others examine how different bureaus compete for tasks, such as Carpenter's explanation of how Gifford Pinchot and the U.S. Forest Service wrested management of federally-owned forests from the Interior Department in 1905 (Carpenter 2001: 275-288), or Ting's (2002) theory of jurisdictional allotment. Still, to the best of my knowledge, there is no scholarship that empirically tests how presidents settle on a particular agent over another, specifically those outside the bureaucracy.

In this chapter, I use an original, comprehensive database of presidential decrees in Latin America first establish bureaucratic circumvention as an empirical phenomenon, and then to test the theoretical propositions developed in Chapter 2. In the statistical analysis, I run a series of regressions to test the determinants of circumvention versus delegation to the existing

bureaucracy, as well as the determinants of each individual circumvention strategy. The primary independent variables are *bureaucratic capacity*, *ideological distance* between the president and the implementing agent, *policy importance*, and *circumvention cost*. The first three variables perform extremely well in support of the capacity hypothesis (H1), ideology hypothesis (H2), and the importance hypothesis (H3) in the estimations, while circumventing cost produces mixed results in support of the cost hypothesis (H4). In the first series of tests examining the binary response, presidents are more likely to circumvent as bureaucratic capacity decreases, policy importance increases, and preference divergence between the president and potential implementation agent increases.

In the second series of tests, disaggregating the circumvention variable and evaluating the discrete choices, the direction and impact of the causes change slightly, and actually provide greater support for H4 than the nested logit tests. First, the impact of *bureaucratic efficiency* remains negative, although the signs flips to positive for private sector outsourcing, with estimations showing that an increase in agency capacity causes an *increase* in the probability of outsourcing to a private sector. Second, *ideological distance* does not impact presidents' likelihood of delegating non-defense policies to the military, while the effect of bureaucratic capacity on this outcome also loses robustness. Third, the four different indicators for *circumvention cost* exert a positive and statistically significant effect on new agency creation, military delegation, and non-profit outsourcing, leaving only private sector outsourcing as the outcome left unaffected by cost. The results not only support the majority of hypotheses from Chapter 2, but also confirm the validity of bureaucratic circumvention as an oft-used political strategy for presidents.



### 3.1 EVIDENCE, VARIABLES, AND MODELS

The information used to code the dependent variable as well as some of the independent variables comes from the Latin American Executive Decree Database, an original database I created of over 45,000 presidential decrees across ten countries and 27 presidential administrations between 2000 and 2013, for a total of 75 country-years. Data include the complete palette of executive decree instruments available to presidents in those countries, from those issued under their constitutional decree authority (CDA) to those delegated by the legislature (delegated decree authority, DDA).<sup>19</sup> Decrees were copied from official government gazettes or registrars, and then coded for a number of characteristics, including but not limited to, 1) whether the content reflected an administrative action, a symbolic action, or a policy; 2) whether the content was local or national in application (or not applicable); 3) whether the content was short- or long-term in scope (or not applicable); 4) whether implementation of the decree involved delegation or circumvention; 5) if circumvention was pursued, which sub-type was used; 6) who the specific implementation agent/s is/are; and 7) classification of the decree content according to 14 distinct area categories, and additional sub-categories. Details on the coding decisions and criteria can be found in Appendix B. Since many decrees identify multiple implementation agents, I consider the strategy to be circumvention whenever the armed forces or an outsourced agent is identified to carry out policy, regardless of whether or not those agents were accompanied by agents in the existing bureaucracy. Identifying factors such as the decree issue date, decree number, issuing president, and page length (if applicable) are also included.

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<sup>19</sup> The included instruments are: *Decreto Supremo* and *Decreto Presidencial* (Bolivia); *Decreto*, *Decreto Não Numerado*, and *Medida Provisória* (Brazil); *Decreto* and *Decreto Exento* (Chile); *Decreto Presidencial* (Ecuador); *Acuerdo Gubernativo* (Guatemala); *Decreto Ejecutivo* (Nicaragua); *Decreto*, *Decreto de Gabinete*, *Decreto*

As far as I know, this is the first dataset of this kind to be constructed. King and Ragsdale (1988) and Howell (2003) each code U.S. Executive Orders (EOs) for content in discrete categories, the former between 1949 and 1984, and the latter extending the set to a range between 1920 and 1996. Likewise, Warber (2006) organizes EOs in a three category classification according to content. However, this coding is limited to fewer than 100 EOs per year after the mid-1940s issued in a single country, and the authors are neither concerned with nor code for the implementation agent. Likewise, scholarship concerned with questions of bureaucratic delegation (e.g. Huber and Shipan 2002; Huber et al. 2001) tend to focus on elements of the discretion or control exercised by the political principal rather than the agent chosen for implementation.

Outside the U.S., collecting these data is a challenge. Systematic aggregations of statutes or decrees are especially rare in the developing world, where government transparency may be limited, record-keeping poor, and public access even more constrained. In Latin America, for example, published articles using comprehensive records of legislation are generally limited to single-country studies in the relatively more-developed Southern Cone (Alemán et al. 2009; Alemán and Calvo 2008, 2010).<sup>20</sup> Thankfully, digitalization and improved transparency in many countries is improving data availability, and systematic lists of decrees and their content can now be found electronically for many Latin American countries, sometimes dating back to the turn of the century. A complete list of sources is listed in Appendix C.

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*Ejecutivo, Decreto de Ley* (Panama); *Decreto* (Paraguay); *Decreto* (Uruguay); *Decreto* and *Decreto de Ley Habilitante* (Venezuela).

<sup>20</sup> It should be noted that Valeria Palanza at the Universidad Católica de Chile is currently at work on a degree cross-national systematization of legislation in Latin America.

### 3.1.1 Why Latin America?

The data used in this chapter come from ten Latin American countries: Bolivia, Brazil, Chile, Ecuador, Guatemala, Nicaragua, Panama, Paraguay, Uruguay, and Venezuela. These countries and the varying time periods were chosen on the basis of data availability, and to maximize within-country and cross-country variation. Hypothetically, the advantages of circumvention should be exacerbated in the hyperpresidential and low- to intermediate-bureaucratic capacity environment of Latin America, in which voters hold presidents more accountable for outcomes than congress while constitutional rules empower presidents to make political decisions unilaterally. Under the institutional conditions commonly assumed in much of the literature, circumvention becomes a less attractive option. Further, here, like in much of the developing world, there is an “implementation gap” between the intention of the legislative statute or executive fiat and the actual outcome of the policy (Grindle 2009).

One major weakness of these bureaucracies derives from the fact that a high number of bureaucrats are political appointees and not career civil servants. All Latin American democracies have career civil service legislation enshrined in the constitution, however, much like the late-nineteenth and early-twentieth century U.S.—even after the passage of the Pendleton Civil Service Reform Act of 1883 (Carpenter 2001)—patronage remains widely in evidence throughout the region. In reality, many Latin American bureaucracies are staffed by political appointees ill-equipped to handle the demands required of a professional civil service and who simultaneously threaten the Kauffman’s (1956) ideal of neutral competence. Grindle (2010) explains the anomaly between law and reality by showing that the fate of career civil service reform initiatives is generally determined *after* they have been legislated. Implementation, not law, determines the persistence of patronage and shapes the characteristics

of emergent career services. Thus, efforts to introduce neutral and stable public services are ongoing processes in which the construction of new systems is constantly threatened by deconstruction and then reconstruction.

Critics of Latin American bureaucracy take pains to highlight its Kafkaesque nature: centralized, top-down decision-making, a lack of political neutrality in civil servants, intensely legalistic administration, weak rule enforcement, and a general lack of probity. Some scholars place culpability on the legacy of Spanish colonialism (Hanson 1974; Mahoney 2010), while others blame twentieth-century economic development models (Pereira and Spink 1999), and still others recognize explicitly political roots (Grindle 2012).

Regardless of the origin, cross-national analyses support the perception that many Latin American government agencies suffer from low organizational capacity, or the ability to analyze increasingly complex social problems and carry out programs in accordance with previously specified plans. They also reveal low “Weberianness”, or the possibility of meritocratic recruitment or predictable, long-term careers. For instance, Evans (1989), Evans and Rauch (1999), and Zuvanic and Iacoviello (2010) find most of the region’s civil services suffer from stunted development, while the World Bank’s World Governance Indicators or the Political Risk Group’s International Country Risk Guide place most Latin American bureaucracies firmly in the lower or middle tiers internationally.<sup>21</sup>

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<sup>21</sup> An array of other scholars have documented variation in administrative capacity within these countries (Gingerich 2013; Bersch et al. 2013; Dargent 2011; Andrade 2012; Schneider 2012; Soifer 2012; Centeno and Ferraro 2013; Soifer and Hau 2008; Evans 1995). They find that some organizations, like central banks and finance ministries, tend to generally boast higher degrees of meritocratic recruitment and the ability to address complex problems regardless of the setting, while others, like education ministries, often do not. Gingerich (2013), for instance, employs a Bayesian hierarchical ANOVA model on extensive surveys of public employees in Bolivia, Brazil, and Chile, to show that inter-agency differences in bureaucratic quality may actually be larger than cross-country differences. Similarly, Bersch, et al. (2013) reveal a number of high performing Brazilian public organizations amidst a multitude of low performing ones—supporting the perception of Brazil’s administrative “archipelago of excellence”. Harbers (Forthcoming) even shows that significant subnational variation in reach and strength can exist

### 3.1.2 Why Decrees?

Given that the variable of interest is the delegation decision from a political principal to an agent, and the possibility of circumvention that enables the principal(s) to avoid the bureaucracy, mining data from decrees and not assembly-initiated legislation may seem curious. However, in the Latin American context of exaggerated presidentialism, the presidents are the *sine qua non* of lawmaking. Unlike the U.S., where Congress controls the agenda and presidential power is largely “negative” (Cameron 2000), Latin America is characterized by a constitutional design that (ostensibly) favors efficiency over deliberation. The executive-legislative balance of power thus tilts in favor of proactive presidents who set agendas by proposing legislation (Alemán and Tsebelis 2005; Tsebelis and Alemán 2005; Saiegh 2010; Taylor-Robinson 1999) and wielding ample decree powers (Carey and Shugart 1998; Ferreira and Goretti 1998; Negretto 2004; Pereira et al. 2005), while assemblies endure weaker “reactive powers” (Cox and Morgenstern 2001).

A majority of Latin American laws originate or pass through the executive, and in most of the region’s countries, decree powers include the ability to impose laws or regulations, enforce treaties or international agreements, appoint or remove bureaucrats, and approve (or veto) laws from the legislative power. This broad coverage is reflected in the volume of decrees issued, ranging from hundreds to thousands depending on the country. In 2012, for example, the Ecuadorian National Assembly approved only five laws—consistent with legislative production in the previous years—while President Correa promulgated 400 presidential decrees (Polga-Hecimovich 2013). Further, the most successful bills in the legislature tend to initiate in the

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for even a *single* agency across a country. Nonetheless, this intra-country variation represents variation around the

executive (Saiegh 2009). As Taylor-Robinson explains for Costa Rica, “while individual legislators have the right to introduce bills everywhere, the legislation most likely to be enacted is initiated by the executive branch” (Taylor-Robinson 1999). Consequently, ensuring bureaucratic compliance with lawmakers’ policy intentions is more likely a concern of presidents than assemblies in Latin America, a far different type of game than the give-and-take between the president and congress in the U.S. (Howell and Lewis 2002; Lewis 2003; Wood and Bohte 2004).

There is also a pragmatic consideration that arises out of this institutional arrangement, namely that circumventing is more likely to occur by presidents bypassing the bureaucracy (and legislature) than the legislature being able to bypass the bureaucracy and president. The collective action problem inherent in legislatures also implies that presidents are more likely to express strong (and clear) preferences in decrees than other executive-initiated legislation. As a result, although circumvention is possible under any type of legislation, its incidence should be higher in presidential decrees than in comparable legislative laws, rules, or statutes. Decrees tend to explicitly delegate policymaking authority to cabinet bureaus, government agencies, or the heads of those bureaus or agencies, which in turn delegate that authority downward in their institutional hierarchy.

### **3.1.3 Decree Content**

The complete breakdown of decrees is shown in Table 3-1, with each decree classified by “type”. This distinction in content figures in robustness tests of the baseline models, since the

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lower end of the Weberian scale, in which many agencies continue to endure suboptimal in agency capacity.

classification serves as an additional proxy for policy importance. These types of decrees are: 1) administrative, indicating an administrative action such as an appointment, government employee removal, military or police promotion, budget change, issuance of treasury bonds, naturalization of a foreign national, tax exemption, minor reform to an earlier decree, or a decree reprint; 2) symbolic, made up of decrees declaring mourning for the recently deceased, declarations of national holidays or celebrations, and awards or honors bestowed upon individuals; and 3) policy decrees, which are those in which the president sets forth a law or regulation that requires implementation or compliance by a third party.

As the table shows, the number of decrees issued varies greatly across countries, as does the proportion of decrees that are explicitly policy-based in content. Brazilian presidents issued over 7,800 decrees in a twelve-year period, with over two-thirds of them administrative in content, while Uruguayan and Venezuelan presidents emitting a similar volume in the same time frame. Nicaraguan presidents, on the other hand, issued far fewer decrees (996) between 2000 and 2010, although a vast majority of these (84.5%) were explicitly policy-based. Guatemala and Bolivia also exhibited patterns of fewer decrees being issued, yet with a higher percentage of those falling into the policy category and fewer as administrative in nature.

**Table 3-1.** Presidential decrees by type

Country	Time	Admin. (%)	Policy (%)	Symbolic (%)	Total % (Raw)
Bolivia	2003-11	45.5	55.7	0.8	100 (3827)
Brazil	2000-12	69.4	29.7	1.0	100 (7842)
Chile	2000-05	47.2	52.5	0.3	100 (3232)
Ecuador	2007-12	64.4	32.6	2.9	100 (3391)
Guatemala	2000-11	24.7	69.2	6.2	100 (2190)
Nicaragua	2000-10	12.7	84.5	2.8	100 (996)
Panama	2000-10	78.9	19.8	1.3	100 (3002)
Paraguay	2009-13	78.8	18.8	2.4	100 (6997)
Uruguay	2000-12	64.9	34.1	1.0	100 (7252)
Venezuela	2000-10	79.6	19.0	1.4	100 (7119)

Total	2000-12	64.9	33.5	1.7	100 (45848)
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### 3.1.4 Dependent Variable: Bureaucratic Circumvention

#### 3.1.4.1 Defining Circumvention

I first operationalize bureaucratic circumvention as a dummy variable coding if the implementation agent is a part of the public administration (y=0) or a new agency created for that purpose, a military body carrying out a non-defense or non-personnel related policy, or a non-governmental third party from the private sector, another country, international organization, or non-government organization (y=1). I then disaggregate this classification into a second dependent, categorical variable specifying no circumvention (y=0), agency creation (y=1), military delegation (y=2), private sector outsourcing or concessions (y=3), non-profit outsourcing (y=4), and mixed public-private partnership (y=5).<sup>22</sup>

Implementation agents or mechanisms are nearly always explicitly specified in the text of the decree. Argentina national decree 16-2000 is a typical example of policy delegation to an existing bureaucratic agent, asking to, “Charge the Treasury Solicitor of the Nation with the supervision of distinct legal areas of the National Institute of Social Services for Retired Persons and Pensioners.”<sup>23</sup> With this single phrase, I can conclude that the Treasury Office, and specifically the Treasury Solicitor, is the implementation agent, since it has been delegated oversight responsibilities over another agency. Even in cases where the agent or action of

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<sup>22</sup> This category is omitted from regressions because within the range of data, it is only found in Venezuela and only occurs 46 times. I do not fold this into privatization, because it is conceptually different, representing a certain level of government oversight and ideological influence not shared by completely outsourcing tasks to the for-profit sector.

<sup>23</sup> *Encomiéndase a la Procuración del Tesoro de la Nación la supervisión de las distintas áreas jurídicas del Instituto Nacional de Servicios Sociales para Jubilados y Pensionados. Asistencia legal a su Comisión Interventora Normalizadora* (Argentina, 16-2000).



delegation is less explicit, unless they contain specific language regarding circumvention, I code them as traditional delegation (as Table 3-3 below shows, this is by far the most commonly used of the president's options).

Circumventing agents must be explicitly specified in the text. Examples for each mechanism are shown in Table 3-2. Agencies can be created, for example, with varying degrees of autonomy and on different scales. They can include entire ministries, autonomous agencies (the first example in Table 3-2), agencies within an existing bureau (example two in Table 3-2), institutions, state enterprises, commissions and councils, or even working groups. A delegation decision to the military is considered circumvention only when the policy is non-defense related or outside the scope of administrative, personnel, or management decisions directly related to the military. In the Venezuelan example from Table 3-2, President Chávez entrusts part of the implementation of a national literacy plan to the military, a policy area outside the traditional domain of military training and expertise. Similarly, in the Ecuadorian example, President Correa “temporarily” hands over technical authority and management of the state oil company, Petroecuador, to the Navy.

Outsourcing encompasses two different dimensions: the private sector and non-profit organizations—ranging from traditional non-governmental organizations (NGOs), to international organizations (IOs) and foreign agencies. The decree is coded for private sector outsourcing when decrees list the actual private enterprise or company that should carry out the policy, calling for implementation by the private sector without specifying the agent (the two examples in Table 3-2), or authorizing a concession for the project or policy. Non-profit outsourcing may include delegating implementation to specific foreign agents, the promotion of that delegation without specification (the Guatemalan example in Table 3-2), or the use of

donations or loans for a specific purpose (the Bolivian example in Table 3-2). Although donations or loans from the Development Bank of Latin America (formerly the Andean Development Bank), the Inter-American Development Bank, the World Bank, foreign enterprises or governments, and other bodies may not necessarily mean that those organizations are on the ground carrying out the policies, they represent the delegation of power through the stipulations that accompany them.

Lastly, some decrees involve a combination of circumventing policies, such as the last example in Table 3-2, which combines military delegation and privatization. This is the least common possibility, but it occurs in all permutations of the four above-mentioned categories. In these cases, I subjectively choose the circumvention category that incurs the greatest level of responsibility in policy execution.

**Table 3-2.** Examples of delegation decisions in text from decrees

<p><b>Agency creation</b>  Nicaragua, 18-2007, 2/5/2007  "Creation of the Coexistence and Citizen Security Division..."  Brazil, 3448, 5/5/2000  "Create the Subsystem of Intelligence and Public Security under the direction of the Brazilian Intelligence System, and give other rulings..."</p> <p><b>Out-of-Jurisdiction: Military delegation</b>  Venezuela, 2434, 6/2/2003  "Propose measures so that public employees as well as military personnel actively participate in the 'Simón Rodríguez' Literacy Plan"  Ecuador, 766, 11/29/2007  "Set forth that the Ministry of Defense, through the General Command of the Navy, authorizes the participation of personnel of this branch of the Armed Forces in the management of the State Petroleum Enterprise of Ecuador, Petroecuador, and its permanent subsidiary enterprises..."</p> <p><b>Outsourcing</b>  Uruguay, 12/20/2001  "Approve, in all parts, the agreement and direct contracting... between the Ministry of Transport and Public Works and the National Corporation for Development, whose objective is the execution of public works and projects for the system of public works concessions"  Bolivia, 27286, 12/13/2003  "Authorize the signing of a loan contract between <i>Kreditanstalt für Wiederaufbau</i>, of the Federal</p>
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### 3.1.4.2 The Incidence of Circumvention

Circumvention is far from rare in Latin America. Descriptive statistics reveal it to be quite common, both in countries with poorly regarded bureaucracies and weak congresses, such as Venezuela, and those with more highly regarded bureaucracies and strong congresses, such as Uruguay. Of the data at hand, roughly 9.6% (4,401 of the 45,878) of decrees involved delegation of policy implementation outside of the existing bureaucracy through one of the circumvention mechanisms. This figure is even higher when considering the universe of cases. Nearly two-thirds of the decrees in the LAEDD were administrative decisions that required no delegation decision at all: political appointments, military decorations and retirements, administrative promotions, bond issuance, etc. As the econometric analysis below will show, the total number of decrees in the regressions shrinks from nearly 46,022 to fewer than 15,000 when I eliminate these administrative decrees—meaning that the 10% rate from the larger sample is effectively more than 25% of the “policy” sample. This figure, which includes decrees across the whole spectrum of policy importance, means that any given policy has greater than a one in four chance of being delegated outside the existing bureaucracy.

There are also differences across political administration and country. Agency creation, the most-used tool, is distributed relative equally across countries, with Nicaragua (10%) and Venezuela (6.7%) responsible for the highest percentage as a share of all policies (Table 3-3). At an administration level, Guatemalan president Alfonso Portillo (20.3%) and Nicaraguan president Enrique Bolaños (11.4%) created the highest proportion of agencies per policy. The administration-level data also indicate that origins of these patterns must go beyond stable country-level characteristics, constitutional rules, or structural factors: after Portillo’s propensity

to create new agencies, Óscar Berger turned to this mechanism in only 4.4% of *acuerdos* and Álvaro Colom only 1.9% of the time—among the lowest administration-level figure in the dataset.

The second-most used tool, private sector outsourcing, is more popular in places like Chile (16.6%) and Brazil (6.9%), than in Venezuela (only 0.01%), Guatemala (0.6%) or Nicaragua (0.8%). As could be expected, the election of Bolivia's Evo Morales and Uruguay's Pepe Mujica, two leftists, coincided with dramatic decreases in privatization (down to 1.8% in the former and 0.1% in the latter). This strategy is most preferred by the three Brazilian presidents in the sample, with Brazilian president Dilma Rousseff—also a leftist—showing the greatest proclivity to outsource to the private sector (22.1%) than any other president. As explores in Chapter 7, despite Dilma's ideology, the private sector is an increasingly attractive option as deadlines approach for infrastructure projects in preparation for the 2014 soccer World Cup and the 2016 Summer Olympics ("Facing headwinds, Dilma changes course" 2012).

The third most-used mechanism is non-profit outsourcing. This has been used most by the Guatemalan (8.5%) and Bolivian (8.8%) governments, and least by Brazilian (none), Venezuelan (0.1%) and Uruguayan (0.1%) administrations. Álvaro Colom (12%), Carlos Mesa (9.8%) and Evo Morales (8.9%) were the presidents who most often turned to the non-profit sector for capital or assistance, while a range of presidents never once used this strategy via decree.

The least-pursued strategy is military delegation, occurring in less than 1% of all cases. Rafael Correa and Ecuador (2.2%) and Brazil (1.1%) show the greatest proclivity to involve the military in carrying out non-defense policy, while Venezuela under Hugo Chávez only turned to the military in 0.6% of cases—despite the civilian-military partnership utilized by Chávez to

govern the country (Coletta 2010; Jácome 2011). This paradox is due, in part, to the fact that the military participated in many of the government's social missions despite its role never being codified in decrees. Although few in number, this “off the equilibrium” behavior is of great consequence and interest—although beyond the scope of the current investigation.

**Table 3-3.** Proportion of decrees using circumvention versus delegation, per country and presidential administration

	<b>Total Decrees</b>	<b>Percentage:</b>				
		<b>None</b>	<b>New</b>	<b>Military</b>	<b>Private</b>	<b>Non-Profit</b>
<b>Bolivia (2003-10)</b>	3827	84.3	3.4	0.9	2.6	8.8
Carlos Mesa	1361	83.0	3.0	0.4	3.7	9.8
Eduardo Rodríguez	422	87.4	4.3	0.7	2.6	5.0
Evo Morales	2044	84.5	3.5	1.3	1.8	8.9
<b>Brazil (2000-12)</b>	7843	86.7	5.4	1.1	6.9	0.0
Henrique Cardoso	3190	87.1	6.7	1.6	4.5	0.0
Lula da Silva	4227	87.6	4.6	0.8	7.1	0.0
Dilma Rousseff	426	74.9	2.8	0.2	22.1	0.0
<b>Chile (2000-05)</b>	3232	81.6	1.0	0.0	16.6	0.1
Ricardo Lagos	3232	81.6	1.0	0.0	16.6	0.1
<b>Ecuador (2007-12)</b>	3389	92.2	3.2	2.2	1.8	0.6
Rafael Correa	3389	92.2	3.2	2.2	1.8	0.6
<b>Guatemala (2000-12)</b>	2190	85.1	5.8	0.0	0.5	8.5
Alfonso Portillo	231	78.8	20.3	0.4	0.4	0.0
Óscar Berger	1023	87.5	4.4	0.0	0.5	7.6
Álvaro Colom	901	85.5	1.9	0.0	0.7	12.0
<b>Nicaragua (2000-10)</b>	996	86.5	10.0	0.1	0.8	2.5
Arnoldo Alemán	345	82.9	9.6	0.0	0.9	6.7
Enrique Bolaños	446	87.0	11.4	0.0	1.1	0.4
Daniel Ortega	205	91.7	7.8	0.5	0.0	0.0
<b>Panama (2000-10)</b>	3002	91.8	4.2	0.0	1.1	2.9
Mireya Moscoso	576	91.0	7.1	0.0	1.0	0.9
Martín Torrijos	2255	91.8	3.6	0.0	1.0	3.5
Ricardo Martinelli	142	93.7	2.1	0.0	2.8	1.4
<b>Paraguay (2009-13)</b>	6998	96.3	1.0	0.1	1.6	1.0
Fernando Lugo	4803	95.8	1.0	0.1	1.8	1.4
Federico Franco	2195	97.4	0.8	0.0	1.4	0.3
<b>Uruguay (2000-12)</b>	7252	95.1	2.6	0.2	2.0	0.1
Jorge Luis Batlle	3509	86.5	2.8	0.2	3.6	0.3
Tabaré Vázquez	3022	97.3	2.2	0.1	0.3	0.0
Pepe Mujica	2480	98.3	0.7	0.0	0.1	0.0
<b>Venezuela (2000-12)</b>	7147	92.0	6.7	0.6	0.01	0.1
Hugo Chávez	7147	92.0	6.7	0.6	0.01	0.1
<b>TOTAL</b>	<b>45,876</b>	<b>90.4</b>	<b>4.0</b>	<b>0.65</b>	<b>3.73</b>	<b>1.55</b>

\*Excludes 46 cases of delegation to mixed enterprises

Finally, as Table 3-4 shows, certain policy domains appear to be more highly correlated with different types of circumvention. Military delegation is most likely in emergency or security situations (8% of these cases, classified as “Defense”), used by governments to deliver medicine, supplies, or food in times of crisis, and otherwise attend to emergency matters, much the way the National Guard does in the U.S. to supplement action by local and state governments and the Federal Emergency Management Agency (FEMA). The military also is relied on to manage energy-related policies (3% of cases), which is somewhat curious given the specific technical training this field requires.

The descriptive statistics for outsourcing reinforce the point that Latin American presidents recognize distinct advantages and disadvantages to each strategy. Private firm outsourcing and concessions are most used on issues of energy and mining (17.8% of cases), infrastructure (13.6% of all cases), urban planning (13% of all cases), and telecommunications (a whopping 42% of all cases), all technical fields that present clear opportunities for economic profit and offer little gains to politicians by increasing (or decreasing) political control. By contrast, policies in fields that offer weaker possibilities of economic gains, such as education, health care, food policy, minority welfare, rural affairs, and the environment, exhibit little tendency to be privatized and instead show a higher degree of non-profit outsourcing.<sup>24</sup> The only overlap in types of outsourcing is infrastructure, in which policies are still twice as likely to be privatized (13.6%) than sent to a non-profit (7%). Of course, this is likely to be a result of the supply rather than government demand, since NGOs are much more likely to offer their services

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<sup>24</sup> According to Table 3-4, non-profit outsourcing also appears to occur frequently in cases of economic or fiscal policy, but like military delegation in emergency situations, this is also an artifact of coding decisions. All cases where multilateral institutions or international organizations give loans are coded as “economic”, since the decree

to carry out policies in poor countries like Bolivia and Guatemala, and have a much smaller presence in relatively wealthier countries, like Brazil and Uruguay.

The high incidence of agency formation in comparison to the other circumvention strategies indicates that this is the default strategy regardless of area. Still, its use ranges from less than 1% in economy/finance and urban planning policies to nearly 26% for social welfare. Strictly in terms of policy domain, the policies under which circumvention is most frequently utilized are telecommunications (47.3%), social welfare (35.6% of cases), energy (30%), and infrastructure (26.9%), with a majority of those policies being implemented by new agencies or private enterprises. The policy domains least likely to bypass the existing bureaucracy are labor, economy/finance, public administration, foreign affairs, and social security, all of which utilize circumvention in 6% of cases or less.

**Table 3-4.** Bureaucratic circumvention by policy domain, % of all decrees

<b>Policy domain</b>	<b>None</b>	<b>New Agency</b>	<b>Military</b>	<b>Private</b>	<b>Non-Profit</b>	<b>Total (#)</b>
Defense	82.68	8.46	8.06*	0.24	0.56	1241
Social Welfare	64.32	25.97	1.46	0.73	7.52	412
<i>Education</i>	82.53	10.71	1.21	3.64	1.92	990
<i>Health</i>	80.48	10.71	1.01	2.77	5.04	794
<i>Food</i>	87.11	7.84	0.56	1.68	2.80	357
<i>Indigenous affairs</i>	83.72	8.37	0.00	0.47	7.44	215
<i>Social security</i>	96.73	2.18	0.27	0.00	0.82	367
<i>Other welfare</i>	74.03	14.72	1.30	0.00	9.96	231
Economy/Finance	97.36	0.85	0.02	0.28	1.49	9533
Labor	97.80	1.36	0.09	0.55	0.20	3448
Agriculture/Rural affairs	91.50	4.79	0.14	0.42	3.15	2129
Natural Resources	93.06	3.61	0.28	1.67	1.39	360
<i>Environment</i>	80.06	12.08	0.60	3.63	3.63	662
<i>Energy</i>	69.80	8.34	3.27	17.79	0.80	1619
Public Admin.	98.26	1.39	0.01	0.06	0.28	11650
Commerce	90.94	4.65	0.49	1.22	2.69	1225

itself is economic in nature. The actual policies, however, are distributed largely in the other modal categories for non-profit outsourcing: social welfare, rural affairs, and infrastructure.

Foreign Affairs	95.83	2.98	0.14	0.14	0.92	2183
Infrastructure	73.15	4.14	1.34	13.58	7.79	2466
Industry/Urban affairs	77.87	14.91	0.24	3.91	3.08	845
<i>Urban planning</i>	85.51	1.03	0.13	13.07	0.26	773
<i>Telecommunications</i>	52.79	4.69	0.07	41.77	0.68	1470
Culture/Sports/Tourism	81.56	15.89	0.00	1.50	1.05	667
Justice	84.84	12.63	0.15	0.30	2.08	673
Elections and Census	79.59	13.27	1.02	2.04	4.08	98
Other	98.34	1.66	0.00	0.00	0.00	783
<b>TOTAL</b>	<b>90.45</b>	<b>3.88</b>	<b>0.55</b>	<b>3.47</b>	<b>1.66</b>	<b>45191</b>

Note: Excludes 46 cases of delegation to mixed enterprises

\* These refer largely to non-defense action during states of emergency. They are coded as “defense” since this category includes states of emergency.

### 3.1.5 Independent Variables

The independent variables, bureaucratic capacity, ideology, circumvention cost, and policy importance, follow the parameters of the game and theory developed in Chapter 2. The operationalization of all major independent variables is summarized in Table 3-5, along with expectations of their signs in the statistical estimations.

**Table 3-5.** Variable operationalization and sources

Variable	Sign	Operationalization	Source
<b>Dependent</b>			
Bureaucratic circumvention		1) 0 delegation to existing agent; 1 circumvention	LAEDD
Type of circumvention		2) 0 none; 1 agency creation; 2 military; 3 private sector; 4 non-profit	LAEDD
<b>Independent</b>			
Bureaucratic capacity (country-level)	-	1) Bureaucratic effectiveness, 0-100 (rescaled from -2.5-2.5)	World Governance Indicators (WGI)
		2) Regulatory quality, 0-100 (rescaled from -2.5-2.5)	World Governance Indicators (WGI)
Preference convergence/divergence	+	Ideological distance between president and most relevant cabinet minister, 1-5 scale	Lodola and Quierolo (2011), Coppedge (2010), Polga-Hecimovich, et al. (2012)
Policy importance	+	1) Geographical domain (0-2 scale) + Policy length (0-2 scale), 0-4 scale	LAEDD
		2) Geographical domain (1-3 scale) * Policy length (1-3 scale), 1-9 scale	LAEDD



		3) Geographical domain (0-2 scale) + Policy length (0-2 scale) + Electoral proximity (0-2 scale), 0-6 scale	LAEDD
Circumventing cost	+	3a) Government revenue, budget (millions USD)	World Development Indicators (WDI), Individual governments
	+	3b) Military budget (millions USD)	World Development Indicators (WDI)
	+	3c) Amount of FDI (t-1) (millions USD)	World Development Indicators (WDI)
	+	3d) Net official development assistance received (millions USD)	World Development Indicators (WDI)
Country wealth	-	Annual per capita GDP (USD)	World Development Indicators (WDI)
Ex-military president	+	0 non-military, 1 military	
Ex-business president	+	0 non-business, 1 business	
New issue domains	+	Dummy for new issue domain	
Ex-military government	-	Years since military dictatorship	
Rightist ideology	+	1 (Left)-5 (Right)	
Country dummies		Dummy variables for each country	

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### 3.1.5.1 Bureaucratic Capacity

There are few reliable, cross-national, time-series measures of the first principal independent variable, Weberian bureaucracy or bureaucratic capacity (Fukuyama 2013). Evans and Rauch's "Weberian scale" (1999) offers a great degree of construct validity, measuring the degree to which agencies employ meritocratic recruitment and offer predictable, rewarding long-term careers, but its indicators are limited to a single point in time. A further relevant concern to this project is that only half of Latin American countries are measured. And while organizational capacity varies greatly across agencies, as Kaufman (1960), Barrilleaux, et al. (1992), Carpenter (2001), Gingerich (2013), and others have observed, there is no comprehensive cross-national assessment of this that includes the Latin American countries in my sample.

Given the paucity of systematic agency-level indices, I rely on the two country-level indicators as operationalizations of bureaucratic capacity: *government effectiveness* and

*regulatory quality*.<sup>25</sup> The first two measures of bureaucratic capacity, *government effectiveness* and *regulatory quality*, come from the World Bank's Worldwide Governance Indicators' (WGI) database. These perception-based indicators are constructed from surveys of firms and households, as well as the subjective assessments of a variety of commercial business information providers, non- governmental organizations, multilateral organizations, and other public- sector bodies (Kaufmann et al. 2010). *Government effectiveness* captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Meanwhile, *regulatory quality* captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Each of these is measured on a -2.5 to 2.5 scale, but re-scaled here from 1 to 100.

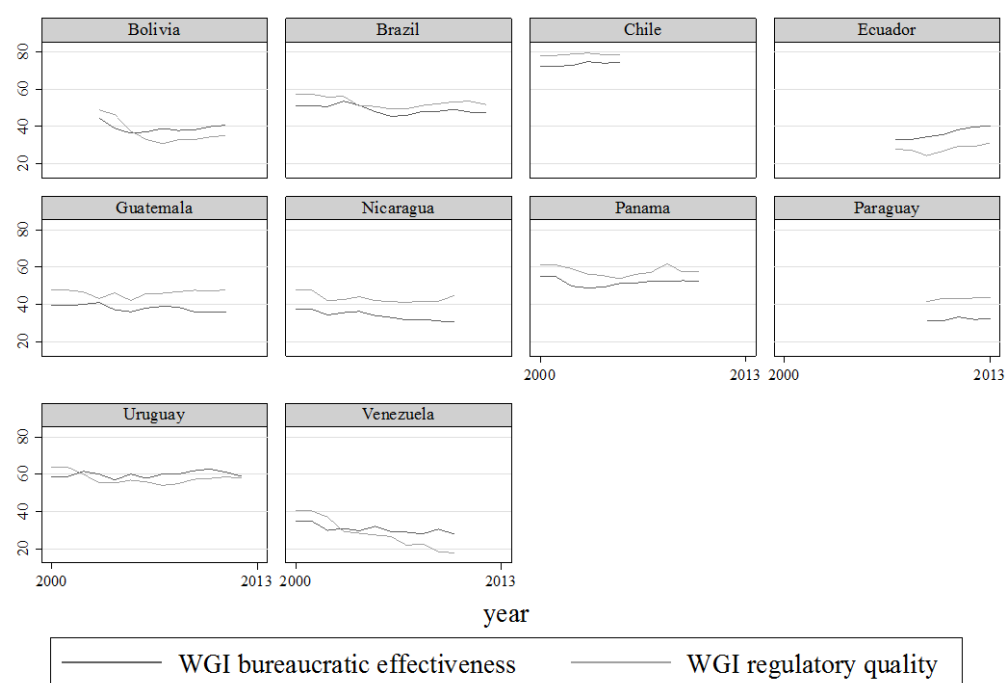
The values for these two indicators are shown for all of the relevant country-years in Figure 3-1. As the plots demonstrate, the values for bureaucratic effectiveness and regulatory quality often coincide or follow similar trajectories, although they may also sometime move in

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<sup>25</sup> I include two additional indicators, *bureaucratic quality* and *release of information*, provide similar empirical results that support the robustness of my models. However, I do not include them, because they suffer from greater shortcomings than the WGI measures. The indicator *bureaucratic quality*, which comes from the Political Risk Service Group's International Country Risk Guide (ICRG), uses expert assessments of the degree to which the country's bureaucracy is characterized by (1) regular, meritocratic recruitment and advancement processes, (2) insulation from political pressure, and (3) the ability to provide services during government changes, and then quantifies these conclusions on a 0–4 scale. Although Hendrix (2010) finds this measure to hold high construct validity, it reflects no longitudinal variation in the cases in my sample, limiting its explanatory power.

Similarly, Williams' (2009) original release of information indicator, which shows the proportion of data coverage released annually by governments to the World Bank (WB) and International Monetary Fund (IMF), is promising but empirically constricted. Williams argues that information is a signal of the degree of political and institutional transparency. Consequently, he develops an indicator based on the quantity of reported socio-economic data contained in the World Development Indicators and the International Finance Statistics databases, taking the proportion of data coverage for each country for each individual year. Due to the general increase in data coverage over this time, proportions are taken by dividing a country's raw score in time  $t$  for each database by the number of categories that had data for at least one country for that year. This measure is highly correlated with the ICRG

opposite directions, as with Guatemala. Beyond exhibiting a relationship between each other, the two indicators also display significant longitudinal and spatial variation. In terms of temporal change, the Venezuelan indicators drop from around 40 (on the revised 1-100 scale) in 2000 to around 20 by 2010, resulting in the greatest decrease in ratings among countries sampled—and reflecting not only the high perception of public sector corruption, mismanagement, and inefficiency, but increased politicization of the public administration under President Chávez. Ecuador’s numbers, on the other hand, rise over time, mirroring President Rafael Correa’s interest in promoting efficiency in many of that country’s ministries. The cross-country variation is even greater, with countries receiving scores between 20 and 80. Unsurprisingly, Chile and Uruguay place highly—with Chile’s bureaucracy receiving marks similar to many Western European countries—while Venezuela and Paraguay rate poorly.



Graphs by ccode2

measure of bureaucratic quality, but offers a finer degree of variation. Unfortunately, due to changes in the

**Figure 3-1.** World Governance Indicator (WFI) values of bureaucratic effectiveness and regulatory quality for country-years included in the sample

### 3.1.5.2 Ideological Distance

A second principal independent variable is the degree of preference divergence between the president and the relevant agency to which they would likely delegate a given policy. I measure this as ideological distance based on party affiliation. As early as Hotelling (1929), spatial theory has held an important position in the scientific study of politics (Cox 1990; Enelow and Hinich 1984). Congressional scholars have long calculated ideal point measurements using roll call votes (Poole and Rosenthal 1991, 2007, 1997), while both legislative and judicial research have utilized content analysis (Segal and Cover 1989; Coffey 2005; Grimmer 2010) and ratings from organizations such as the ADA, COPE, and ACLU (Berry et al. 1998) to determine elite ideology. Still others have refined measures of judicial preferences using a combination of party affiliation, citizen ideology, and the institutional selection mechanisms for judges (Brace et al. 2000).

Government agencies, however, do not easily lend themselves to these types of estimations. As Clinton, et al. (2012) note, “efforts to test theories of delegation, separation of powers, and bureaucratic control are hampered by the inability to systematically measure the preferences of administrative agencies in a way that is comparable to other political actors.” There is no clear trail of roll call votes or systematic written records clearly stating positions (as with judges) from which to infer agency policy positions. Enterprising bureaucratic politics scholars have turned to expert opinions (Clinton and Lewis 2008), comprehensive government employee surveys (Clinton et al. 2012), public statements from high-level officials (Bertelli and

Grose 2009), patterns of presidential patronage (Gallo and Lewis 2012), and political campaign contributions (Bonica et al. 2012) to estimate public bureaucrats' and agencies' political ideologies. Of course, the multiplicity of potential agencies included in the present analysis—agencies in ten countries and over twelve years of time—makes many of these techniques, such as systematic surveys administration difficult. A general lack of campaign contribution data (and differences in the role and importance of campaign contributions in Latin America) and equivalency problems in inferring agency ideological positions from experts in different countries frustrate the implementation of these techniques.

To address this problem, I infer agency ideology—and the distance from that agency to the president—from ministers' party affiliation. Unlike the single-party cabinets that dominate in the U.S. (Best 1981; Polsby 1978), the multiparty systems of Latin America tend to produce presidents with legislative minorities who shore up their support through cabinet coalitions (Amorim Neto 2006; Martínez-Gallardo 2012) or “majority” presidents from ideologically heterogeneous parties who must distribute portfolios to different party fractions (Chasquetti 2008). This is most clear in the coalition governments of Brazil or Uruguay, where portfolio distribution is the rule rather than the exception. Yet even strong, single-party governments of Evo Morales in Bolivia, Rafael Correa in Ecuador, and Hugo Chávez in Venezuela have included other parties or movements in their cabinets. As a result, I calculate the ideological distance between each president and each of his or her ministers, with the score based on party affiliation.

I begin by reconstructing ministerial cabinets during the entirety of the relevant time period (see Table 3-6 below for a summary of these data). Using each country's annual review from the *Revista de Ciencia Política* (beginning with reviews in 2006), journalistic accounts, and

drawing from Polga-Hecimovich, et al. (2012), I code for the political affiliation of each cabinet minister for all of the relevant political administrations. Of 1,136 total ministers, 187 (16.5%) were affiliated with a party (or in Uruguay, party fraction) other than that of the president. Predictably, Chile and Uruguay were the countries with the highest level of non-presidential party ministers, with 18 of 45 (62.2%) and 38 of 79 (48.1%) respectively, although all countries had at least two.

**Table 3-6.** Summary of Ministries and Non-Presidential Party Ministers

<b>Country</b>	<b>Period</b>	<b>Ministries</b>	<b>Ministers</b>	<b>Non-Pres Party</b>
Bolivia	2003-2012	20	131	5 (3.8%)
Brazil	2000-2012	25	165	64 (38.8%)
Chile	2000-2005	18	45	28 (62.2%)
Ecuador	2007-2012	29	130	3 (2.3%)
Guatemala	2000-2010	14	119	2 (1.7%)
Nicaragua	2000-2012	13	84	4 (4.8%)
Panama	2000-2010	16	86	13 (15.1%)
Paraguay	2009-2013	14	59	24 (40.7%)
Uruguay	2000-2012	14	79	38 (48.1%)
Venezuela	2000-2010	36	238	6 (2.5%)
<b>TOTAL</b>	<b>2000-2013</b>	<b>199</b>	<b>1136</b>	<b>187 (16.5%)</b>

Sources: Polga-Hecimovich, et al. (2012), Annual country reviews from 2006-2011 in *Revista de Ciencia Política*, the Enrique Bolaños Biblioteca (<http://enriquebolanos.org/>), and newspaper reports of ministerial changes.

Next, using Lodola and Quierolo's (2011) five-point left-right ideological classification of Latin American political parties and adjusting Coppedge's (2010) similar classification to this five-point scale, I assign an ideological value to all 21 presidents and all 946 ministers according to their party. These ideological scores are summarized in Appendix D. As it shows, not only have multiple parties participated in cabinets in the given time period, but these parties reflect a

range of ideological views.<sup>26</sup> The penultimate step simply involves taking the absolute distance between each president's ideology and his or her relevant cabinet ministers.

The last step matches each of the 24 policy domains to its relevant cabinet agency (e.g. labor laws correspond to the Ministry of Labor, infrastructure projects correspond to the Ministry of Public Works or Infrastructure, etc.) during the moment each decree was issued. Through this logic, a public health policy issued by Brazilian President Lula de Silva between January 1, 2003 and July 8, 2005, would be more likely to be delegated to the Ministry of Health and Minister Humberto Costa Lima of the government *Partido dos Trabalhadores*, than a policy issued after July 8, 2005, when the portfolio for the Ministry of Health was held by José Saraiva Felipe of the centrist *Partido do Movimento Democrático Brasileiro* (PMDB).

### **3.1.5.3 Circumventing Cost**

The cost associated with circumvention is context-specific, and depends not only on policy characteristics (e.g. the time horizon and geographical scope), but the ability of the government to incur that circumvention cost. Creating a million dollar agency should not be as easy in a place such as Bolivia as it is in Brazil; the actual value of this cost is a function of the government's total revenue, the size and budget of the military, and the amount of private capital available. As available capital grows, the relative "cost" of circumvention shrinks, while places with low government revenue and foreign investment should find creating agencies, entrusting the military with policy implementation, and outsourcing more difficult. Given this straightforward conceptualization, I operationalize circumvention cost with economic (and

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<sup>26</sup> The complete names, dates, party affiliations, and ideological distances of the 1136 ministers can be found in a supplemental electronic index at [www.johnpolga.com/research](http://www.johnpolga.com/research).

personnel) data from the World Bank's World Development Indicators database, as well as government revenue and expenses from each country's finance ministry or central bank.<sup>27</sup>

The first indicator, applying specifically to agency creation, is annual government revenue in current USD. This captures a government's flexibility in being able to create new agencies. Its values range from USD 568 million in Nicaragua in 2001 to just over 618 billion USD in Brazil in 2011. While Nicaragua reaches a mere 1.5% of Brazil's total territory and barely 3% of Brazil's population (as of 2012), this stark difference in government revenue should certainly result in variable abilities to create new government agencies.

To measure the cost of military delegation, I use total military expenditures in current USD. There is also great variation in this indicator across countries: from only none in Panama (where the standing army was abolished in 1990), to 28 million USD in Nicaragua in 2001 to over 35 billion USD in Brazil in 2011. Since I use the logarithmic value of all circumvention cost variables throughout the empirical analysis, I assign a nominal number of 100,000 USD to Panama's military in order to avoid dropping the observations.

Lastly, I approximate the ability to outsource through two indicators: annual levels of total foreign direct investment (FDI) inflows, and net official development assistance and official aid received. The first of these, FDI inflows, approximates the level of foreign capital available to outsource. While this admittedly does not give a measure of the private domestic capital available to carry out projects, there should be a high correlation between the two indicators. In the ten countries studied, Venezuela in 2009 produced the lowest level of net FDI inflows—a

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<sup>27</sup> The World Bank data for government revenue, government expenditures, and military expenditures is only available in local currency units (LCU). Likewise, official government statistics are also given in LCU. To convert these data into constant US dollars, I multiply the LCU by the "DEC alternative conversion factor" series from the World Bank WDI database rather than the official exchange rate. This number is the same as the official exchange rate reported in the IMF's International Financial Statistics (IFS), except where further refinements are made by



negative number reflecting low investment and currency depreciation—while Brazil in 2012 showed 76 billion USD in inflows. The second indicator, net development assistance and aid, captures a government’s ability to outsource beyond non-domestic entities and the private sector. Here, the range is just as drastic as that of FDI, with relatively well-developed Uruguay receiving just 15 million USD in aid in 2011, and the much poorer Nicaragua benefitting from some 1.6 billion USD in foreign assistance in 2001.

Given the high values for these variables, I employ both linear and logarithmic transformations in the empirical models.

#### **3.1.5.4 Policy Importance**

The fourth major independent variable, *policy importance*, combines three factors recorded from the decrees into a scale: geographical scope (none, local, national), temporal scope (none, short-term, long-term), and electoral timing (first-third of term, second-third of term, last-third of term). Assessing the relative importance of a policy to a president or top administration officials is difficult, of course, let alone assessing the significance of 45,000 of them. Still, I am able to generate values through these three basic assumptions. First, I assume that policies that affect a larger swath of national territory should be of greater consequence to leaders than local policies, or those without any territorial scope. Secondly, policies with longer time horizons should generally be more consequential than short-term policies. These seem relatively straightforward assumptions. My third assumption, which depends on the electoral cycle, is that policies sought closer to the beginning of a president’s term, when political capital is likely highest, are more

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World Bank staff when official exchange rates are deemed to be unreliable or unrepresentative of the effective exchange rate during a period.

politically or electorally valuable than those pursued towards the end of a mandate, when political capital is lower.

I configure these three indicators in three different ways to operationalize “importance.” First, I assign each component—geography, time horizon, and electoral cycle—a value of 0 (lowest) to 2 (highest) and add them, producing an indicator from 0 to 6. Under this scenario, an immediate administrative step involving no territorial deployment and issued in the last third of a president’s term would receive a 0, while a long-term, national policy issued in the first-third of the term would receive a 6. Table 3-7 provides a country-by-country summary of this variable. As it shows, Paraguay, where most of the nearly seven thousand decrees issued in a five-year period were simple administrative procedures rather than policies of lasting import, boasts a mean value of only 1.19, whereas Nicaragua and Chile’s mean scores are around 3, reflecting the greater discretion with which presidents in those countries use that legal instrument (Nicaraguan presidents issued less than one-seventh as many decrees than Paraguay’s leaders in only half the time).

In addition to this basic indicator, I construct a substitute measure without including the value of “electoral cycle.” In *Importance 2* I simply add geographical (0-2) and temporal (0-2) scope.

**Table 3-7.** Summary of Policy Importance Variables, by Country

	Importance (0-6)		Importance 2 (0-4)		N
	Mean	SD	Mean	SD	
Bolivia	2.28	1.42	1.24	1.13	3825
Brazil	2.14	1.38	1.04	1.11	7843
Chile	3.03	1.02	1.56	1.23	3232
Ecuador	1.41	1.37	0.51	1.08	3391
Guatemala	2.71	1.43	1.61	1.13	2190
Nicaragua	2.98	1.19	1.88	0.90	996
Panama	1.37	1.21	0.47	0.84	3002
Paraguay	1.19	0.93	0.27	0.58	6998

Uruguay	2.00	1.37	1.03	1.12	7252
Venezuela	1.99	1.40	1.19	1.14	7147
TOTAL	1.97	1.40	0.96	1.13	45876

### 3.1.5.5 Additional Independent Variables

Additional variables are included to account for potential alternative explanations and enrich the explanations for variation in delegation actions. In order to address an explanation regarding higher non-profit outsourcing in poorer countries, I include an indicator for *country wealth*: annual GDP per capita in constant 2005 USD. For president-centric expectations concerning military delegation and outsourcing, I include dummy variables if the president is an ex-military member, or an ex-businessperson. For the latter category, this includes Álvaro Arzú, Óscar Berger and Álvaro Colom (Guatemala) as well as Arnoldo Alemán and Enrique Bolaños (Nicaragua). However, the former case is more barren; I am only able to include ex-Lieutenant Coronel Hugo Chávez (Venezuela)—and not even that when country dummies are included, since Chávez’s rule during the entirety of my sample period creates a problem of multicollinearity.

Considering that agency creation is more likely in new issue domains, I include a dummy variable, *new*, coding for a policy not directly related to any existing ministry. An additional control for military heritage is included as a continuous indicator of the number of years since an authoritarian interruption. These numbers are 1958 and 2002 (Venezuela), 1979 (Ecuador), 1982 (Bolivia), 1984 (Guatemala, Nicaragua, Uruguay), and 1985 (Brazil). The last control, dealing directly with the expectation of increased outsourcing as presidential preferences move to the right, is for presidential ideology. This is based on the same 1-5 scale for political parties utilized in the ideological distance variable, itself based on Lodola and Quierolo (2011) and Coppedge (2010). All variables are summarized in Table 3-7.

**Table 3-8.** Descriptive Statistics

<b>Variable</b>	<b>N</b>	<b>Mean</b>	<b>SD</b>	<b>Min</b>	<b>Max</b>
<b>DEPENDENT</b>					
Delegation decision	45876	0.10	0.29	0	1
Type of circumvention	45876	0.22	0.78	0	5
<b>INDEPENDENT</b>					
Agency capacity					
<i>WGI bureaucratic efficiency</i>	45876	44.51	13.38	27.90	74.72
<i>WGI regulatory quality</i>	45876	46.65	14.79	17.84	79.39
Ideological distance	45876	0.19	0.56	0	4
Policy importance					
<i>Three variable</i>	45857	1.97	1.40	0	6
<i>Two variable</i>	45857	0.96	1.13	0	4
Circumventing cost					
<i>Revenue (billions USD)</i>	43650	58.29	117.13	0.57	618.36
<i>Military exp. (billion USD)</i>	45876	3.74	7.05	0	36.94
<i>FDI Inflow (billion USD)</i>	45876	6.07	12.68	-2.55	76.11
<i>Dev. assist. (100 million USD)</i>	43650	239.62	278.80	-113.68	1678.25
<b>CONTROLS</b>					
Per capita GDP	45876	4169.26	1952.03	973.57	7614.52
Ex-business president (0,1)	45845	0.07	0.25	0	1
New issue domains (0,1)	45876	0.01	0.11	0	1
Time since dictatorship (years)	45845	19.35	7.91	0	43

### 3.1.6 Econometric Models: Nested Logit and MNL

I begin by modeling the determinants of circumvention through a nested logit estimator. Nested logit is a type of Generalized Extreme Value (GEV) model applicable in structured choice situations; unlike traditional discrete choice estimators, it relaxes the assumption of independently distributed errors and independence of irrelevant alternatives (IIA) inherent in conditional and multinomial logit models by clustering similar alternatives into nests (Williams 1977; Wen and Koppelman 2001; Hensher et al. 2005). Here, the odds of choosing among circumvention alternatives do not remain the same if the first level “delegate to existing bureaucracy” alternative is removed, potentially violating the IIA assumption, and making nested

logit perhaps the most appropriate modeling choice. The estimator groups comparable alternatives together and structures the choice as a tree with different branches, assuming the same sequential structure as the theoretical model in Chapter 2 and only assuming IIA *within* branches.

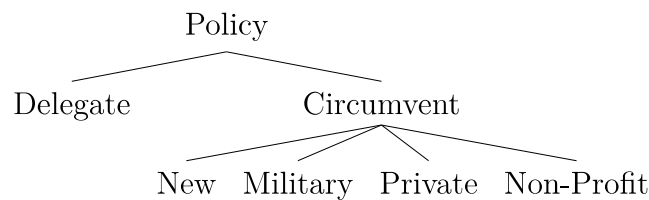
The estimator presumes that presidents choose the implementation agent that yields the highest utility. The functional form of the utility can be decomposed into two parts: 1) a part labeled  $W$  that is constant for all alternatives within a nest; and, 2) a part labeled  $Y$  that varies over alternatives within a nest. Therefore, the utility of choice  $j$  for individual  $i$  in set  $B_K$  is  $U_{ij} = W_{ik} + Y_{ij} + \varepsilon_{ij}$  for  $j \in B_k$ . In this setup,  $W_{nk}$  depends only on variables that describe nest  $k$ . These variables differ over nests but not over alternatives within each nest (e.g. ideological distance, agency capacity, and policy importance). Meanwhile,  $Y_{ij}$  depends on variables that describe alternative  $j$ . These variables vary over alternatives within nest  $k$  (e.g. circumvention costs). The stochastic error  $\varepsilon$  follows a generalized extreme value distribution. As Figure 3-2 below illustrates, the first level of the decision tree, or top set, represents the president's initial choice to delegate or circumvent. If the president decides to circumvent, she then chooses among the bottom set alternatives (create a new agency, move outside a policy's traditional corresponding jurisdiction, or outsource).<sup>28</sup>

The unit of analysis for this model is “decree-alternative”, with each unit coded dichotomously (0=not chosen, 1=chosen). Since each president chooses from among five different agents—jurisdictionally appropriate bureau, jurisdictionally inappropriate bureau, new agency, the private sector, and the non-profit sector—the database is in “long” form, meaning

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<sup>28</sup> Although decision trees in nested logit analysis are often interpreted as implying that the highest-level decisions are made first, followed by decisions at lower levels, no such temporal ordering is implied (Hensher et al. 2005).

there are five observations for each delegation decision, for a total of 202,915 observations. All independent variables except “circumvention cost” exercise an effect at the top level of the decision-making process, across nests. By contrast, the unique values for circumvention cost are included in the bottom set alternative within the circumvention “nest”, since these values vary over alternatives.



**Figure 3-2.** Structure of levels of choice in nested logit model

To complement the nested logit approach, I also model the decision-making process using a more standard multinomial logit (MNL) estimator for categorical response variables.<sup>29</sup> This is due to the fact that the nested logit structure does not permit modeling the independent variables’ impact at both levels of choice, meaning that I am unable to show how agency capacity, ideological distance, or policy importance impact choice among the bottom level alternatives. By contrast, MNL treats the decision-making process as a single choice among all five alternatives (0=jurisdictionally appropriate bureau; 1=new agency; 2=jurisdictionally inappropriate bureau; 3=the private sector; 4=non-profit sector). Unlike the first set of models, then, the MNL regressions rely on a data structure where the unit of analysis is “delegation decision” (N=45,876) for individual  $i$  and choice  $j$ . The individual’s utility is  $U_{ij} = Y_{ik} + \varepsilon_{ij}$  for  $j$

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<sup>29</sup> While the multinomial probit also allows for correlation among error terms, much like nested logit it has much higher computational requirements than the similar MNL and has a tendency to bias towards insignificance (McFadden 1980).

The systematic part is a function of some variables associated with the individual, who may give different weights to those characteristics across alternatives:  $Y_{ij} = X_i\beta_j$ . In all cases, estimations use robust standard errors.

## 3.2 RESULTS AND DISCUSSION

### 3.2.1 Choice to Circumvent: Nested Logit

The first series of regression results through nested logit summarized in Table 3-9 strongly support nearly all of the theoretical predictions made in Chapter 2, save for *circumvention cost*. The signs and magnitudes of all principal explanatory variables remain consistent and the statistical significance holds across specifications. A decrease in bureaucratic capacity, increase in preference divergence between the president and the jurisdictionally appropriate ministry, and an increase in policy importance are all robust predictors of an increased probability of the president delegating policy by bypassing the corresponding public administration (Given the data structure of the estimator, it is difficult to verify or reject alternative explanations among bottom set choices—that is, the decision among different circumvention strategies. This will be addressed in Section 3.2.2).

**Table 3-9.** Determinants of bureaucratic circumvention fitted to nested logit model

DV: Circumvention	Model 3.9.1 coef/se	Model 3.9.2 coef/se	Model 3.9.3 coef/se	Model 3.9.4 coef/se	Model 3.9.5 coef/se
Bureaucratic eff.	-0.007* (0.004)		-0.017*** (0.004)	-0.038*** (0.004)	0.014 (0.011)
Regulatory quality		-0.007* (0.003)			
Ideological distance	0.448*** (0.025)	0.452*** (0.025)	0.398*** (0.025)	0.402*** (0.030)	0.365*** (0.025)

Policy importance	0.590*** (0.012)	0.589*** (0.012)		0.229*** (0.015)	0.586*** (0.013)
Policy importance (no elect. proximity)			0.797*** (0.013)		
GDP per capita	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	0.000*** (0.000)	-0.000 (0.000)
Ex-military president	-0.858*** (0.171)	-0.931*** (0.215)	-1.287*** (0.162)	-1.280*** (0.194)	
<i>t</i> dictatorship	-0.031*** (0.005)	-0.034*** (0.007)	-0.032*** (0.005)	-0.039*** (0.006)	-0.001 (0.004)
Ex-business president	0.094 (0.084)	0.135 (0.085)	0.016 (0.086)	-0.470*** (0.086)	0.347* (0.150)
New issue domain	-0.219 (0.198)	-0.200 (0.198)	-0.079 (0.204)	-0.108 (0.219)	-0.089 (0.205)
Presidential ideology	-0.082*** (0.024)	-0.079*** (0.023)	-0.074** (0.023)	-0.027 (0.024)	0.039 (0.028)
Bolivia dummy					0.816 (2.396)
Brazil dummy					1.016 (2.560)
Chile dummy					0.480 (2.344)
Ecuador dummy					0.664 (2.290)
Guatemala dummy					0.102 (2.339)
Nicaragua dummy					-0.385 (2.323)
Panama dummy					0.463 (2.189)
Paraguay dummy					-0.061 (2.333)
Uruguay dummy					-0.585 (2.228)
Venezuela dummy					0.570 (2.314)
<b>Base level</b>					
Circumvention cost (log)	-0.100*** (0.008)	-0.096*** (0.010)	-0.074*** (0.007)	0.016 (0.009)	-0.188 (0.099)
N	210110	210110	210110	71690	210110
Cases	42022	42022	42022	14338	42022
Log-Likelihood	-16,970.45	-16,969.27	-16,520.30	-12,651.08	-16,692.23
AIC	33962.9	33960.55	33062.6	25324.15	33424.46
BIC	34075.71	34073.36	33175.41	25425.13	33629.57

note: \*\*\* p<0.001, \*\* p<0.01, \* p<0.05



Table 3-9 displays the results from five different estimations. The baseline model, 3.9.1, uses *bureaucratic effectiveness* as its indicator for bureaucratic capacity, the three variable operationalization of *policy importance* (geographic scope + temporal scope + electoral proximity), and given their skewed distribution, a logarithmic transformation of the values in circumvention cost. The following estimations are variations on this baseline. Model 3.9.2 switches out *regulatory quality* for *bureaucratic effectiveness*, Model 3.9.3 switches out the two variable operationalization of policy importance for the three-variable indicator, and Model 3.9.4 drops all symbolic and administrative decrees from the database, shrinking the total number of observations from 210,110 to 71,690, and the total number of decree decisions evaluated from 42,022 to 14,338. Lastly, Model 3.9.5 adds country dummies to the baseline model (3.9.1).

The results are encouraging for Chapter 2's hypotheses. According to models 3.9.1-3.9.4, bureaucratic effectiveness and regulatory quality exercise a negative and statistically significant effect on the likelihood of a president circumventing the bureaucracy, in line with Hypothesis 1. As the quality of the bureaucratic apparatus decreases, politicians are more likely to search for other agents. The only note of caution comes from Model 3.9.5, whose country dummies wipe out the significance of nearly all variables in the dataset, including that of bureaucratic efficiency.

To a large degree, though, these results support the fundamental contention that the less trust politicians have that their agencies and bureaucrats will implement policy well, the more likely they are to rely on extra-bureaucratic mechanisms. In a personal interview, Ecuadorian Undersecretary of School Administration Roberto Pazmiño explained that the creation of an elite administrative unit within the Ministry of Education in 2006 was a mechanism to avoid corruption endemic in some entrenched secretariats, and to ensure greater efficiency, policy

continuity, and administrative flexibility. In fact, the undersecretary was so forthright as to say that the creation of this new unit was explicitly directed at improving the ministry's bureaucratic capacity (Pazmiño 2013). The data show that this logic is not limited to isolated cases, but reflect broader patterns of agency creation and other delegation strategies that are a function of low bureaucratic efficiency.

Similarly, following Hypothesis 2, *ideological distance* also exercises a positive and significant effect on the probability of circumvention—across all five specifications and with larger magnitude coefficients than those of bureaucratic capacity. This result indicates that as a president and agency's preferences diverge, the probability of circumvention also increases. It is clear from the robustness of these results that presidents are much less likely to delegating jurisdictionally appropriate policies to ministries under the control of non co-partisans.

This finding is also consistent with the Ally Principle developed elsewhere (Epstein and O'Halloran 1996, 1994). Unlike Huber and McCarty's (2004) finding that low bureaucratic capacity decreases incentives for presidents to favor ideological allies, adding additional agents with higher capacity reestablishes the logic underpinning the Ally Principle and produces expectations borne out by reality. Latin American presidents may be able to replace certain ministers whose ideology deviates from their own, but in other cases these ministers will belong to the governing coalition and a level of ideological divergence will be unavoidable. Beyond the minister's ideological predilection, the agency itself may be staffed with bureaucrats who violate the ideal of neutral competence, not only in low capacity bureaucracies but high capacity ones as well (Clinton et al. 2012; Clinton and Lewis 2008).

Much like preference divergence, the coefficients for *policy importance* are positive, significant, and possess large magnitudes across all five specifications, supporting Hypothesis 4.

Furthermore, both operationalizations of the policy importance variables produce positive and statistically significant coefficients. Indeed, these results strongly support the contention that the more important the policy, the more likely a president is to bypass the bureaucracy in delegating the policymaking authority and implementation. The removal of administrative and symbolic decrees (Model 3.9.4)—which represents a conservative test since they are almost by definition low importance—does not alter these results or the effect of the variable.

The role of the policy's relative import is supported anecdotally. As the case studies in Chapters 5-7 will show, governments seem to bypass the established public administration or exploit institutional innovation such as creation of elite administrative units within the existing agencies most often in cases of highly visible, national policies: rehabilitation and administration of national highways through concessionaries from northern Mexico to southern Patagonia; Brazil's conditional cash transfer program appealing to millions of its citizens; Ecuador's ambitious ten year national education plan to meet the United Nations' Millennium Goals; and Venezuela's enormous missions that are a centerpiece of the country's national social policy. The scope and length of these policies, as well as broad appeal and electoral importance, make their success dearer to politicians than lesser policies.

The coefficients for *circumvention cost* do not meet the expectations of Hypothesis 3. The theoretical prediction is that as this value increases (i.e. money or resources grow less scarce), the likelihood of circumvention should decrease. However, cost is negative and significant for Models 3.9.1-3.9.3, and then loses statistical significance in the last two models. This indicates that at best, the resources available to governments exercise no effect on the probability of circumvention, and that it is possible that an increase in government revenue, the

military budget, FDI, and development assistance actually contributes to a *decrease* in creating agencies, using the military outside its jurisdiction, or outsourcing.

The poor performance of this variable—actually contrary to expectations—may be an artifact of the operationalization of the concept, the data structure demanded by the estimator, or simply cross-country differences. To begin, perhaps gauging the fiscal resources or budgets available to presidents suffer from weak construct validity; FDI may not represent the government's ability to outsource, especially since most outsourcing is national rather than international, while development assistance is a proxy for, but not a perfect representation of the amount of money non-profits invest in a given place. Second, since the nested logit model folds these distinct costs into a single indicator, it assumes all four are perfectly comparable. Yet in reality, the empirical values of government revenue are always significantly higher than, say the military budget or development assistance, no matter the country, and a one-unit change in the former is not necessarily equivalent to a one-unit change in any of the others. Lastly, perhaps the coefficient is being affected by cross-country differences; Chile has high revenue and high FDI in comparison to other countries in the sample, but its presidents circumvent to a degree similar to that of Bolivia, whose indicators are much lower. In sum, while the statistical results do not look promising, caution should be exercised in evaluating the effects of cost on circumvention. Somewhat surprisingly, including country effects debilitates the model's clarity, even though none of the ten country dummies is significant in Model 3.9.5.

While promising, these results still say little about the substantive effects of the various independent variables on presidents' policy delegation choices. The predicted probability of the president circumventing the bureaucracy at the sample means is 22.22%. As is sometimes the case (Cameron and Trivedi 2010), the sample average predicted probabilities using the mean

values of the variables in the estimation sample are *not* equal to the sample probabilities; this 22.22% is over 12 percentage points higher than the 10% circumvention rate in the entire universe of cases. Table 3-10 orders the predicted probabilities of circumvention while varying the values of ideological distance and bureaucratic capacity. As it shows, when capacity is at its theoretical maximum of 100 and the president's ideology is congruent with the relevant minister's ideology, the probability of circumvention is 7.2%.<sup>30</sup> On the other hand, when capacity is at its theoretical minimum and ideological distance is at its maximum, the likelihood is over 49%, a massive increase. In other words, with the weakest possible bureaucracy, a ministry that is an ideological foe, and a policy of merely average importance, the president's choice to bypass the public administration is essentially the flip of a coin. Of course, this also demonstrates the persistence of the existing bureaucracy and politicians' dependency on it: even under conditions highly conducive to circumvention, only half the policies bypass the bureaucracy.<sup>31</sup>

As the table shows, at this top level, the substantive effect of ideological distance is much stronger than that of bureaucratic capacity. As capacity decreases from its maximum to its minimum, the probabilities of circumvention increase from 7.2% to 13.8% at the minimum value of ideological distance, 18.6% to 24.4% at the values of the empirical means, and 31.8% to 49% at the theoretical maximum values. Meanwhile, as distance increase from its theoretical minimum to maximum values, the likelihood of bypassing the public administration increases

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<sup>30</sup> I opt for using theoretical minimums and maximums, since the empirical values are more circumscribed for the Latin American data in comparison to the broader universe.

<sup>31</sup> There are a number of possible explanations for this. First and foremost, a great number of decrees in the sample are administrative in nature, and it is nonsensical in certain cases to, say, outsource a bureaucratic appointment. Second, it may simply be highly difficult if not outright impossible to call on the military or to outsource policies in certain areas (e.g. foreign policy). Third, the simulations only maximize values on two variables, and not all relevant covariates; inevitably, lowering circumvention cost to its minimum value and maximizing policy importance would raise the probability of circumvention higher.

from 7.2% to 31.8% when capacity is at its maximum, 10.4% to 41.2% when capacity is at its empirical means, and, 13.8% to 49% when capacity is at its minimum, nearly double the impact. As the next section will show, however, the substantive impact of bureaucratic efficiency on circumvention is attenuated by one particular circumvention strategy: private sector outsourcing, which has a positive coefficient in the MNL models and thus counteracts the negative coefficients of capacity for the other outcomes. Still, even despite this counteracting effect, the probabilities show that variations in capacity as well as ideological distance exercise real and significant effects on the likelihood of presidents looking outside their bureaucracies to implement policy.

**Table 3-10.** Predicted probabilities for bureaucratic circumvention (%), all other variables set at sample means

		<b>Ideological Distance</b>		
		Minimum (0)	Mean (1.9)	Maximum (4)
<b>Capacity</b>	Maximum (100)	7.20	18.63	31.82
	Mean (44)	10.44	22.22	41.19
	Minimum (0)	13.81	24.39	49.06

While supportive of the Capacity, Ideology, and Policy Importance Hypotheses, the above analysis relies on an estimator that does not clearly demonstrate the impact of these independent variables on the president's second decision-making level. Since the nested logit estimator does not permit repetition of covariates, it is impossible to discern if agency capacity, ideological distance, and other variables exercise a common effect of magnitude, directionality, and significance on each possible second-level outcome. To address this, I use a series of MNL regressions with a single level of choice, effectively separating the effects of each independent variable on each circumvention alternative.

### 3.2.2 Choice among Alternatives: Multinomial Logit (MNL)

The results of the MNL models are consistent with many theoretical expectations and many of the conclusions found in the previous set of models, yet also reveal some striking differences in the impact of distinct independent variables across the outcomes of interest. Notable differences from the nested logit models include findings that: 1) an increase in bureaucratic capacity is associated with an *increase* in outsourcing; 2) preference divergence exercises no effect on presidents' proclivities to delegate to the military, and the effect of bureaucratic capacity is not as robust on this outcome as on others; 3) circumvention cost, disaggregated into its four constituent terms, exerts a positive and statistically significant effect on new agency creation, military delegation, and non-profit outsourcing, and 4) predictors for many of the alternative hypotheses also wield significant effects in the hypothesized directions.

I run a series of MNL specifications to test for the robustness of different indicators, and both the similarities and differences are generally consistent across the full range of model specifications. The baseline model, 3.11.1, uses *bureaucratic effectiveness* as its indicator for bureaucratic capacity, the three variable operationalization of *policy importance* (geographic scope + temporal scope + electoral proximity), and given their skewed distribution, a logarithmic transformation of the values in circumvention cost. The following estimations are variations on this baseline. Model 3.11.2 switches out *regulatory quality* for *bureaucratic effectiveness*, Model 3.11.3 switches out the two variable operationalization of policy importance for the three-variable indicator, and Model 3.11.4 substitutes linear transformations of the cost variables in place of the geometric ones. The following two specifications are conservative tests. In Model 3.11.5, I drop impermanent agencies (commission, committees, working groups, etc.) from the category of new agency creation, while I drop symbolic and administrative decrees from the

database altogether in Model 3.11.6. For Model 3.11.7, I include country dummies to the baseline specification.

For presentation purposes, the full results for all seven models are included in Appendix E. Since the coefficients for MNL regression represent log odds ratios rather than partial slope coefficients of a linear regression model, I calculate and display the marginal effects (the effect of a one unit change in each regressor on the conditional mean of  $y$ ) for the baseline specification in Table 3-11 below.<sup>32</sup>

The first major difference between these models and the dichotomous outcomes ones is that *bureaucratic capacity* exercises a positive effect on the probability of outsourcing. This runs contrary to the theoretical expectations developed in Chapter 2, but is entirely consistent with the NPM literature that improved bureaucratic capacity actually increases the likelihood of governments outsourcing in order to further improve efficiency. In fact, this evidence supports Peters' (2001) argument that outsourcing the provision of public goods in a low capacity environment may not be as effective as in high capacity cases. Presidents make judgments on when to turn to the private sector based on past results, and if those results are mediocre or disappointing in low capacity environments as Peters suggests, then this should discourage use of this strategy. By extension, the reverse is also true. It also supports Robinson (1999) and others, who argue that under certain circumstances, federal bureaus in the U.S. can achieve technical and cost efficiency through outsourcing, and question why more bureaus do not pursue outsourcing to improve the technical efficiency of their policies. This also makes it appear that the effect of private sector outsourcing and bureaucratic efficiency may be mutually reinforcing:

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<sup>32</sup> Log odds ratios are listed for this model and all others in Appendix E.



outsourcing may improve government efficiency, while more efficient governments will also be more likely to outsource.

Evidence from a wider range of countries also supports this conclusion. The 2011 edition of *Government at a Glance*, the OECD's biennial publication of member countries' government performance, includes an evaluation on public service delivery and outsourcing. The countries with the six highest expenditures on general government outsourcing as a percentage of GDP in this group are the Netherlands (19.4% of GDP), Finland, Great Britain, Sweden, Israel, and Germany, while the six lowest expenditures on outsourcing came from Greece, Korea, Switzerland, Chile, and Mexico (a mere 2.7% of GDP; Chile and Mexico are the lone Latin American representation among the cohort of 34) (OECD 2011). So, despite OECD governments enjoying bureaucracies that tend towards the upper-end of performance, the countries that most turned to outsourcing to deliver government services represent among the most professional and efficient public services in the world, while Greece and Mexico, by contrast, are more notorious for their bureaucratic inefficiency.

The second major difference between the MNL results and the nested logit ones is that ideological distance between the president and the policy's corresponding cabinet minister is not a statistically significance predictor of military delegation. What is more, while the capacity variable is robust across models for other outcomes, its positive effect is less consistent, losing significance in four of the seven models. An ideological disparity between a president and different agencies therefore is not a motivating factor in pushing the president to seek out the military to implement policy, and the capacity of the bureaucracy itself has a weaker effect.

The most consistent performing variable is *policy importance*, which is positive and significant across all outcomes and models, as predicted by H3. An increase in the political

importance of a policy unequivocally increases the probability that it will bypass the bureaucracy, regardless of the specific circumvention strategy.

The third major difference between these models and the previous ones is that circumvention cost, disaggregated into its four constituent terms, exerts a positive and statistically significant effect on new agency creation, military delegation, and non-profit outsourcing, providing the first support for H3 (although it has no effect on private sector outsourcing). To begin, the *government revenue* term, hypothesized to cause an increase in new agency creation, is positive and significant for all types of new agency creation in the MNL models. Second, the coefficient for *military expenditures* is positive and significant for military delegation, indicating that an increase in the military budget increases government reliance on the organization to implement policy. Third, the coefficient for the *development assistance* term is also positive and significant for non-profit outsourcing. The only exception is *FDI inflow*, whose coefficient is not statistically significant for private sector outsourcing.<sup>33</sup>

So what accounts for the divergent results from the nested logit models? As theorized in section 3.2.1, it is possible that the aggregated indicator of circumvention cost suffers from scaling problems. Specifically, it assumes all four variables are perfectly comparable, and assigns one to each possible outcome. Yet in reality, the values for government revenue are larger than the military budget or development assistance, meaning that a one-unit change in the former is not necessarily equivalent to a one-unit change in any of the others. This problem is resolved when the indicator is disaggregated into its four constituent parts, providing cautious optimism for Hypothesis 3.

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<sup>33</sup> The caveat here is that FDI inflow may not best represent the government's ability to outsource, especially since, again, most outsourcing is national rather than international.

**Table 3-11.** Marginal effects for Model 3.11.1, robust standard errors

	<b>3.11.1 (mfx)</b>			
	<b>New Agency</b>	<b>Military</b>	<b>Private</b>	<b>Non-Profit</b>
	<b>dy/dx (se)</b>	<b>dy/dx (se)</b>	<b>dy/dx (se)</b>	<b>dy/dx (se)</b>
Bureaucratic eff.	-0.001*** (0.000)	-0.000 (0.000)	0.003*** (0.000)	0.001*** (0.000)
Ideological distance	0.005*** (0.002)	-0.000 (0.001)	0.015*** (0.001)	0.006*** (0.001)
Policy importance	0.020*** (0.001)	0.003*** (0.000)	0.020*** (0.001)	0.005*** (0.000)
Government revenue (log)	0.007*** (0.002)	-0.006*** (0.001)	0.006 <sup>†</sup> (0.003)	0.014*** (0.001)
Military expenditures (log)	-0.003*** (0.001)	0.009*** (0.002)	0.002 (0.001)	-0.007*** (0.000)
FDI inflow (log)	0.001 (0.001)	-0.000 (0.001)	-0.001 (0.002)	-0.012*** (0.001)
Development assistance (log)	-0.001 (0.001)	-0.000 (0.001)	0.003* (0.001)	0.004** (0.001)
Per capita GDP	0.000* (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)
<i>t</i> dictatorship	-0.000 (0.000)	-0.000* (0.000)	0.000** (0.000)	0.002*** (0.000)
Ex-business president	-0.016*** (0.005)	-0.008 (0.005)	-0.030*** (0.008)	0.022*** (0.002)
New issue domain	0.032*** (0.008)	0.006* (0.003)	-0.042* (0.018)	-0.216*** (0.008)
Presidential ideology	0.013*** (0.001)	-0.000 (0.001)	-0.000 (0.001)	-0.004*** (0.001)
N	42022			
Adjusted R2	0.173			
AIC	30716.28			
BIC	31165.87			
Log-Likelihood	-15,306.14			

note: \*\*\* p<0.01, \*\* p<0.05, \* p<0.10, † p<0.10

### 3.2.2.1 Substantive Impact

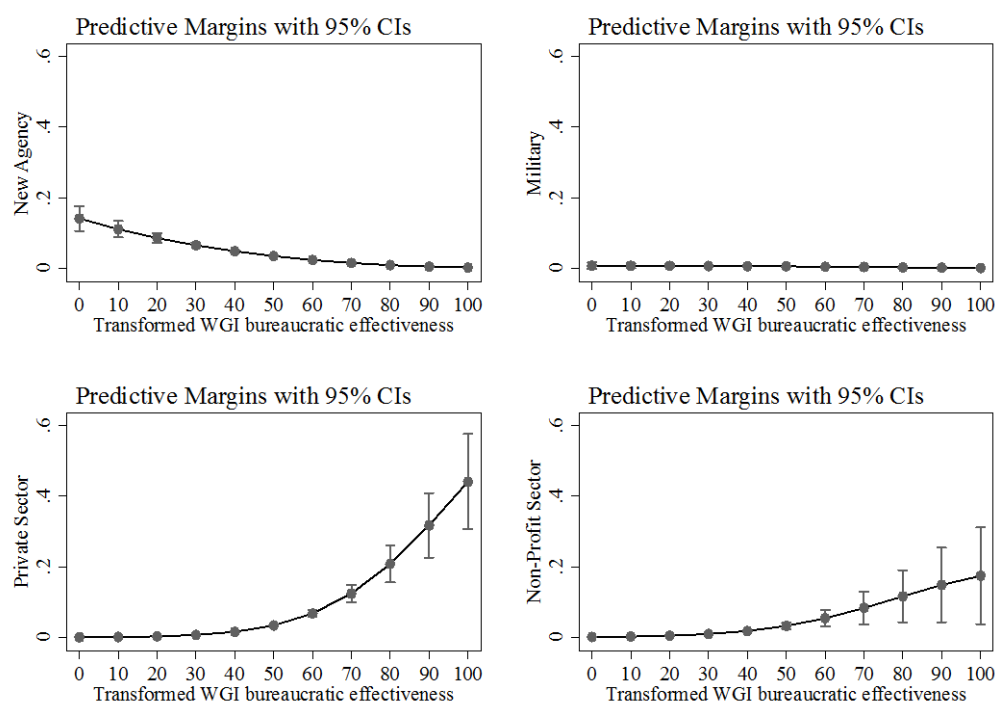
The substantive impacts of these variables vary greatly across outcomes, as the following simulations demonstrate. In figures 3-3 to 3-6 I plot the predicted probabilities of each circumvention strategy over a range of values for capacity (Figure 3-3), ideology (Figure 3-4),

importance (Figure 3-5), and the four circumvention costs (Figure 3-6) while holding all other variables at their means. *Bureaucratic effectiveness*, *ideological distance*, and *policy importance* all generate substantively significant effects on the likelihood of the government forming new agencies and outsourcing to the private sector, especially in the lower range of capacity and upper ranges of distance and importance. However, their effect on military delegation and non-profit outsourcing is muffled. On the other hand, the effect of *circumvention cost* on bypassing the bureaucracy is quite the opposite: it wields a limited influence on agency creation and outsourcing, and an outsized one on delegation to the armed forces.

Figure 3-3 plots the predicted probabilities of outsourcing over a range of values for *bureaucratic effectiveness*, while holding all other variables from Model 3.11.1 at their means. The likelihood of new agency creation decreases from around 17% when effectiveness is at its minimum, to almost 0% when effectiveness reaches its zenith. There are obviously exceptions to this rule, as new agencies are created in some of the best performing bureaucracies in the world (Pierre and Peters 2001; Le Grand 2009), yet it is reflective of how states with weaker public administrations often resort to creating more state apparatus as a solution to that weakness. The *Latin American Weekly Report*, for example, noted Hugo Chávez's rule of thumb that, "When troubles come, create another level of bureaucracy" ("Chávez falls back on the ultimate panacea" 2012). Not surprisingly, he issued a staggering 478 decrees between 2000 and 2012 dealing with agency creation (LAEDD).

The magnitude of change in likelihood of outsourcing to the private sector is even larger over the range of bureaucratic capacity values than for new agency creation, rising from zero at the low end to nearly 45% at the high end. There is a nearly zero likelihood of private sector outsourcing for values from 0 to 40 before the curve begins to rise nearly geometrically

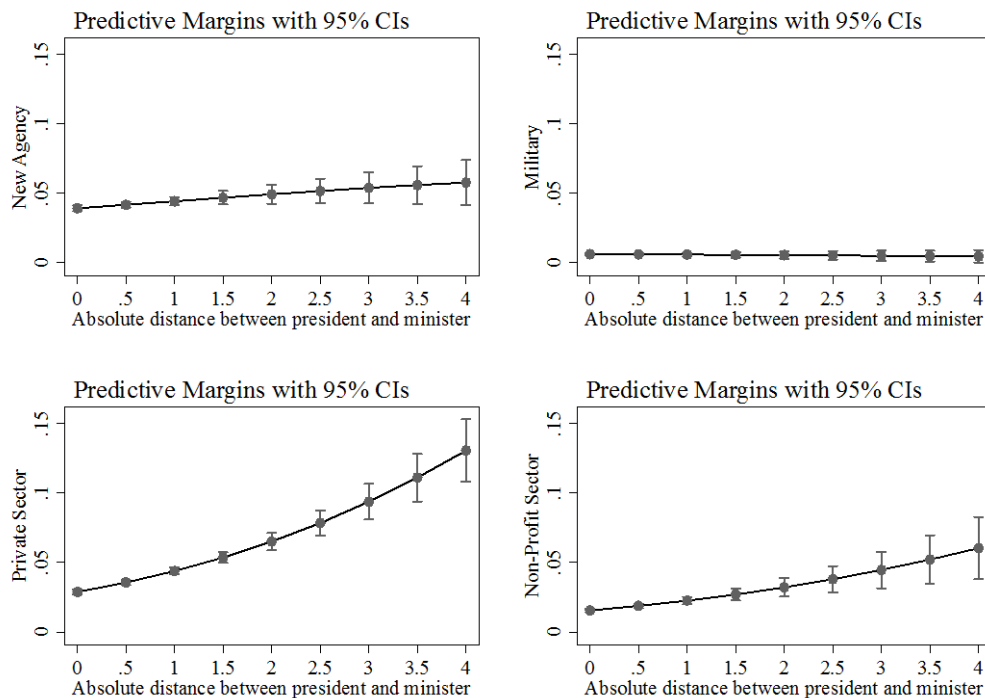
(although with a commensurate increase in the size of standard errors). Again, while these simulations are based on the data available from the ten country Latin American sample, broader data from OECD countries also supports this conclusion (OECD 2011).



**Figure 3-3.** Impact of *bureaucratic effectiveness* on probabilities of four outcomes, all other variables held at their means

The impact of ideological distance between presidents and their agencies—or more specifically, their cabinet ministers, as a function of party identification—produces no substantive effect greater than a range of 13% for any one sub-strategy (Figure 3-4). This is especially true of military delegation, over which ideological distance has no substantive effect (upper right hand plot in Figure 3-4), while new agency creation only rises from 4% at the lower end to 6% at the upper end. However, it applies more strongly to the two types of outsourcing: the probability of non-profit outsourcing increases from 1.5% to 6%, while the probability of private sector outsourcing jumps from about 4% to 12%. In other words, despite its statistical

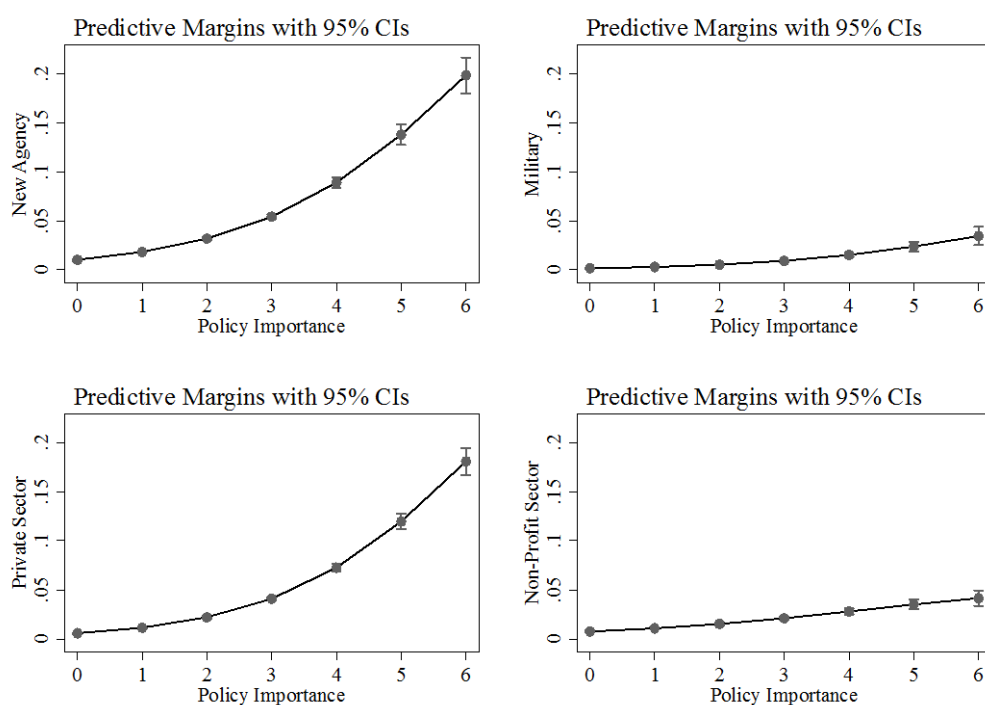
significance, when the dependent variable is separated into four components, its impact is spread out relatively evenly among three of the four outcomes and its effect is somewhat muted.



**Figure 3-4.** Impact of *ideological distance* on probabilities of four outcomes, all other variables held at their means

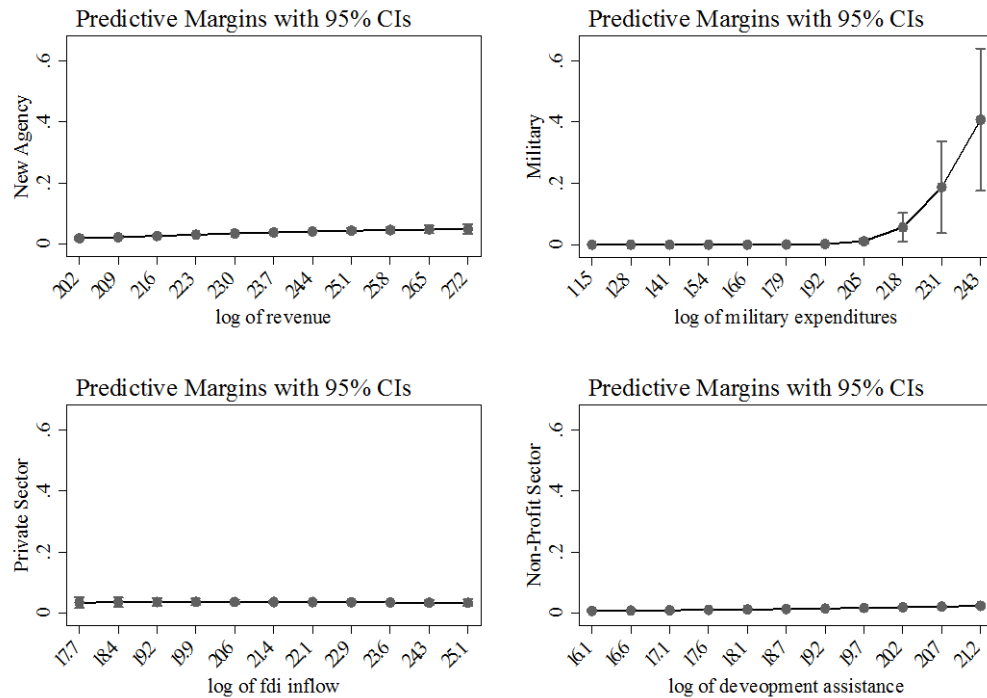
Policy importance, on the other hand, has a comparatively large effect on new agency creation and private sector outsourcing, consistent with its substantive impact on the binary circumvention indicator (Section 3.2.1). The probability of creating a new agency ranges from less than 1% for the least important policy, to nearly 20% for the most important, while the chances of outsourcing increase from less than 1% to over 18%. These mark the two scenarios with the largest substantive impact over the range of values for any of the principal independent variables. Clearly, the more important a policy is, the more presidents hope to maintain control over its execution (new agency creation) or ensure a technically proficient outcome (private sector outsourcing). Still, a change in importance does not affect non-profit outsourcing or military delegation much. In the case of each, agency characteristics limit their use by presidents

in long-term, countrywide policies: excepting internal security, most armed forces, or units within the armed forces, do not have the human power to deploy across a territory in the long-term. Similarly, NGOs, multilateral organizations, and other non-profits are not equipped (or willing) to remain *in situ* indefinitely, nor do they have sufficient personnel to carry out a policy across an entire country.



**Figure 3-5.** Impact of *policy importance* on probabilities of four outcomes, all other variables held at their means

Lastly, the effect of circumvention cost manifests itself most clearly in the effect of military expenditures on military delegation, and then only at the upper values of that variable. Still, at the upper end of the logged value of military expenditures, the probability of delegating to the military reaches nearly 40%! By comparison, the likelihoods of all other outcomes remain rather static over the range of circumvention cost values.



**Figure 3-6.** Impact of circumvention costs on probabilities of four outcomes, all other variables held at their means

### 3.2.2.2 Alternative Hypotheses

Additional variables lend support to the alternative hypotheses from Chapter 2. *Country wealth*, measured as per capita GDP, is negative and significant for military delegation and both forms of outsourcing (Table 3-11). In other words, an increase in wealth is associated with a decrease in these types of circumvention—a logical series of relationships that supports H5. Further, the sign for *years since dictatorship* is negative and significant for military delegation, supporting the logic behind H6 that the more removed governments are from authoritarian interruptions, the less likely they will be to delegate to the military; this variable fails to reach significance for the outcome of new agency creation, and is positive across most specifications for outsourcing. Likewise, there is also empirical support for both H7 that policies in novel areas are likely to drive new agency creation. *New issue domain* possesses a positive and significant coefficient



when new agency is the outcome variable, while the variable is not significant for the outcome of military delegation and significant and negative for outsourcing.

On the other hand, differing from theoretical expectations, presidents previously involved in the business sector do not appear more likely to outsource to the private sector, as the coefficients for this variable are negative and significant for this outcome. Nor is there evidence that the further to the ideological right a president is, the more likely he or she will outsource. On the contrary, *presidential ideology* is negative and significant for both forms of outsourcing and military delegation. In concert with the fact that *ex-business president* and *presidential ideology* do not meet expectations, the statistically and substantively significant results for most of the principal independent variables provides evidence that political actions like outsourcing, agency creation, and use of the military in civilian affairs do not solely depend on a politician's ideology, but on the quality of a country's bureaucracy.

Last, Model 3.11.7 includes country dummies in an attempt to understand how patterns of circumvention may differ across political contexts. The baseline term against which these dummies are compared is Venezuela. The largest magnitude statistically significant coefficients for new agency creation come from Chile (-6.419) and Uruguay (-4.666), numbers and signs indicating that their presidents are the least likely in the region to create new agencies. These are logical places, since they are higher-income countries in the region that, although prone to administrative reforms, boast rather well functioning bureaucracies (Brasil de Lima Junior 1998; Echebarría and Cortázar 2007; Narbondo and Ramos 1999). Despite *bureaucratic efficiency* switching signs in the model, the negative signs and relative magnitudes of the country dummies reinforce the theoretical expectation that bureaucratic circumvention is more likely as

administrative capacity shrinks, since the sign and relative magnitude of each country's coefficient is roughly equivalent to stylized perceptions of their administrative capacity.

Similarly, the two places whose presidents are least likely to turn to the military are Panama (-37.312) and Chile (-22.157). This is similarly logical, since Panama abolished its standing army and has a severely circumscribed military apparatus, while as a victim of his country's military dictatorship, Chilean President Ricardo Lagos proved unwilling to turn to that institution for help.

The outliers for private sector outsourcing are familiar: Panama (18.599), Chile (11.682), Uruguay (9.043), Paraguay (4.725) and Brazil (4.185). Their positive and statistically significant coefficients reflect a greater probability in those places—all high capacity bureaucracies, with the exception of Paraguay—to outsource, despite the fact that three of them (Brazil, Chile, and Uruguay) were governed by leftist presidents during the years from which the sample was taken. For non-profit outsourcing, seven of the nine countries (all except Bolivia and Ecuador) possessed statistically significant negative coefficients, led by Brazil (-17.548). Policies passed via decree in these ten countries were all less likely to use the non-profit or international sector for implementation than those from Venezuela. At least in Brazil's case, this makes sense, since it is a large and relatively wealthy country.

### **3.3 CONCLUSIONS**

In this chapter, I use data from over 45,000 presidential decrees in Bolivia, Brazil, Chile, Ecuador, Guatemala, Nicaragua, Panama, Paraguay, Uruguay, and Venezuela between 2000 and 2013 to test the validity of the theoretical arguments made in Chapter 2. I systematically code

these decrees for their policy content parameters, implementing agent(s), and other characteristics, separating cases of normal bureaucratic delegation from circumvention. I show that circumvention is far from rare in the region, occurring in every country and presidential administration, with an aggregate incidence rate of nearly 10%. These data also reveal the most common strategy used by presidents is agency creation, followed by outsourcing to private firms, non-profit outsourcing, and then military delegation.

The results raise questions left unanswered. Are certain bureaucracies (e.g. finance over education) more efficient and capable as a result of outsourcing (privatization as a *cause* of increased capacity), or are more efficient and higher capacity bureaucracies simply more prone to outsource to firms (privatization as an *effect* of increased capacity)? Do presidents continue to outsource after the public administration reaches a certain threshold of (high) capacity? Is institutional learning involved, and do privatization and capacity mutually reinforce each other? These questions will be explored at greater length in Chapters 7 and 8.

Lastly, the consistency and statistical robustness of these models provide evidence that bureaucratic, policy, and president-specific factors all exercise effects on whether or not policies are implemented through established bureaucratic agencies or channeled around them. Changes in characteristics along any one of these dimensions may cause concomitant variations in the probability of circumvention strategy, but all three must be considered. Of course, isolating at least some of the determinants of this implementation scheme ultimately says nothing about the policy results. Repeatedly delegating policies to a certain agency in- or outside of the public administration may be a signal of the president's confidence in that mechanism, but it ultimately proves little. The following chapters therefore attempt to answer the second half of the policy

implementation equation, specifically, how does the policy delivery system affect the success of delegated policies?

#### 4.0 THE EFFECT OF AGENCY CHOICE ON POLICY IMPLEMENTATION

Since 2011, Venezuela's flagship public policy has been the Great Venezuela Housing Mission (*Gran Misión Vivienda Venezuela*, GMVV), a plan whose aim is to provide free or affordable housing for millions of needy Venezuelans. The most labor-intensive component of this program is the actual design and construction of hundreds of thousands of housing units across the country. In many cases, firms with links to the National Housing Institute (*Instituto Nacional de Vivienda*, INAVI) as well as private Venezuelan firms erect the structures, while in other cases, the government outsources policy implementation to foreign state-owned firms from other countries like Russia, China, and Iran. What is striking about this arrangement is not necessarily the overlapping jurisdictions of the implementation agents, a common occurrence, but that—as I will show in Chapter 7—despite the fact that the jurisdictionally corresponding state agencies and private firms are often more professional and more capable than these foreign firms, the government has increasingly turned to the latter since 2011. Why would a government benefit from outsourcing policymaking authority to a less efficient, and yet more costly agent? The answer to this seemingly off-the-equilibrium behavior is that politicians move in a multidimensional space in which they must not only maximize their utility with voters but also with political allies; in effect, they become agents that must respond to two competing principals.

So far in this book, I have argued that politicians will be more likely to seek extra-bureaucratic mechanisms to implement policy as the capacity of their existing agencies decreases

or the existing agency's ideology grows more distant from that of the political principal. Explaining agent choice and the strategy involved in this decision-making process is invaluable in understanding the political game, but these decisions and their tradeoffs also have concrete policy implications. In this chapter I develop a simple theory of implementation success that links politicians' motivations for agency choice and political considerations to policy outcomes; these motivations are integral in determining the success of the policy. At its heart, this theory recognizes that politicians' policy problem is not always the same as the bureaucracy's, and therefore the most desirable solution for politicians is not necessarily the most efficient solution for voters. In Venezuela, this policy of foreign firm outsourcing for the GMVV "works" for the president but not taxpayers because the chief executive is also motivated by consolidating international power—not solely (or even necessarily) designing and implementing the most proficient public housing program.

This explanation also maintains that politicians favoring efficient agents over ideologically proximate ones will enjoy higher implementation quality. In high capacity environments, potential efficiency loss for privileging ideology over efficiency should be attenuated by high performing agencies. As such, the tension between control and expertise put forward in much of the delegation literature remains, but overall efficiency loss of the implementation is minimized. By contrast, if a politician is forced to make a tradeoff between capacity and ideology in a low capacity environment and chooses ideology, it is even *more* likely that implementation quality will be poor. This not only impacts the politician's utility, but—assuming a well-formulated policy—voters' welfare as well. Of course, determining what constitutes "success" and "failure" in the public policy arena is a difficult task.

This chapter begins by differentiating between the concepts of “implementation success” and “policy success”, explaining that the former focuses on implementers’ faithfulness in carrying out statutes to meet politicians’ intentions, while the latter encompasses the broader policy implications for agents and voters. It then develops the explanation for how the determinants of circumvention developed in Chapter 2 have an impact on the success of implementation success, linking an efficiency motivated choice to greater success and an ideologically driven choice to a less efficient outcome. It does this by arguing that when politicians’ and bureaucrats’ interests are aligned, policy tends to favor efficiency. The second section develops alternative hypotheses for how each circumvention strategy will affect implementation, synthesizing scholarship on 1) agency design, 2) military task execution, and 3) privatization and outsourcing. It argues that the five alternative hypotheses are compatible with the research hypotheses from the first section. The last section reviews the research design for the six comparative case studies and explains the format for the case studies in Chapters 5-7.

## **4.1 AGENCY CHOICE AND SUCCESS**

### **4.1.1 The Dependent Variable: Implementation versus Policy Success**

“Success” is a notoriously thick concept, which is part of the reason there has been remarkable little research into what actually constitutes policy or implementation success in the policy literature. Pressman and Wildavsky define it as the difference between the intended and actual policy consequences (1984 [1973]: xv-xviii)—while simultaneously recognizing this oversimplification. They posit that the policy making process (PMP) is composed of at least two

discrete stages: 1) the formulation of the policy a political body, and 2) the translation of that proposal into practice by an agent. This creates a scenario in which quality must be assured along both dimensions in order to produce a successful outcome, and means that a well-implemented policy may still be a policy failure if it is poorly formulated.

Subsequent scholarship (e.g. Van Meter and Van Horn 1975; Bardach 1977; Grindle 1980; Mazmanian and Sabatier 1983; Ingram and Schneider 1990; Matland 1995; O'Toole 2000) has unpacked the implementation process, but without reaching a consensual definition of “success” (O'Toole 1986). Ingram and Schneider (1990) survey several classifications: agency compliance with the statutes’ directives; agency accountability for reaching specific indicators; agency achievement of statutes’ goals; achievement of local goals; or an improvement in the political climate around the program. The particular definition hinges on the context. McConnell (2010a, 2010b) argues that success takes distinct forms predicated upon the extent to which policy activity achieves the particular goals that policy actors have. Since different policy actors have different ideologies, values, and constructions of the meaning of success, an unambiguous description of the concept is difficult.

There are, however, general classifications. Matland (1995) makes a significant advance in systematizing definitions according to the dominant analytical approaches in the studies of implementation, “top-down” and “bottom-up”. The top-down approach views policy formulators—that is, political principal(s)—as the central actors and concentrates its attention on factors that can be manipulated at this level, such as statutory language, goal setting, and monitoring. This approach aims to measure success in terms of specific outcomes tied directly to the statutes that are the source of a program (i.e. fidelity to the designer’s plan). The second approach, bottom-up, emphasizes that implementation success can only be measured via the



welfare of service deliverers—that is, agent(s)—and the target population. Bottom-up theorists prefer a broader evaluation of success, in which a program leading to a positive outcome can be labeled a success (i.e. good general consequences of implementation actions for citizens).

In the following case studies, I systematically operationalize the concept following the top-down approach, which I refer to as “implementation success”. In doing so, I return to Pressman and Wildavsky and ask: how faithful were the agent’s actions to the conditions established in the statute? I privilege this definition because this book is interested first and foremost in the political principal, her motivations to delegate implementation to one agent over another, and the effect of that decision on implementation viewed from the principal’s perspective. Inherent in the concept of bureaucratic circumvention is the assumption that bypassing jurisdictionally appropriate agents offers some type of advantage to politicians. The fruits of this decision may also benefit users (see below), but only because satisfied voters bring electoral benefits.

In addition to this focus, I also examine the broader success of the policy implementation process and its impact on agents and voters following the bottom-up paradigm. This second concept, which I call “policy success”, comprehends the overall impact of the policy on the target population. While this is not the central theoretical concern of the book and I do not develop testable hypotheses regarding the overall success of the policy, policy success is of perhaps greater import to both policymakers and voters than the narrower implementation quality. In fact, in equilibrium, policy success should inform the politician’s delegation decision due to electoral concerns.

In some instances, “implementation success” and “policy success” actually overlap, and it becomes difficult to detangle the two. This is a result of political, agent, and user interests

aligning, and allowing a successful policy to be Pareto efficient. For instance, a successful highway concession may be designed by the government to improve the state of roadways; if carried out successfully, it meets this objective, benefitting voters, the politician(s) who negotiated and granted the concession, and even the concessionaire who operated the concession. In other cases, politicians' and voters' interests diverge, and only non-Pareto optimal solutions are possible.

#### **4.1.1.1 Multiple Masters, Capacity versus Ideology, and Implementation Success**

The political principal's motivations for choosing a particular agent should presage how successful policy implementation will be. In a hypothetical political world where all bureaucratic agencies are well organized, possess sufficiently large budgets, and boast professional civil servants with ample expertise, every agency is capable of achieving high implementation quality. However, in a non-hypothetical world where some agencies possess greater capacity than others, and further exhibit ideological differences, the principal may be forced to make a tradeoff between the two, as shown in Chapter 2. In both cases, politicians must respond to multiple masters, satisfying voters, agents, and political allies.

The logic is quite simple: as the political principal chooses an agent with higher capacity, regardless of ideological considerations, policy implementation should improve. If, however, she privileges the ideological proximity of a particular agent, there are no guarantees that implementation quality will be better, since alternatives may offer lower implementation capacity. The cost of circumventing the bureaucracy and the importance of the policy should not have a *direct* impact on how well policy is implemented in either of the two scenarios, although as the decision-making model shows, they do influence the costs of choosing a third party and consequently impact the relationship between ideology and efficiency. However, in isolation,

these factors do not lend themselves to systematic predictions. As a result, if a political principal chooses an agent based on its superior capacity, the implementation is likely to be more successful, whereas if a political principal chooses an agent due to ideological considerations, implementation is likely to be less successful. The principal's sweet spot is an ideologically proximate agent who also possesses high capacity (or conversely, a high capacity agent who is also ideologically harmonious), since this likely engenders a well-implemented and ideologically consistent policy.

This leaves the question: what drives a political principal to prioritize efficiency over ideology, and vice versa? Are some politicians simply normatively good and other normatively bad? I do not believe this to be the case (although many frustrated voters might disagree). Instead, the decision to choose a given agent and prioritize one element over another is a function of the bureaucracy's (and voters') goals converging with or diverging from the principal's political goals. The objective of politics is ostensibly to produce policy, but politicians' behavior is almost always guided by other objectives than simply policy efficiency (Ball 2003; Meier and O'Toole Jr 2006). While agencies and voters essentially move in a unidimensional space, politicians move in a multidimensional space in which they must contain political foes, assuage allies, and satisfy a range of institutional actors in order to continue to make policy. Essentially, the president/politician has multiple principals, and tries to satisfy all. Policy implementation should work best when the interests of the competing principals align (i.e. voters and political allies want the same things) and a politician may maximize her utility by choosing the most efficient agent. Implementation should be less successful when interests are misaligned and the president must choose one over the other.

As the example at the beginning of the chapter shows, Venezuela's presidents want to build homes for the poor—but they also want to strengthen global partnerships. Contracting foreign state-owned enterprises from states that are ideological allies is a less efficient solution than the private sector, but one that addresses multiple dimensions (both voters and global allies).

The impact of these variables on overall *policy* success—not just implementation success—is less clear, since there are so many intervening variables that can affect policy outcomes, as well as potentially measurable dimensions. For instance, whose benefits are enhanced or diminished as a consequence of policy choice? Whose interests are advanced and attacked? Does the policy actually do what it is intended to? Is there difference between short-time processual impacts and longer term structural impacts, etc. (McConnell 2010b: 96-101)? There are ways to simplify this. To begin, if policy is not well formulated, then it is unlikely to be a success, regardless of the implementation quality. Similarly, a cleverly devised policy is unlikely to have a successful outcome if implementation quality is low. Only when both a) policy is well formulated; and b) the principal chooses a more efficient agent, is the policy likely to be successful. Conditional upon high formulation quality, then, implementation quality should translate into policy success or failure.

## **4.2 ALTERNATIVE EXPLANATIONS FOR IMPLEMENTATION SUCCESS**

The motivation for choosing a particular agent is of course not the only variable that affects policy outcomes. In the subsections that follow, I identify and develop some of the existing hypotheses regarding the effect each class of circumvention mechanism has on policy success. These help to explain why one type of policy delegation strategy may be successful in one

context but not another. The three types of mechanisms I highlight are by no means the only ways politicians can creatively bypass bureaucratic red tape, but they do represent the three classes of options that I highlight in Chapters 1-3.

#### **4.2.1 New Agency Design: Presidential Control and Patronage vs. Policy**

It is not always apparent *prima facie* which new government agencies are successful and which are not. Wilson (1989: 310) notes—and I show in Chapter 5—that some new agencies in Latin America are models of efficiency and integrity, while others merely add to immense government disorganization. There is little reason to believe that these differences are random. Much like the link between politicians' motivations for choosing a particular agent and eventual policy outputs, Lewis (2003: 7) notes that, “if effectiveness is not the primary goal, it will probably not be the primary outcome”. As H6 above recognizes, different presidential motivations—policy control, patronage, or efficiency—will produce distinct policy outcomes, and generate varying costs and benefits for political principals, agents, and voters. These motivations are manifested in agency design.

Organizational structure and the appointment process have a major impact on policy outputs (Waterman 1989). Political principals determine what type of agency is being created, how it is staffed (career civil servants versus political appointees, and what level of the organization each staffs), how it is funded, what its mission and tasks are, and more. These inputs then directly affect agency performance. The literature on agency design (e.g. Chang et al. 2001; Gallo and Lewis 2012; Howell and Lewis 2002; Lewis 2003; Horn 1995) recognizes this, and ties organizational choices to two specific motivations: political control and patronage.

As Chapter 2 argues, political principals seek control of the administrative apparatus of government to make sure their policies are implemented correctly. Howell and Lewis (2002) find that presidents exercise significantly more control over agencies they created through a unilateral directive than agencies established jointly through legislation by Congress and the president. For his part, Lewis (2003) finds that agency insulation increases as more veto players are involved in the creation process. Yet these works only assume that greater political control causes improved outputs. In reality, high control alone does not automatically equate to good (or bad) policy outputs, just as high agency autonomy alone does not clearly result in a good (or bad) outcome. Instead, the effect is conditional upon the principal's motivation above. Specifically, if the president's primary motivation is efficiency, an increase in presidential control of a new agency should increase the likelihood of implementation success.

It reasons that if the president is motivated by efficiency, she exercises higher political control for the purpose of achieving maximum outputs. Conversely, if she is motivated by political expediency, high control should result in weak outputs, and high agency autonomy or high insulation should instead be beneficial to voters. Unfortunately, as Gailmard and Patty (2007) show formally, bureaucratic expertise and politicization are often incompatible.<sup>33</sup>

A second element affecting new agency performance is the credentials of personnel. Since appointed and career bureaucrats have different backgrounds and qualifications (Aberbach and Rockman 2000; Lewis 2008), these qualifications will likely have concrete policy consequences. Yet there are competing claims. One view—based in part on the premise that the most qualified individuals initially seek higher salaries in the private sector, and less qualified individuals settle in government—maintains that political appointees bring a needed

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<sup>33</sup> Although recent research (Hollibaugh Forthcoming) shows that this may be possible in high competition contexts.

responsiveness and more competent managers to the public administration (Moe 1985; Maranto 1998). This may be true in some contexts, especially where the proportion of appointees to career servants is low, but it seems unlikely in the highly politicized and appointment-heavy bureaucracies of many developing countries like Brazil (Praça et al. 2011, 2012).

Indeed, the very creation of a merit-based civil service is to foment technical expertise, minimize the personnel turnover and changes that accompany a system dependent on appointments, and reduce politicized decision-making. A substantial academic literature agrees, arguing that career civil servants are more likely to possess subject-area expertise, better public management skills, and immunity from politics, all of which improve performance (Heclo 1977; Cohen 1998; Lewis 2008). What is more, Gallo and Lewis (2012) convincingly show that federal agency performance in the U.S. decreases as presidential patronage through appointments rises. Their data support the contention that career civil servants in the U.S. possess higher education and more management experience than their politically appointed counterparts. Given the plausibility of this argument, and as an extension of H6 above, I posit that the lower degree of political patronage exercised in creating a new agency, the greater the likelihood of implementation success.

#### **4.2.2 The Military: Jurisdictional Congruence and Civilian Coordination**

In democratic Latin America, militaries have sought to maintain their sphere of influence since dictatorship in such non-traditional areas as disaster relief and internal security, road or school building, the provision of medical services, and entrepreneurial ventures (Pion-Berlin and Arceneaux 2000; Centeno 2007; Cruz and Diamint 1998; Pion-Berlin and Trinkunas 2005; Trinkunas 2005). In the arena of internal security presidents have often turned to the armed

forces to help deal with organized crime and narcotrafficking, since the military is simply more capable of responding to security concerns than most police or prison employees. Additionally, as shown in Chapter 3, militaries in the region often perform tasks such as road and bridge construction, food distribution within disaster relief activities, health and education service provision, and literacy campaigns across their national territories. Many militaries may even consider development to be their organization's chief task.<sup>34</sup>

Trinkunas (2005) conceptualizes four types of jurisdictional boundaries for military participation in state affairs: external defense, internal security, public policy, and state leadership selection. Generally, the military's training and expertise decrease as tasks move up the ladder from external tasks to state leadership selection. Although this scholar and others (e.g. Hunter 1997b; Pion-Berlin and Arceneaux 2000) focus on the impact of the military's policy jurisdiction on democratic stability, this should also have an impact on how well the military is able to perform the task. The further out-of-jurisdiction a military is, the less likely it will be able to successfully complete that task. The armed forces should be more successful at implementing policies that use their organizational capabilities, or specialized skills of their bureaucrats. I therefore hypothesize that policy implementation by the armed forces will be more successful as the policy becomes more congruent with the military's jurisdiction and training.

However, the armed forces (or any other out-of-jurisdiction agent) may also be able to achieve success in policies incongruent with its training when it is able to count on collaboration with civilian allies. Mani (2011) explains differences in the Argentine and Brazilian militaries' entrepreneurial performance as a function of their ability to work effectively with private and bureaucratic elites in productive coalitions. This is especially true as policies move farther away

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<sup>34</sup> In Jaskoski's (2013) analysis of military mission performance, for example, 27 of 30 Peruvian military officers



from defense and security tasks, and involve tasks in which the armed forces are less trained. As this happens, civilian allies and other agencies' informational advantages become more valuable to the military. For instance, a national literacy program carried out by the military alone should prove less successful than one carried out by the military in conjunction with other agencies and civil society actors that have some background in this area. Along these same lines, the clearer and less divisive the domestic task to be carried out, the easier it should be to implement policy. As a result, when policy is incongruent with the military's technical training, policy implementation by the military will improve with greater civilian collaboration.

In sum, implementation success by the military should depend on the congruence between the type of policy being carried out and the military's training. If there is great incongruence, then the military's level of coordination with civilian entities becomes a deciding factor. The first dimension essentially amounts to technical capacity—asking if the organization able to employ transferable skills outside the realm of combat—while the second amounts to the information advantages civilian authorities can offer the military. In each instance, deviation from the political instructive in the implementation process amounts to “mission drift”. As with the logic of bureaucratic circumvention in general, greater technical capacity or a more congruent ideology between the president and military provide fewer opportunities for drift, and a greater chance of success.

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listed national development as one of the top three priorities (Jaskoski 2013: 106-107).

### **4.2.3 Outsourcing: State Capacity**

Public choice theory argues that private organizations provide better government services than public agencies due to the benefits of competition and the deficiencies of monopoly. In theory, the private sector should be more efficient than the public since 1) it is not bound by as many operating rules, 2) its executives are motivated to find an efficient course of action, and 3) public executives have less authority to impose efficient courses of action (Wilson 1989: 349). Of course, there is vigorous debate as to whether in reality privatization actually improves the delivery of public services (Goldsmith et al. 2014). Much research convincingly shows that privatization improves delivery and reduces costs for a host of government services (Bennett and Johnson 1980; Savas 1987; Stein 1990), while an equal amount questions the former's case selection and argues the opposite (Boyne 1998; Sclar 2000).

Regardless of the exact nature of outcomes, the literature has been careful to recognize the state's central role in all stages of the outsourcing process, from deciding what to privatize, to negotiating with bidders, drawing up contracts, and exercising oversight. One expert academic panel on government outsourcing and Public-Private Partnerships (PPPs) (Goldsmith et al. 2014) made nine different recommendations whose stated objective was to maximize the benefits of outsourcing for the state, firms, and users; all nine recommendations involved the state. Similarly, Bel et al. (2010) conduct a meta-regression analysis of all econometric studies examining privatization of water distribution and solid waste collection services and find no systematic support for lower costs with private production. They conclude that the policy environment is one of the most important determinants of policy cost savings, regardless of whether the service is provided publicly or privately.

The state plays a role in: 1) assessing the feasibility, costs and benefits of outsourcing (Rehfuss 1989; Sclar 2000); 2) planning the process (Brown et al. 2006; Wallin 1997); 3) developing specific and effective contract requirements (Romzek and Johnston 2002, 2005; Malatesta and Smith 2011, 2012); 4) encouraging competition among agents (Ostrom 2010; Boyne 1996); 5) selecting the most appropriate agent (Hefetz and Warner 2012); 6) negotiating the contract (Malatesta and Smith 2011); and 7) managing the contract, upholding agent accountability, and ensuring compliance (Hodge and Coghill 2007; Flinders 2001; Dowdle 2006; Brown et al. 2006). This is one reason why NPM reforms are often more successful in places with strong existing bureaucratic apparatuses. Ramió Matas writes that,

Many of the presumed benefits of the New Public Management tools are lost when they are implemented in countries with an administrative culture and tradition that differs from the Anglo-Saxon; instead, they are transformed into strategies that hinder the efforts to achieve efficacy and efficiency in those public institutions that have decided to “import” these modernizing strategies  
(Ramió Matas 2001: 75)

It follows from this that outsourcing should be less successful for governments in the environment with the weakest existing bureaucratic apparatus and more effective where the state is able to effectively enforce contracts and demand compliance. Therefore, policy implementation via government outsourcing will be more successful as state capacity increases.

### **4.3 THE CASES**

In the chapters that follow, I test these hypotheses with two sets of controlled comparisons for each type of circumvention strategy. The design allows me to compare causes and effects of particular circumvention strategies on two different levels: 1) a “within” comparison, e.g.

evaluating the treatment versus control groups in a particular country; and 2) a “between” comparison, e.g. comparing the treatment effects between two countries. In this first step, I am able to hold constant countries, administrations, and policies themselves as fixed parameters, eliminating them away as potential explanatory factors for the implementation outcomes. In the second step, I am able to compare and contrast the different motivations for each of the two cases of circumvention to determine their link to policy outcomes with greater confidence that these differences are not being driven by country- or policy-specific factors.

The six comparative cases come from Brazil, Ecuador, and Venezuela, three countries of varying size, economic clout, and administrative repute.<sup>35</sup> All six are national in scope and qualify as “important” policies for their government. The analyses of Brazil’s Growth Acceleration Program (military delegation), the Great Venezuelan Housing Mission (outsourcing), and Ecuadorian roadway concession (also outsourcing) all use the cross-sectional variation in the assignment of implementation agents to statistically test the effect of circumvention at a single point in time. By contrast, due to the form of implementation, Ecuador’s Ten-Year Education Plan, Brazil’s urban policy, and Venezuela’s food policy all rely on before-and-after case studies to reach their conclusions. In these cases, the one agent carried out the entire policy at one point in time and a second agent carried out that same policy at another point, so a simultaneous comparison is impossible.

The only deviation from controlled comparison comes from Venezuela’s food policy, an out-of-jurisdiction military delegation case study, in which I evaluate two different programs, the *Plan Bolívar 2000* and the *Misión Alimentación*. Plan Bolívar 2000 was a military-led social welfare and development package operated entirely by the military. Subsequent programs that

encompassed constituent policies of Plan Bolívar 2000—the Venezuelan government’s enormous social missions—employed different types of bureaucratic circumvention in their implementation, including health care (where the military was responsible for constructing health units and distributing medicine for *Misión Barrio Adentro*), education (where the military acted as educators for *Misión Robinson I*), and housing (where the government outsourced parts of *Misión Vivienda*; see Chapter 7).<sup>36</sup> One area in which the military has been relatively hands off is Nutrition Mission, a national food distribution and subsidy program.<sup>37</sup> Comparing food policy from the Plan Bolívar 2000 to the Nutrition Mission thus essentially applies a number of fixed effects, from country specific factors to government administration and population, permitting its inclusion.

The results of these controlled comparisons support the hypotheses that efficiency motivated politicians are more likely to enjoy successful implementation outcomes, while ideologically motivated leaders more often benefit at the expense of taxpayers. They also demonstrate how politicians’ delegation decisions are influenced by the policy’s aims, the congruence of that policy’s implementation requirements with the agency’s expertise, and the timing of the delegation decision.

The comparisons reveal other significant conclusions as well. With respect to agency creation, the Ecuadorian case demonstrates the difficulties of evaluating policy success. The comparison finds that implementation outcomes were actually better under the existing bureaucracy—but only after the policy was first developed and institutionalized by a newly

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<sup>35</sup> Studies like Zuvanic and Iacoviello (2010) find Brazil to be among the top in the region, Ecuador in the middle, and Venezuela on the low end.

<sup>36</sup> For more scholarship regarding these missions, see D’Elia (2006); Penfold-Becerra (2007); D’Elia and Cabezas (2008); Patruyo (2008); D’Elia and Quiroz (2010); Hawkins et al. (2011); and Belasco (2012), among many others.

created (and short-lived) executing unit. Circumvention has therefore ultimately proven successful for citizens, but only after a delay. In Brazil, meanwhile, the creation of the Ministry of Cities in 2003 to carry out urban policy has achieved mixed results. This case shows a major weakness of agency creation in bureaucratic environments that fall short of the Weberian ideal: since the ministries' upper ranks were staffed by political appointees and Brazil's government functions through presidential coalition-building, cabinet changes in 2005 caused immediate personnel changes in the ministry and a change in organizational mission. This fact of bureaucratic turnover means that even agencies that encounter success in the short-term become unpredictable in the medium and long term, especially in places with frequent bureaucratic turnover and a high number of political appointees.

The examination of delegation to the armed forces is similarly instructive. The study of Brazil's Program for Growth Acceleration shows how the Army's Department of Engineering and Construction (DEC) is better able to complete tasks than its equivalent civilian departments and private sector enterprises. This success is no doubt due to the professionalism of the DEC and the unit's high level of training—as well as the fact that the policymaking authority the government entrusted the unit did not exceed that unit's capacity, nor that more was required of the DEC than carrying out *only* those actions for which it was trained. By contrast, Venezuelan food policy suffered under both the management of the military as well as corresponding government agencies, in part because of unpropitious political directives and economic conditions, and, in the military's case, because military commanders were given excessive autonomy over making policy in areas in which they had little to no training or experience.

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<sup>37</sup> Admittedly, two major components of this mission, the supply and distribution enterprises Mercal, S.A. and PDVAL were created by the president and therefore represent additional treatment effects, but they functioned within the mission in conjunction with a number of other previously existing agencies.

Unlike in Brazil, the Venezuelan military's area of high capacity was incongruent with the demands of the particular policy.

Finally, lessons for achieving outsourcing success extend beyond politicians' motivations. Although the Venezuelan government's outsourcing to foreign state-owned enterprises represents an example of ideology and political considerations taking precedence over completion goals, it has also faltered due to a lack of political-administrative transparency and weak oversight. The failure of foreign firms to meet housing construction goals—and indeed, their inability to even outperform Venezuelan state agencies—shows how central the state remains to accomplishing well-executed policy outcomes, even when that policy is outsourced. The privatization of some national and provincial highways in Ecuador has been more encouraging for citizens, in part due to greater transparency in the concession bidding and awarding process.

In short, the cases are useful at demonstrating not only the political decision-making process behind bureaucratic circumvention, but also how this decision impacts policy success. They attempt to draw conclusions from at least three levels of comparison—within each of the six policies, between policies that utilize the same circumvention mechanism, and between policies using different implementation agents from within the same country—in order to demonstrate the role of politicians' delegation motivations on implementation outcomes, and show how even well-designed and well-meaning policy may go awry.

## **5.0 AGENCY CREATION**

This chapter uses two before-and-after case studies to evaluate policy implementation by the existing bureaucracy and by a newly created bureau. The first section evaluates education policy in Ecuador from the 1990s to 2010, from failures to implement the “Education for All” program to greater success at executing the Ministry of Education’s “Ten Year Plan” through reliance on a small, technically proficient executing unit created specifically for that policy—and which was phased out in 2010. It finds that education outcomes were best after 2010, when the policy had been set in motion and institutionalized under the executing unit. The second study analyzes urban policy in Brazil, starting with implementation upon the creation of the Ministry of Cities in 2003—designed by President Lula to meet a historical deficit and satisfy sectors within his own party—and comparing it to the ministry’s subsequent performance after cabinet changes in 2005. On one hand, the chapter finds that agency creation was more successful for both voters and politicians when the government sought out the most efficient agent, while policy benefits were restricted exclusively to politicians when ideology was a larger motivation. It also shows how political considerations led President Lula to create an agency motivated by things other than efficiency, and how long-term implementation success suffered as a result.



## 5.1 THE CREATION AND DESTRUCTION OF ECUADOR'S BASIC EDUCATION

### UNIVERSALIZATION UNIT

*“We were a ‘think-and-do’ tank... [and] we had to plan and manage our own self-destruction”.*<sup>38</sup>

Gabriela Jaramillo, Technical Coordinator of Ecuador's Basic Education Universalization Unit (Interview, July 19, 2013)

In 2010, Ecuador's primary school dropout rate was 19.4%—compared to 6.9% in the U.S., and less than 1% in places like Japan, Korea, and Norway—ranking 104 out of 165 countries. Further, only 36.6% of Ecuadorians had a high school education, compared to 94.5% in the U.S. Meanwhile, a 2006 study of education quality by UNESCO ranked Ecuador's school system last in the group of 19 Latin American countries, and placed much of the blame on poor planning and a weak administrative apparatus, especially within the Ministry of Education (UNESCO 2006). Yet the country has made significant advances since 2006, due mainly to the success of Minister of Education Raúl Vallejo's ambitious Ten-Year Education Plan (*Plan Decenal de Educación*, PDE). Unlike previous education reforms such as the Education for All policy that relied exclusively on the plodding ministry, the PDE turned to a flexible and innovative executing unit, the Basic Education Universalization Unit (*Unidad de la Universalización de la Educación Básica*, UUEB), to improve its policy outcomes.

The UUEB was created in 2007 to help universalize basic education, a cornerstone of the PDE, in addition to improving the overall administrative capacity of the ministry. The United Nations Development Program (UNDP) oversaw the UUEB, and since this link meant that bureaucrats were not beholden to Ecuador's civil servant contracting laws, UNDP was able to

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<sup>38</sup> “Éramos un pequeño ‘think-and-do-tank’... [y] teníamos que gestionar nuestra propia autodestrucción.”

attract top technocrats who could be well remunerated for their efforts. While policy performance was not necessarily superior in the short term, the unit proved to be an innovative mechanism to foster systematic, incremental policy improvement, and foment the diffusion of best practices across the ministry upon its (pre-ordained) dissolution in 2010.

### **5.1.1 Education Policy in Ecuador**

#### **5.1.1.1 The Failure of “Education for All”**

The Ecuadorian education sector has long suffered from a number of debilitating problems: low and unequal coverage, low education quality, poor financing, and administrative inefficiency. Addressing these problems has been difficult due to a high rate of bureaucratic and political turnover, organizational deficiencies with the Ministry of Education, and strong and consistent opposition to changes to the status quo from interest groups, particularly the national teachers’ union. To wit, a series of administrative, curricular, and pedagogical reforms in the 1990s and early 2000s aimed at developing public education were largely ineffective, resulting not only in failure to improve education outcomes but an exacerbation of existing problems.

At the beginning of the 1990s, the country adopted the “Education for All” declaration to promote universal access to basic education. Relevant government and civil society interest groups came to a national agreement on education reform in 1996. This program included four major goals: 1) to establish a ten-grade basic education system; 2) to strengthen bilingual education for indigenous groups; 3) to reform curriculum to improve teaching of Spanish and mathematics; and 4) to reform curriculum to place greater emphasis on active learning, analytical skills, social values, multicultural learning, and environmental awareness (Ponce and Vos 2004: 42). Among other changes, the policy introduced a series of academic achievement test known

as *Aprendo* (“I Learn”, in English) in order to monitor both student achievement as well as teacher quality. In 1997, the ministry then reformulated the Program for Better Quality Public Education (*Programa de Mejoramiento de la Calidad de la Educación Básica*, PROMECEB), which sought administrative decentralization coupled with increased parental and community participation. Lastly, in 2002, the government subscribed to an initiative with civil society agents known as the Social Contract for Education. This agreement stressed the importance of establishing an incentive policy using results from *Aprendo* in order to improve education quality.

As Rojas (2003) finds, these initiatives largely failed. Although the Ministry of Education did create the country’s first Intercultural Bilingual Education system, reformers had still not erected the basic ten-year education system by the end of 2003. In fact, measures of education quality in Ecuador largely decreased from the mid-1990s and the early 2000s. A UNESCO report concluded that policies related to *Education for All*,

“... have not produced the desired results in terms of improving the quality of education. The national evaluation of commitments assumed by the country in the framework of the worldwide initiative *Education for All* showed limited advances in the six goals planted for the 1990s in relation to basic education, specifically: the expansion of early childhood programs, the universalization of primary education, the reduction of adult illiteracy to half of 1990 levels, the extension of basic education services for young people and adults, and the improvements related to improving the quality of life”.  
(UNESCO 2006)

Despite small improvements in coverage, many Ecuadorians, especially the indigenous, Afro-descendants, and those in rural areas, enjoyed only limited access to primary school education (Rojas 2003), and that worse, inequality in access to education had increased in this period between urban and rural population groups as well as between the rich and poor (Ponce and Vos 2004). Second, a number of independent technical studies (Rojas 2003; Ponce and Vos 2004; Vos and Ponce 2004) found that the quality of education imparted in public schools was

often quite low and had not improved as a result of the Education for All initiative—despite the intentions of the achievement tests. The 2001-2002 Global Competiveness Report, for example, rated the Ecuadorian school system as the most deficient in Latin America with regards to science and mathematics, and third-lowest in the region with regard to overall quality (Porter et al. 2002). Additional problems included a slowing of the speed of education reforms in the 1990s compared to the 1970s and 1980s, as well as a lack of improvement in transition rates from primary to secondary education (Ponce and Vos 2004).

There are a number of reasons why *Education for All* failed. First, national public policies in Ecuador, as with those in other developing countries, are often been characterized by a lack of continuity and long-term commitment by political actors. A surfeit of political instability and a bureaucratic turnover means that policies enacted in one administration are often altered or abandoned as soon as the next president takes office. Rojas (2003: 279) finds that in its 118 years of existence, the Ministry of Education had 113 ministers. Additionally, in the 13 years between Raúl Vallejo stepping down as minister on August 10, 1992, and President Alfredo Palacio's new appointment of Vallejo as minister on December 29, 2005, 15 different individuals held that portfolio—an average tenure of less than 11 months per person.<sup>39</sup> This high turnover rate extended to assistant ministers, provincial directors, and advisors.

Second, the MEC has long been one of the largest, and least wieldy ministries in the country, with excessive centralization, a surplus of administrative units with parallel functions, and poor coordination among its executive, advisory, support, and operational staff, as well as between central, regional, provincial, and local levels (Moore and Rosales 2001; Cevallos Estarellas and Branwell 2015). According to personal interviews, this ministry was considered

among the least efficient in the country. Others note that it suffers from outdated infrastructure, poor technology, and too many employees (Oleas and Ortiz 2011). Spending might be part of the problem. The educational sector suffered funding cuts from the central government as a result of a serious banking and economic crisis in 1999-2000, and in 2000-2001 the country spent the third-least per pupil of any country in Latin America, and was the only country in the region that had not increased spending over the previous decade (Vélaz de Medrano Ureta 2005: 17). Still, others stress organizational and personnel shortcomings. In his report for the World Bank, Rojas concludes that, “greater public and private investment in education will not have a significant impact unless measures are taken to address administrative deficiencies” (Rojas 2003: 279), recommending that the ministry place special emphasis on its processes for screening, appointing, and promoting personnel in both teaching and administrative positions.

Third, attempts to implement change have been frustrated by opposition from interest groups, especially the powerful National Educators Union (*Unión Nacional de Educadores*, UNE). Almost any change to the educational status quo must be approved by the UNE, and most are met with resistance, as the union tries to protect the teachers it represents. One result is absenteeism: two national teacher tracking surveys carried out by the World Bank in 2002-2003 found that teachers were absent from classrooms for unaccounted reasons in 15-19 percent of cases (Ponce and Vos 2004). In 15 years preceding 2003, Ecuadorian students had lost an average of one month of education per year due to teacher strikes; in poorer areas the figure reached as high as nine school days per month (Rojas 2003). Opposition from the UNE also derailed the *Aprendo* system of academic achievement tests. From the system’s inception in 1996, the union felt the system might improperly evaluate teacher performance, and it effectively

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<sup>39</sup> By contrast, there have only been two Education ministers in the subsequent decade: Vallejo, from 2005 to 2010,

vetoed the system's funding (Ponce and Vos 2004: 43). Since 2000, Aprendo has existed without a budget, meaning that the country had no system to monitor education quality—or any system to provide incentives to improve teaching quality.

#### **5.1.1.2 UN Millennium Development Goals and the Ten-Year Education Plan**

The turning point in education policy came in September 2000, when the Ecuadorian government endorsed the establishment of the United Nations' (UN) Millennium Development Goals (MDGs). Although the country was not in a position to immediately address the eight goals—it was exiting a two-year banking crisis that closed 70% of its financial institutions, dealing with severe economic crisis, and enduring the social and political repercussion from the military-indigenous coup d'état that had toppled President Jamil Mahuad—it clearly established a set of medium-term education goals and would eventually guarantee UN technical assistance.

Of the eight Millennium Development Goals, then-Minister of Education and Culture<sup>40</sup> Dr. Roberto Passailaigue Baquerizo and the MEC were especially committed to achieving universal primary education. The ministry had proposed it as a national objective as early as 2002 in the country's Social Contract for Education (UNESCO 2006). In January 2005, in the government of Lucio Gutiérrez, subsecretary Raúl Vallejo signed a technical cooperation agreement with the United Nations Development Programme (UNDP) to manage the “Basic for All” (*Básica para Todos*) universalization project, meaning that with or without a broader set of

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and Gloria Vidal from 2010 to 2015.

<sup>40</sup> The name was changed to Ministry of Education in 2007.

objectives, the MEC would pursue a basic education plan.<sup>41</sup> It then set aside a special fund for this project in late 2005, paying a portion of it to the UNDP.<sup>42</sup>

In mid-2006, while minister under President Alfredo Palacio, Vallejo proposed the Ten Year Education Plan (Plan Decenal de Educación, PDE), a policy proposal that worked in conjunction with the goals established by the MDGs. This program was the culmination of a series of national bargains beginning with the National Agreement for Twenty-First Century Education—proposed by Vallejo himself in 1992 as Education, Culture and Sport Minister—to define a medium- and long-term national education agenda. The PDE aimed to prioritize the design and execution of pedagogical, administrative, and financial strategies to increase coverage, quality, and equality of education in the country. The eight specific prongs were all valence issues that had been pursued intermittently throughout the 1970s and 1980s:

1. The universalization of initial education
2. The universalization of general basic education
3. High school graduation rates of at least 75%
4. Eradication of illiteracy
5. Improvement in school infrastructure
6. Improvement in education quality
7. Improvement in teacher training and quality
8. A 0.5% annual increase in the share of GDP to education, or up to 6% (Vallejo 2007)

In 2006, the ministry initiated two sets of policies central to this plan: 1) the creation and implementation of the Free Schoolbooks program to eliminate barriers to public education access, and 2) a widening of program coverage, including the creation of an incentive fund for voluntary teacher retirement (see the timeline in Table 4.1 for a summary of relevant policy processes). The PNUD distributed more than US\$16 million to more than 1,200 retiring teachers

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<sup>41</sup> The agreement's three prongs included carrying out the national referendum, *Básica para Todos*, and a national communication plan to support the reform.

in 2006. Although the teacher's union opposed the PDE, 66% percent of Ecuadorians approved it through a national referendum in November 2006, and new President Rafael Correa lent his political support to the program in January 2007 by retaining Vallejo as minister, and creating policy continuity between multiple administrations.

#### **5.1.1.3 The *Programa de la Universalización de la Educación General Básica***

Things moved forward more in January 2007, when the ministry—not the president—officially created the Basic Education Universalization Unit (*Unidad de la Universalización de la Educación Básica, UUEB*), an elite executing unit of around twenty people created specifically for education universalization and capacity building, and administered by the UNDP. Minister Vallejo requested the technical assistance of UNDP since, “designing and applying efficient administrative payment procedures was a technical challenge to the Ministry of Education” (UNDP 2008: 35). The administrative structure was convoluted: the unit was formally a part of the MEC, which set its policy goals and evaluated its progress, while the UNDP hired the bureaucrats, administered the program's budget, and paid the employees. That is, while pertaining to the ministry, the UUEB nonetheless existed apart from the rest of the ministry's officials and financial oversight.

The unique structure of the executing unit was designed to bypass bureaucratic red tape and the low capacity ministry, while seeking the most highly qualified technocrats to fill its ranks. The Ecuadorian bureaucracy was bound by a number of legal restrictions, including the Administrative Financing System (*Sistema de Administración Financiera*) for public sector institutions, the Law of Public Contracts (*Ley de Contratación Pública*), the civil service law

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<sup>42</sup> Executive Decree 664 (October 28, 2005), and Interministerial Agreement 361 between the Ministry of Education



(*Ley de Servicio Civil*), and internal rules that the UNDP was not. As a result, by administering the program's budget, the UNDP could pay higher salaries to UUEB officials than regular MEC employees.<sup>43</sup> Not surprisingly, bureaucrats were generally young, dynamic, and highly educated, in contrast to generally older technocrats in the ministry.

The program was ambitious. Stein et al. (2006a: 221-241) observe that there are essentially two kinds of education policies: those dealing with quality and efficiency improvements that are rigid and resist fundamental change, and those which are peripheral policies dealing with expansion and growing enrollments and easier to implement. *Básica para Todos* aspired for change across both dimensions. The seven original components included 1) Extending Coverage Project; 2) Free Schoolbooks; 3) "Sewing" Development; 4) Start of Millennial Educative Units; 5) Support for the New Management Model; 6) Support for the Quality of Public Education; and 7) Diffusion of Programs within the Ten-Year Plan.

They fit together differently. The Free Schoolbooks program and Sewing Development—which gives free school uniforms sewed by local tailors and seamstresses to rural students—were designed to improve school access for the poor, as well as improve the quality of the education they received. They were carried out within the context of the new education management model, which divided the country into nine administrative zones, 140 districts and 1,117 education circuits—adding each of these, and the schools that comprised the circuits, into a digital database. An additional element that contributed to the advancement of these goals was a reevaluation of schoolteacher quality, and the hiring of thousands of new teachers to improve access to education.

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and Ministry of Economy and Finance (November 1, 2005).

<sup>43</sup> Bureaucrats were quite forthcoming about this. One official was quite blunt, telling the author that the ministry did not value human talent. When asked to clarify, the official simply said, "Remuneration."

In addition, *Básica para Todos* also aimed for institutional change. The UUEB was created with an expiration date of 2011—only halfway through the ministry’s plan. During this time, it would lend services through innovative projects that could be maintained long-term, setting up a workable institutional structure. After five years, the unit would be phased out, and its competencies transferred to the ministry. In other words, the UUEB’s goals were multifaceted, consisting of concrete school textbook and uniform projects, as well as more ambitious plans to simplify implementation and oversight processes within the ministry itself.

In 2007, the UUEB began its work by offering voluntary retirement to older, less qualified teachers (of which 1,900 accepted), and filling over 4,000 teaching positions through meritocratic and transparent recruitment processes (see Table 5-1 for a complete timeline). It also launched the Free Schoolbooks program by distributing over 10 million textbooks to over 2.5 million students across the country, as well as a pilot program for “Sewing” Development, sending locally-made uniforms to approximately 82,000 students (Jaramillo 2010). These programs took off in 2008, as the voluntary retirement program was transferred from the UUEB to the Human Resources Department of the MEC, and the distribution of school uniforms reached over 700,000 students nationally. By 2008, all programs were being implemented in part through the new Millennium Education Units (MEUs), decentralized executing units designed to give the MEC more flexibility at municipal levels, and part of the new management model.

These programs continued throughout 2009, with financial management and administrative support from the UNDP. However, in early 2010, dismayed at the perceived high cost of UNDP services, President Correa called for the definitive close of the UUEB and the premature transfer of implementation from the UUEB to the ministry at large—effectively

exercising ex post control over delegation of policymaking and implementation authority to the UUEB and management authority to the UNDP. Although, “it was always the intention of this program to generate sufficient internal capacity within the Ministry of Education in order to sustain the initial projects” (Jaramillo 2010: 60), this abrupt change of course was one year premature. Between January and May 2010, Minister Vallejo transferred the UUEB’s competencies back to the Undersecretary of Planning, and the MEC at large (Memos and Ministerial Agreement 2.110). In May, after overseeing the agency overhaul and serving the longest term of any of Correa’s cabinet members (where average duration was only eleven months), Vallejo was named Ambassador to Colombia, and Gloria Vidal Illingworth replaced him as minister.

The Ten-Year Plan and its constituent parts, however, were not over. Since 2010, these projects have continued under the purview of the ministry. The Undersecretary of Support and Oversight of Education Management, for instance, manages general basic education universalization since August 2011 (Ministerial Agreement 306-11), monitoring advances from the different districts and circuits throughout the country.

**Table 5-1.** Summary of the Basic Education Universalization Program’s annual activities (2005-2010)

	2005	2006	2007	2008	2009	2010
Referendum on PDE	✓					
Teacher retirement study	✓					
Communication campaign	✓					
Voluntary teacher retirement payouts		✓	✓			
Free textbook project design		✓				
Free textbook implementation			✓	✓		
Sewing Development pilot project			✓			
Sewing Development and information system				✓	✓	
Design of merit-based exam for teachers				✓		
Merit-based exam for teachers and information system				✓	✓	
Design of Millennial Education Units				✓		
Start of Millennial Education Units				✓	✓	
Liquidation of agreements for free textbooks					✓	

Support for new decentralized management model  
Project transfer and program close

✓

✓

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Source: Jaramillo (2010)

### 5.1.2 Motives for Delegation Decisions

The creation of Basic Education Universalization Unit represents an attempt at administrative reform to address the Millennium Development Goals. In order to meet these ambitious objectives, the government attempted to create a professionalized and high capacity bureaucratic body, staffed with people whose loyalties to education reform policies would be unquestioned. Agency creation was the most logical circumvention option: the outsourcing of education policy to the private sector was prohibited by the 1993 State Modernization Law (Congreso Nacional de Ecuador 1993: Article 41), while the Ecuadorian armed forces does not possess expertise in the domain of education policy—or at least an education policy with the complexity of the Ten Year Plan—to offer capacity gains. The unit had more organizational capacity than the MEC, and unlike the military, it was assembled so that its domain of expertise overlapped with the policy at hand. As a result, the cost of this unit was palatable to the government considering the policy's scope, visibility, and significance. There is no evidence of policy drift during the UUEB's existence, and therefore no agency loss from the delegation action.<sup>44</sup>

Management and implementation was only returned to the ministry in 2010 after two significant changes. First, by promoting best practices and the institutionalization of policies, the UUEB was able to improve the ability of the MEC to carry out such a broad plan and in many ways increase its organizational capacity. Second, given this recalibration of capacities of the

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<sup>44</sup> However, by delegating management authority to the UNDP, the president did endure a loss of policy control and agency loss.

competing agents, the president was much less willing to incur the cost of contracting the UNDP to oversee the finances and administration of the UUEB. Poetically, as the epigraph at the beginning of this case study attests, the more successful the unit was at equipping the MEC, the easier it became to eliminate.

### **5.1.2.1 Agency Creation**

President Palacio (and later President Correa) delegated this key education policy to the UUEB because it offered higher organizational capacity than the MEC, and expertise in that policy domain that the military and private sector organizations did not share. It is generally accepted that in the early 2000s, the MEC—the country’s largest ministry by number of employees—possessed a limited capacity to implement public policies (Rojas 2003; Ponce and Vos 2004; Cevallos Estarellas and Branwell 2015). The MEC was deficient in nearly all of the six dimensions of organizational capacity summarized in Chapter 1 (bureaucrats’ motivations, bureaucrats’ expertise, senior bureaucrats’ control, organizational strength, sufficient budget, corruption). To begin, the agency lacked organizational strength and expertise. When Vallejo was named minister on December 29, 2005, it did not even have master list of all schools in the country (Jaramillo 2010: 26). In a private interview, one education official characterized the ministry’s staff as technically deficient, with inadequate equipment and specialized training to implement public policies (Interview 1, July 8, 2013). There were other problems as well. In a separate interview, another education official added that a UNDP-managed UUEB helped the policy avoid “the corruption question” associated with the MEC (Interview 3, July 17, 2013). Lastly, the organization suffered from poor management. In their analysis of the MEC prior to the Ten Year Plan, Cevallos Estarellas and Branwell (2015) noted that the agency exhibited, “weak control of the state over the school system, and a highly bureaucratized ministry [and] a

legal framework that was outdated and unconnected with the needs of the education community” and suffered from “the absence of assessment and accountability systems.”

The UUEB, on the other hand, boasted both high organizational capacity and expertise specific to the policy domain. Members of the unit were career bureaucrats trained in public policy, education, and public administration, and they possessed a high degree of policy expertise. Most came from top schools in Ecuador or Colombia, had earned advanced degrees in Ecuador or abroad, or boasted international experience. Consultant Carina Vance Mafle, for instance, graduated from Williams College and earned an MA from the University of California-Berkeley, Subsecretary Cecilia Vaca Jones attended Reed College (USA) and the Università di Bologna (Italy) for advanced degrees, Technical Coordinator Gabriela Jaramillo earned a BA from Dartmouth College, and Pablo Cevallos Estarellas pursued a post doctorate at Marist College (Interviews 1, 4).<sup>45</sup> The UUEB’s first director, Esteban Uribe, recruited consultant-turned-director Jaime Cardona from the World Bank; Cardona in turn recruited Undersecretary of Planning Cecilia Vaca Jones and Undersecretary of Management Verónica Falconí, ex-classmates of his at Quito’s prestigious Liceo Internacional; they recruited others through their social networks. This produced a bureau of around twenty people that officials described as “incomparable”, “professional” and “of exceptional capacity” (Interview 3) in comparison to the MEC.

Beyond expertise, the unit also possessed a strong sense of organizational mission—a widely shared and warmly endorsed common agency goal (Derthick 1979; Selznick 1980; Wilson 1989, among others). In interviews, consultants universally expressed affection and

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<sup>45</sup> Their training and experience with the UUEB also led to future professional advancement: Vaca Jones became Coordinating Minister of Social Development; Vance the Minister of Health; Minister Vallejo ambassador to Colombia; and Jaramillo earned an MA from Harvard, before working for Vance at the Ministry of Health.

respect for their colleagues in the unit, as well as their shared goal of creating permanent change within the ministry. The unit's small size ensured effective performance management by the director. The group was divided up into small teams that addressed each of the relevant PDE projects (Sewing Development, Millennial Education Units, etc.), and strived to meet periodic benchmarks. The intimacy of the unit—it was difficult to remain anonymous in a twenty-member group—created friendly peer pressure to complete tasks (Interview 4). This size also gave the unit the ability to respond quickly to unforeseen implementation problems that would have been harder to address from the bloated education ministry, such as reassessing the design of free textbook distribution after initial hiccups in 2007.

To top things off, the unit was given an ample budget and unlike the ministry at large, was free of accusations of improprieties in the handling of resources. This was ensured by the UNDP, which managed fiscal resources from the government and allowed the unit absolute liberty to formulate and execute policy (following legal norms, of course).<sup>46</sup> It is no surprise, then, that education officials considered the unit to possess “much higher” organizational capability than the rest of the MEC (Interview 3).

Unlike administrative reform within the MEC, the creation of this semi-autonomous apparatus allowed policymakers to circumvent the salary restrictions to attract highly qualified technocrats, offered organizational flexibility and responsiveness tailored specifically to the needs of basic education universalization and its components, and eliminated potential veto players from the teachers' union and within the MEC. In short, it generated agency capacity in a way that would have been impossible through simple administrative reforms to the existing ministry. Significantly, UNDP management allowed the unit to bypass public contracting laws,

and thus attract capable workers or hire top officials from other projects, while demanding accountability.<sup>47</sup>

Ideology also played a role in the delegation decision. It is no small detail that, as opposed to the ministry at large, there were no union representatives or ex-teachers in the UUEB. This meant fewer veto players potentially challenging policy, and more than anything, fewer impediments to challenging the powerful UNE on issues such as buying on long-tenured teachers. In this sense, Minister Vallejo's ideology was most likely more congruent with the UUEB than the MEC—or the armed forces or private sector enterprises. The ideological distance between Vallejo himself and the president was negligible. The minister was a long-time party member of the now defunct Democratic Left (*Izquierda Democrática*, ID), and served as Minister of Education, Culture and Sport in 1991-1992 under President Rodrigo Borja (ID). Yet he was appointed in December 2005 under President Alfredo Palacio, a non-partisan, and stayed on as minister under President Correa (*Alianza PAIS*, AP). Although he is now a member of the government party, he was not in 2007.

The cost of the unit, while not insignificant, was offset by the gains in implementation efficiency for such an important policy. The budget for the first phase of Básica para Todos (2006-2011) was initially US\$16 million before increasing gradually to US\$21 million (Jaramillo 2010: 48-49). Of this, US\$15 million was paid to teachers who voluntarily retired in the 2006 fiscal year, leaving around \$6 million for the remaining policies, salaries, and administration in the five-year period. Although the universalization appropriation came from

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<sup>46</sup> Recall the UUEB and MEC's task management overlapped—the unit trained the MEC, essentially—while the UUEB maintained its administrative autonomy.

<sup>47</sup> The Government Accountability Office (*Contraloría General del Estado*) accused the unit of financial irregularities in the disbursement of some appropriations after a 2009 audit (Contraloría General del Estado 2009). However, these findings were based on a poor understanding of the administrative process surrounding the unit and



the MEC, 2.5-3.5% of annual expenditures were given to the UNDP for resource management (See Table 4.2 below), meaning that the MEC could actually place a cost on the value added by the UNDP. Throughout the project, but especially at the beginning, efficiency gains were worthwhile to the ministry and the president, since the PDE and *Básica para Todos* were the ministry's most important policies at that moment (Interview 3). Still, President Correa ordered the dissolution of the unit one year ahead of schedule, in 2010.

### 5.1.2.2 Agency Elimination

The UUEB was never conceived of as permanent, yet its demise was speeded up by a recalibration of the MEC's capacity as well as a perceived increase in cost. In December 2009, President Correa called for its competencies to be transferred to the MEC. The institutionalization of processes by the UUEB had created a new calculus for the president; while the ideology and the political value of the policy did not change from 2006 to 2010, the agency capacity gap between institutions shrank, and the cost of maintaining the new agency rose.

The United Nations' project evaluation office found that the UNDP contributed to developing greater capacity for efficient and transparent administration in the MEC (UNDP 2008: 35). Current Undersecretary of Education Roberto Pazmiño, the coordinator of the UUEB's school lunch program, echoed this, saying that, "A direct effect [of the unit] was an improvement in bureaucratic capacity" within the ministry (Interview, July 9, 2013).<sup>48</sup> The UUEB also made the MEC's job easier by designing and setting into motion a number of projects, including free textbooks, free school uniforms, and free school lunches, as well as the

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the money used to contract both the UNDP and finance voluntary teacher retirement ("Rechazo a informe de la Contraloría: Entrevista a Jaime Cardona" 2009).

<sup>48</sup> "Un efecto directo [de la unidad] era mejorar la capacidad burocrática."

institutional structure for a new, innovative pilot program school. In fact, the unit's success was not necessarily the total realization of projects, but the institutionalization of processes. It put into place mechanisms to ensure a higher quality of monitoring and compliance from the ministry at large—essentially meaning that the gap in capacity between the executing unit and the rest of the ministry was decreasing. For instance, it developed an interactive national online monitoring system with teacher and classroom information, the *Sistema de Información de Gestión y Administración Escolar* (SIGAE), to improve school accountability.

At the same time that the capacity gap was shrinking, the cost of the UUEB increased. It was costly for the MEC to contract through the UNDP, with administrative costs rising from 2.5% of annual budget appropriations in 2005-2008 to nearly 3.5% in 2009-2010 (Table 5-2). While this figure may seem slight—only US\$67,000 in the last fiscal year—it represented a cost that the president felt unnecessary given the recalibration of agency capacity. As a result, the closure and transfer of the unit was premature by one year. UUEB consultants were not necessarily pleased with this process—one said that, “It was a laboratory, and we were still in the process of stabilizing processes”—but the transfer was largely problem-free.

**Table 5-2.** Administrative costs charged by the UNDP

Year	UUEB Expenses (\$US)	UNDP charges (US\$)	% total
2005	204,455	5,446	2.66
2006	16,012,095	465,209	2.91
2007	1,046,040	30,121	2.88
2008	1,695,618	42,284	2.49
2009	1,963,164	67,145	3.42
2010	486,556	16,453	3.38

Note: 2006 budget includes US\$15 million in voluntary retirement payments

Source: Jaramillo (2010)

### 5.1.3 Implementation Success

Ecuador has made many gains in educational policy since 2006, and *Básica para Todos* has been particularly effective. While the UUEB was partially successful in lifting a number of ministry projects off the ground, the MEC has achieved even higher outputs since it assumed those responsibilities in 2010. Primary and secondary school attendance have improved, and illiteracy has fallen slightly. Further, novel projects linked to education universalization have grown substantially since the UUEB was dissolved. In all cases, the UUEB was responsible for developing policy details and logistics, working with other actors, including the private sector, and creating a sustainable institutional framework for the MEC to carry out these policies in the long-term. This experience demonstrates the difficulty of evaluating policy success by decontextualized, short-term outputs, and attests to the advantages of new agency creation as a mechanism for bypassing a disadvantageous bureaucracy.

The objective of *Básica para Todos* was to provide high quality, inclusive education to all Ecuadorians in order to meet the Millennium Development Goal. This included: 1) extending basic education coverage; 2) developing a standardized national curriculum and distributing free schoolbooks; 3) purchasing and distributing school uniforms to primary school students; 4) establishing pilot project schools known as “Millennial Educational Units”; 5) supporting for a new, decentralized management model; 6) improving the overall quality of public education; and 7) continuing the diffusion of other projects within the Ten-Year Plan. Here I evaluate policy outputs for the first four programs, as well as one project—school

lunches—that contributed directly to extending basic education.<sup>49</sup> I briefly explain the trajectory of the policy as I compare outputs under the UUEB and then outputs under the MEC.

### **5.1.3.1 Extending Coverage Project**

The policy's overarching goal was extending basic education coverage to the entire school age population in the country. This was a question of increasing the number of teachers coupled with decreasing entrance barriers for students. In practice, however, the MEC was financially constrained in increasing the number of teachers in proportion to the growing student population, let alone surpassing that proportion. At the time, the public education system had a large number of teachers at retirement age whose salaries were at the national salary scale's maximum level—about 2.5 times that of entry-level teachers (UNDP 2008). The MEC proposed creating retirement incentives in order to release resources for new posts. However, this proposal was politically and technically limited; the national teachers' union was hesitant to accept the incentives due to the fear that these offers might not be real, and it also held concerns that disbursement would be inefficient.

The MEC addressed these concerns through its 2005 technical agreement with the UNDP, entrusting administrative and financial responsibility of this policy to the organization. President Palacio signed Executive Decree 1563 on June 29, 2006, raising the value of the retirement stimulus from \$10,000 to \$12,000, and creating a national registry for aspiring teachers that included a series of aptitude tests. In December of that year, the UNDP paid out a massive wave of US\$16 million in stimulus money to more than 1,200 retiring teachers. With the conformation of the UUEB the following month, responsibilities were transferred to a

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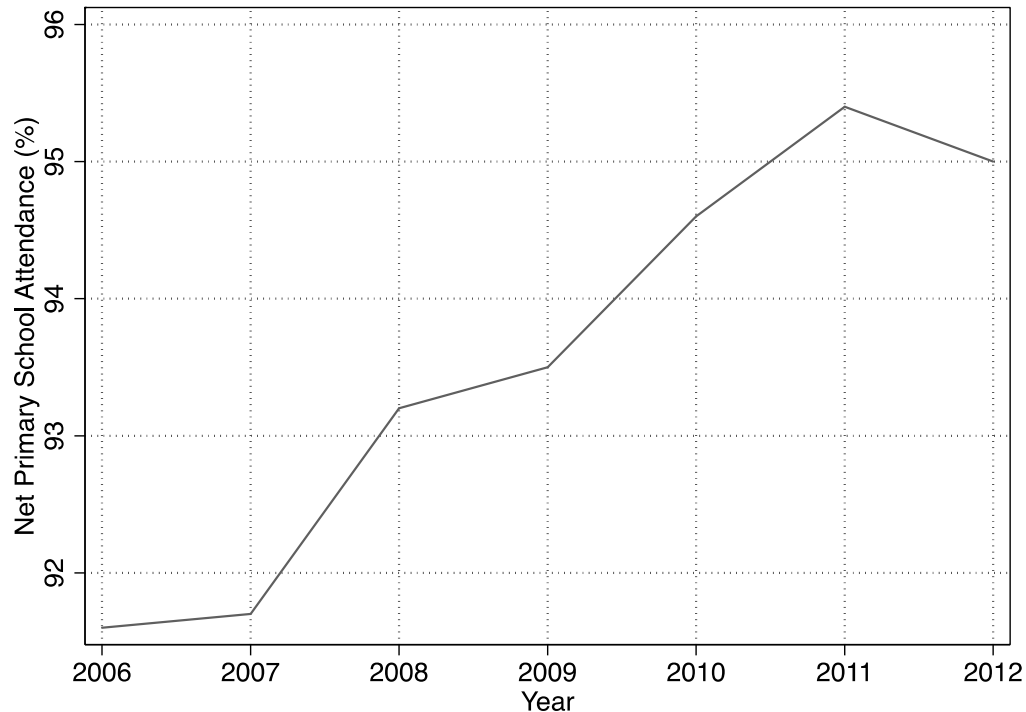
<sup>49</sup> The three latter points were general goals supported by the application of the other projects.

coordinator, three analysts, and four systems generation specialists to serve as interlocutors between the MEC and the national educators union and design a national merit-based competition for aspiring teachers. During this time, it hired 1,900 new teachers via the new registry, appointing 1,458 to primary schools in often marginalized areas of the country (UNDP 2008).

In concert with other projects, reforming the training and composition of the teaching pool appears to have helped the bottom line. Although it is not yet universal, primary school attendance in Ecuador has improved since 2006. The percentage of school age children in school was 91.6% in 2006 and rose to 94.6% in 2010 before surpassing 95%, a net increase of over one hundred thousand new students (Figure 5-1).<sup>50</sup> The United Nations' project evaluation office assessed its own role by concluding that, "In supporting the Ministry of Education, UNDP effectively combined the administration of government resources with technical assistance and an effective exit strategy that led to greater institutional capacity of the ministry and an increase in coverage of basic education" (UNDP 2008: 35). Undoubtedly, the UNDP was a key actor overseeing the policy, but the UUEB was the key actor in the implementation process.

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<sup>50</sup> This phenomenon of diminishing marginal returns manifests itself in other PDE policies as well. Ecuador had an abysmal high school attendance rate of 70% in 2006, leaving ample room for growth. This has risen to nearly 90% in 2012. Meanwhile, gains in eradicating illiteracy have been smaller, with an 8.6% rate dropping only to 7.9% in the same period (*Sistema Integrado de Indicadores Sociales*, 2013).



**Figure 5-1.** Primary School Attendance (%), 2006-2012

The unit coordinated actions between the MEC and provincial and local education offices, designed the national registry to be used for future education hires, and used its team to train the provincial education officials how to evaluate prospective teacher test scores and use the national registry of potential teachers. Between 2007 and 2010, the unit realized hundreds of training sessions for test examiners, local officials, and the MEC itself. In fact, the UUEB team carried out 140 training sessions between July and September 2008 alone (Jaramillo 2010: 16). This allowed the unit to leave an institutional trail subsequently used by the MEC after the new hiring program was transferred to it in 2010. While primary education coverage has improved markedly since 2006, the trickiest component—disbursements of teacher retirements—was carried out by the PNUD and handed over to the UUEB, and the institutional design the MEC follows was almost entirely a product of the unit's work.

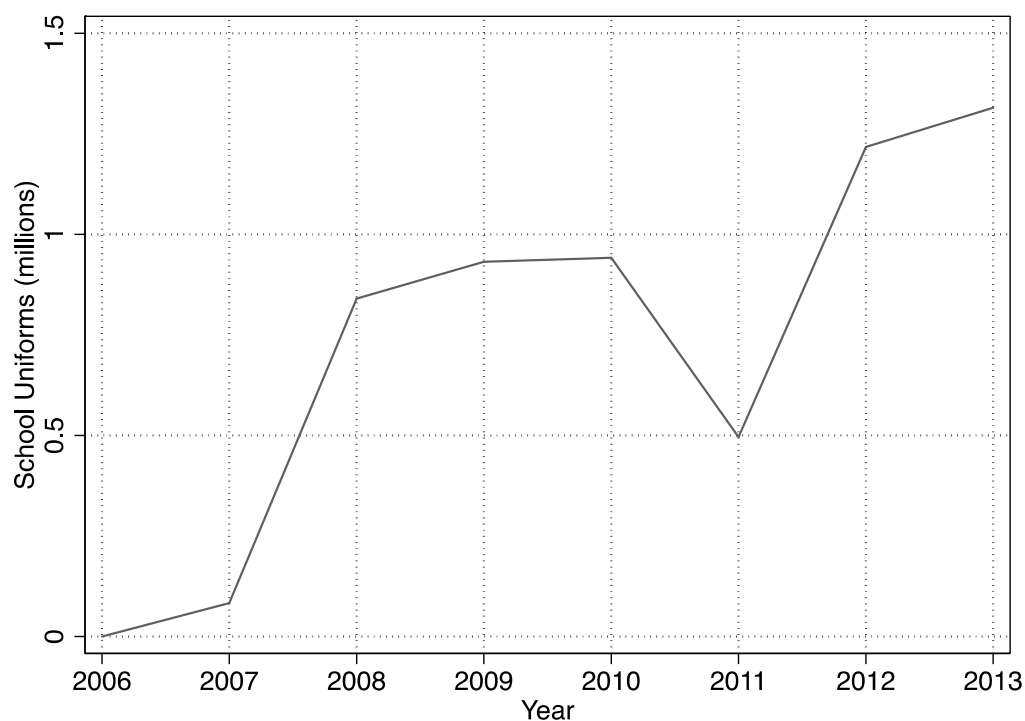
### 5.1.3.2 Free School Uniforms

The second policy prong in the universalization plan was the Sewing Development Plan (*Plan Hilando el Desarrollo*), developed in 2007 to distribute free school uniforms to rural and underprivileged students, as well as stimulate economic growth of the artisans and small-scale workshops that would make the uniforms. Since the cost of uniforms acted as an entrance barrier for many poor families, the UUEB developed a plan to design standardized uniforms, purchase cloth, buttons, string, elastic, and other materials from domestic manufacturers, sell those goods to local workshops, and have the workshops deliver the uniforms directly to provincial education units and local school boards. Such a complex plan required coordination between a number of state actors, including the MEC, the Coordinating Ministry of Social Development, the Ministry of Labor, and the National Board of the Defense of the Artisan, in addition to provincial education representatives and thousands of small-scale artisans.

The implementation was rolled out in parts. The policy was officially launched in 2007, with a US\$2.3 million pilot program distributing 82,997 uniforms to schools in rural areas and those with the highest indices of unsatisfied basic necessities, especially in the *Oriente* (Amazon region), which it aimed to cover in its entirety. The UUEB expanded the program in 2008, providing 840,000 uniforms in 2008 at a cost of US\$25 million, and between 930,000 and 940,000 at similar costs in 2009 and 2010 (Jaramillo 2010: 19-20). In all, the unit purchased materials from 18 manufacturers, giving over 11,000 small-scale artisans in 2,600 workshops a market to sell their goods. The program has been lauded by parents as well as artisans as an effective method for killing two birds with one stone, lowering school costs for children as well as creating thousands of jobs ("Plan Hilando el Desarrollo ha ayudado a 1.200 artesanos" 2012).

After 2010, the program was passed on to the National Institute of Popular and Solidary

Economy (IEPS), under the care of the Ministry of Economic and Social Inclusion (MIES) and the MEC.<sup>51</sup> In the first year of this transition, totals dipped to 500,000 before jumping past the one million mark in 2012 and 2013, as the program expanded beyond its rural base (See Figure 5-2). Yet beginning in 2007, the UUEB had established provincial coordinators for Sewing Development in charge of oversight which helped in this transition and with policy continuity (Jaramillo 2010: 24). In fact, using the network set up by the UUEB, the MIES and MEC have been able to significantly expand the coverage of the school uniform program beyond 2010 levels.



**Figure 5-2.** Distribution of School Uniforms (2006-2013)

Source: Ministry of Education (<http://educacion.gob.ec/uniformes-escolares/>)

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<sup>51</sup> Ministerial Agreement 2.110.



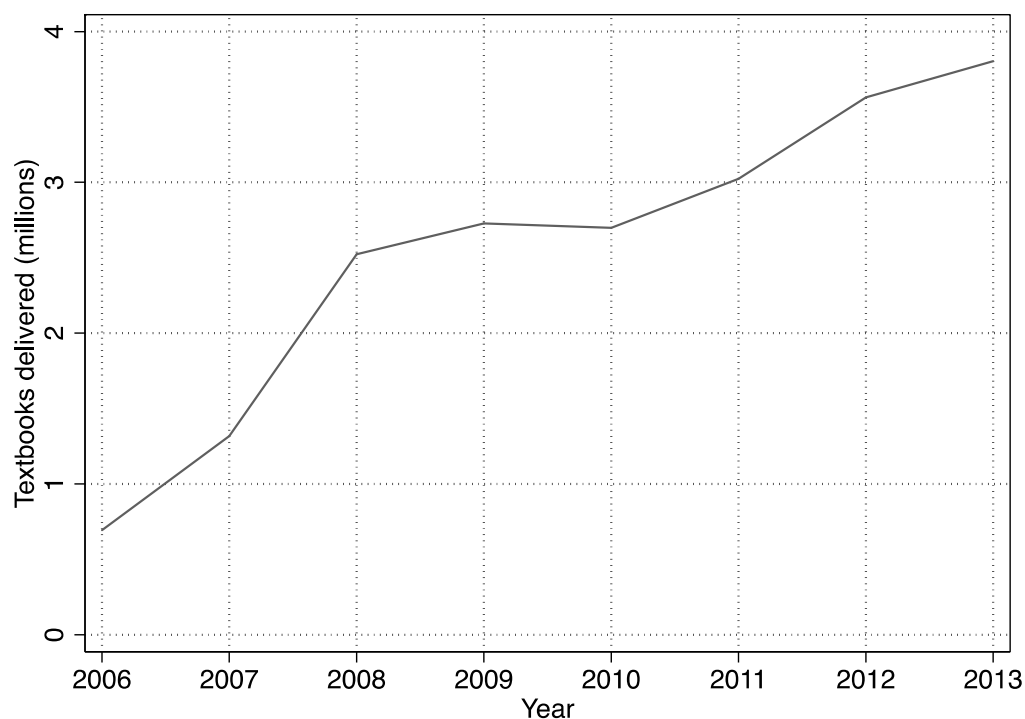
### 5.1.3.3 Free Schoolbooks

A third component of the universalization plan is the Free Schoolbooks (*Textos Escolares Gratuitos*) program, which Minister of Education Vallejo proposed in 2006. Recognizing the need to update the national educational curriculum and the access to and quality of learning materials, Vallejo signed a framework agreement with the Consortium of Provincial Councils of Ecuador (*Consortio de Consejos Provinciales del Ecuador*, CONCOPE) in June 2006 to distribute schoolbooks across the country. Under this agreement the MEC agreed to pay for 70% of printing, intellectual property, and teacher training costs, leaving provincial authorities responsible for the remaining 30% (Jaramillo 2010: 29). The universalization unit designated ten different “pedagogical areas”—from mathematics, language, and social studies, to earth sciences and environmental studies—and convened a special public commission to redesign the national education syllabus and select a single national publisher for each group of textbooks based on technical, pedagogical, and economic factors. First-year students received a single textbook, second and third year students received three, and fourth through tenth received four different texts.

The UUEB used the administrative apparatus of the existing school lunch program, the *Programa de Alimentación Escolar* to distribute the books. As with the other policies, the initial rollout was limited in scope. Part of the reason is that prior to the creation of the UUEB, there were no census figures, national statistics, or databases classifying the number of students by province or by education level (Jaramillo 2010: 26). The unit’s agreements with provincial governments helped in the collection of data and construction of a national database of education figures, and allowed the UUEB to augment the existing food distribution network to improve the delivery of all education goods. As a result, the number of schoolbooks distributed rose from

fewer than 700,000 in 2006 to 3.8 million in 2013 (See Figure 5-3). By 2012, nine of ten students in the country ages 5-14 received free textbooks.

As with the other policies evaluated here, the Free Textbook program actually produced higher outputs after 2010. Around 2.75 million books were given out in 2009 and 2010, while an additional million texts were distributed under the administration of the MEC's Secretariat of Institutional Development. However, it was the UUEB that negotiated the initial agreements between the MEC and provincial and local authorities to reform the curriculum, provide the books, and construct the national database, to say nothing of launching the program and enlarging the existing distribution network. By all accounts, the MEC has done a good job of continuing the program and reaching more students, but it owes much to the framework developed by the specialized unit.



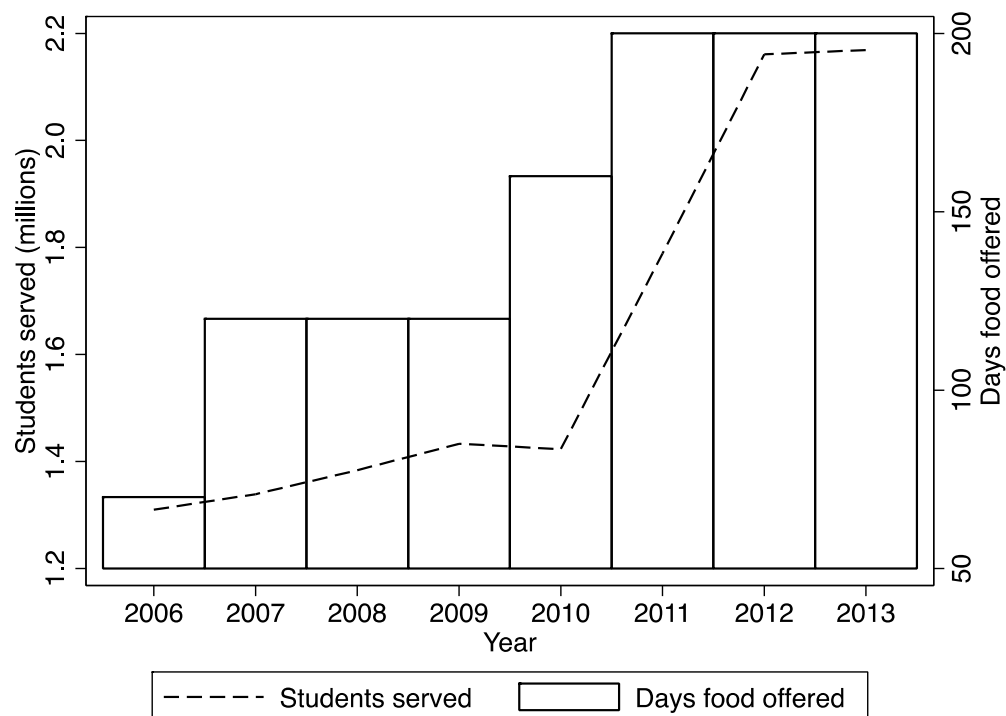
**Figure 5-3.** Distribution of Free Textbooks (2006-2013)

#### **5.1.3.4 School Lunch Program**

A fourth component of the universalization package was expanding food distribution. Ecuador's first school food program, the *Programa de Colación Escolar*, was started in 1989 to provide breakfast or lunch to needy students. Through it, the Ministry of Education and Culture, and later the MEC, purchased food directly from producers in the country and distributed it to primary schools in high poverty zones in order to alleviate hunger, improve overall well-being, and foment students' learning capacity. Since 1999, the policy was renamed the *Programa Alimentación Escolar* (PAE), although its essential components were left unchanged. The policy's targeted services meant that many poor or undernourished students were ill served, so that by the 2000s, it covered fewer than 1.4 million students aged 5-14, a rate of less than 29%. Further, it operated only seventy days in the whole year, 35% of the days school was in session.

Beginning that year, the UUEB assumed administrative and financial management and technical assessment of the PAE. It expanded the programs scope and distribution capacity via bundling with the free textbook program. As a result, as Figure 5-4 shows, both coverage and frequency of the PAE improved dramatically between 2006 and 2013, with frequency rising from seventy (35%) to two hundred days (100%), and coverage rising from 1.31 million (42%) to 2.17 million students (70%). Further, the largest gains in these two areas occurred *after* 2010, when the UUEB had been dissolved and management of the PAE was reallocated to the MEC. The plot in Figure 5-4 provides clear evidence of the MEC's success in implementing the policy, with the program extending from largely rural areas into urban municipalities. While the eastern Amazon region, for instance, was reasonably well served by the PAE in 2010, the central highland and coastal corridors were underrepresented.

Once again, the success of the MEC in carrying out the PAE is not an indictment of the UUEB's efforts, but an indication of the unit's success is designing an effective and efficient distribution plan.



**Figure 5-4.** Coverage of Ecuador's School Lunch Program (2006-2013)

Source: Ministry of Education (<http://educacion.gob.ec/programa-de-alimentacion-escolar/>)

### 5.1.3.5 Millennial Education Units

The last phase of *Básica para Todos* was the development of Millennium Education Units (*Unidades Educativas del Milenio*, UEM), a pilot school program developed in 2008 within the

MEC's new administrative divisions.<sup>52</sup> The UEMs are a type of experimental school, enjoying greater autonomy, whose curriculum and facilities are intimately tied to the school's community, natural environment, and demographic realities. Although they depend directly on the state for financing and administration, their curricular content and innovative nature are somewhat comparable to charter schools in the U.S. In all cases, the UEMs incorporate modern technology into the classrooms and offices (including laptop computers for some teachers), as well as the free uniforms, textbooks, and lunches offered through their respective national programs.

Between 2008 and 2010, the UUEB opened eight UEMs, establishing schools in the provinces of Cotopaxi, Pichincha, and Guayas (2008), Santa Elena, Imbabura, and Esmeraldas (2009), and El Oro and Loja (2010). It was a difficult process that required the UUEB to design an administrative and financial plan for these new structures, guidelines for selecting teachers, and oversight mechanisms, specifically choosing career bureaucrats within the Ministry of Education to oversee implementation and coordinate the schools' long-term management. The UUEB's official report notes that, "it has not been a common practice in the ministry to create new education institutions, making it necessary to develop, together with the Direction of Human Resources, a process plan based on the experience of this period" (Jaramillo 2010: 36). Despite these expensive transaction costs, the unit was able to develop a framework for creation and management, and establish schools that were well-received by their communities and students ("1.350 niños del sur de Quito se beneficiarán con el nuevo colegio réplica 24 de Mayo" 2014).

However, the eight schools built between 2008 and 2010 fell well short of the project's original suggestion of 200 UEMs. Reviewing the difficulty of the implementation of these first schools in 2010, the UUEB reduced the goal to 45, while aiming for a roughly geographically

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<sup>52</sup> Ministerial Agreement 244, July 28, 2008.

equitable distribution of sites, giving preference to rural areas, and those parishes high levels of unsatisfied basic needs (Jaramillo 2010: 39-40). In May 2010, the UUEB passed the administration of the UEMs to an eight-person team within the Secretariat of Quality within the MEC. Using the UUEB's framework, the MEC built an additional 23 schools between 2011 and 2013, with 33 more currently under construction, and an additional 24 in the planning process. Not only would this total of 88 schools nearly double the revised ministry goal, but the education units are popular with the public, especially in poorer areas, and President Correa has promised to build more ("1.350 niños del sur de Quito se beneficiarán con el nuevo colegio réplica 24 de Mayo" 2014).

Like the projects before it, the implementation of the UEM project has been more effective since 2010. However, like these other policies, the current success of the UEMs owes much to the institutional design and setup engineered by the UUEB in 2008 and 2009.

#### **5.1.4 Discussion**

The performance of Ecuador's Basic Education Universalization Unit is an example of successful and creative agency design due to the government's motivation to develop a non-politicized, highly capable unit to plan and implement the first steps of the policy. The unit's importance exceeded the immediacy of *Básica para Todos* and the Ten-Year Plan to promote policy innovation, the diffusion of best practices, and especially the long-term institutionalization of the Ministry of Education. In fact, the UUEB demonstrates that contrary to what Gailmard and Patty (2007) argue, improvements in bureaucratic expertise does not need to be endogenous, costly, or relationship specific. Creation was successful in this case due to having a well-educated and motivated small cadre of bureaucrats—creating a strong sense of mission and

collegiality—as well as professional management via a third party. All evidence indicates that the UUEB was an elite unit with a much higher capacity than the existing ministry (which had largely failed to implement the Education for All policy), but one created specifically to improve the expertise of the existing bureau.

The UUEB also benefitted from the extension of the policy’s time horizon via political commitments from politicians. As Stein, et al. note, “In Latin America... typically, the union will have considerable staying power, while the government tends to have a very short time horizon” (Stein et al. 2006a: 223). In this case, the universalization unit was created in an environment of policy stability in which the government was able to commit to inter-temporal deals, and overcome the moral hazard posed to teachers unions. As a result, the implementation of policy was given a chance to evolve from the first iteration of programs in 2006 and 2007, and subsequent waves that improved upon and learned from weaknesses in the first iteration.

Interviews with members of this administrative unit and current bureaucrats within the MEC emphasized that the real success of the unit was not implementing policy better than it could be implemented by others, but by bearing the transaction costs necessary to institutionalize the sustainable, long-term implementation of a successful national education policy. In fact, nearly all interviewees seemed to agree that the program was in better shape in 2013 than in 2010. The figures above support this: more school uniforms, textbooks, and lunches were distributed after the UUEB was disbanded, and many more experimental “Millennial” schools have been constructed since the program transfer. Yet the same interviewees also stressed that the current level of success built upon the institutional roadmap and institutional memory put into place by the UUEB between 2007 and 2010. The unit improved logistics, contracting processes, the provision of resources, and oversight. It is a testament to the fact that policy

effectiveness cannot be judged solely by short-term outcomes, but requires knowledge of their long-term and associated effects.

## **5.2 URBAN POLICY AND THE CREATION OF BRAZIL'S *MINISTÉRIO DAS CIDADES***

*[P]ublic bureaucracy is not designed to be effective. The bureaucracy rises out of politics, and its design reflects the interests, strategies, and compromises of those who exercise political power.*

Terry Moe (1989: 267)

Brazil's Ministry of Cities (*Ministério das Cidades*) is a much different type of agency creation from the UUEB. For the Brazilian Left, the founding of the ministry in 2003 marked the culmination of more than thirty years of struggle to construct a participatory political space in the Brazilian government. However, results were not long lasting. In the aftermath of an enormous legislative vote-buying scandal in 2005, President Lula da Silva removed Minister Olívio Dutra, a founding member of the Worker's Party (PT), and replaced him with Márcio Fortes of the Progressive Party (PP) in an effort to renegotiate his cabinet coalition. Three of the four PT undersecretaries resigned shortly thereafter, weakening the ministry's participatory policies and links to social movements. Since 2009, the ministry has assumed an ambitious housing plan, but overall the ministry's success has been muted; the government suffered agency loss in that the Ministry of Cities has gotten things done, but not in the way the political principal—the PT government and its civil society allies—hoped. The cause of this bureaucratic drift is politics.

Both Moe (1989) and Lewis (2003) argue that the design of administrative agencies is influenced more by reelection and political control than efficiency. Unlike the conformation of



Ecuador's Basic Education Universalization Unit, the creation and evolution of the Ministry of Cities is an example that fits these definitions well. For such a highly urban and unequal society, Brazil lacked a cohesive urban policy. However, the Ministry of Cities' structure and bureaucratic appointments were designed more to satisfy Lula's political allies (i.e. political considerations) than to guarantee a professional, high capacity agency (i.e. policy considerations), a tradeoff resulting in mixed implementation success. In short, politics interfered with favorable administrative design, as Lula was constrained by the nature of political coalitions and partisan support for his presidency at the time of policy enactment.

### **5.2.1 Brazil's Urban Policy**

#### **5.2.1.1 Urbanization, Ephemeral Institutions, and Short-Term Planning**

Like many developing countries, Brazil has experienced rapid urbanization over the past century, marked by a high level of economic inequality. The proportion of Brazilians living in urban areas rose from around 10% at the beginning of the twentieth century to over 80% by the end, accounting for over 168 million people by 2013 (Maricato 2006). Foreign immigrants and domestic migrants flooded the cities of São Paulo, Rio de Janeiro, and others throughout the second half of the century, transforming them into megacities of 15 to 20 million people. This demographic revolution was not accompanied by a concomitant reduction in the country's income inequality until roughly the last decade (World Bank 2013). Not surprisingly, urban poverty and its associated problems such as the drug and arms trade and the high incidence of fatal violence have plagued Brazilian cities—mainly the favelas—for more than half a century (Perlman 1976, 2010; Ferreira and Paes de Barros 1999; World Bank 1995).

Despite these persistent and widespread problems, Brazil failed to develop a cohesive urban policy for much of the twentieth century (Maricato 1987, 2006; Azevedo 1988; Santos 1999). Instead, urban development was spread out among various government bureaus, such as the National Housing Bank (*Banco Nacional de Habitação*, BNH, eliminated in 1986), the Housing Financial System (*Sistema Financeiro de Habitação*, SFH), and the National Council on Urban Policy (*Conselho Nacional de Política Urbana*, CNPU), all under the purview of multiple ministries. In large part, the policies did not integrate transportation, housing, sanitation, and other areas under a single umbrella, and the bureaucratic bodies were not directly linked to the most needy social sectors. During this time, the size of cities and urban violence continued to swell, while services remained static. In 2009, the country's urban housing deficit reached 6.5 million homes, or 83% of the country's total deficit (Magalhães 2009: 36).

In addition to weak institutions, extreme macroeconomic instability also hampered the ability of governments in this period to develop and implement a cohesive urban policy (World Bank 1995). Upon the return to democracy and establishment of the *Nova República* in 1985, the economy suffered low liquidity and government depended on continued borrowing to finance spending despite the prospect of debt default (Azevedo 1995). As a result, urban policy was inconsistent and corresponding ministries short-lived throughout the 1980s and 1990s (Santos 1999; Serafim 2013). President José Sarney established the first cabinet agency to deal with urban policy on the day of the democratic transition, March 15, 1985, creating the Ministry of Urban Development and Environment via decree.<sup>53</sup> He broadened the ministry's scope on October 22, 1987, and changed the name to the Ministry of Housing, Urbanism, and

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<sup>53</sup> Decree 91.145

Environment<sup>54</sup>, before changing it again, less than a year later on September 2, 1988, to the Ministry of Housing and Social Welfare<sup>55</sup>.

Social movements continued to exercise pressure for progressive urban policy. The National Urban Reform Forum (*Fórum Nacional de Reforma Urbana*, FNRU) was founded in 1987 during the National Constituent Assembly to encourage urban reform.<sup>56</sup> It brought together urban-focused popular movements (housing, transportation, and sanitation), professional associations (architects, planners, social workers), class associations, NGOs, research institutions, and even progressive wings of the Catholic Church. Its main demands were citizens' rights to dignified housing, "democratic management" of cities, a euphemism for direct participatory democracy at a municipal level, and the socially just use of urban space—meaning cities serving the collective interests of their majorities (dos Santos Junior 2009). As a pressure group, the FNRU helped guarantee Articles 182 and 183 of the 1988 Constitution. The first of these enshrined the "social function of property" and decentralized urban policy among municipalities, while Article 183 established conditions under which squatters of unused urban areas could gain permanent ownership over their living areas. Yet in a setback for the FNRU and other urban planning advocates, Congress dissolved the Ministry of Housing and Social Welfare on via Article 5 of Law 7.739 on March 16, 1989.

Things did not improve for the FNRU under the Fernando Collor de Mello government (1990-1992). Upon taking office, the president proposed the ambitious Immediate Action Housing Plan (*Plano Ação Imediata para Habitação*, PAIH) to construct 245 thousand homes in 180 days through investments by the Service Time Guarantee Fund. To implement the plan,

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<sup>54</sup> Decree 95.075

<sup>55</sup> Decree 96.634

Congress created a new cabinet agency, the Ministry of Social Action, as well as the National Housing Secretariat<sup>57</sup>. The program was a resounding failure, suffering from widespread allegations of irregularities (including granting construction contracts through a closed bidding process to Collor's political allies) and poor implementation (the target goal was lowered, and the time period lengthened by 18 months), until funding was eventually frozen (Santos 1999). There was little institutional continuity either, as the Ministry of Social Action was changed to the Ministry of Social Welfare in 1992<sup>58</sup> before being dissolved altogether under the government of Fernando Henrique Cardoso in 1998.<sup>59</sup>

From 1988 to 2001, the FNRU also exercised continued pressure on lawmakers to pass Law 10.257/2001, the City Statute (*Estatuto da Cidade*) which regulated constitutional articles 182 and 183 and established urban policy guidelines, including every Brazilian's right to dignified living conditions (Saule Júnior and Rolnik 2001). At the same time, the Cardoso administration carried out two essentially overlapping federal urban housing programs separated by their financing: the Inhabit Brazil Program (*Programa Habitar Brasil*, HBB), financed by loans from the Inter-American Development Bank and set to train municipalities in housing policy (Santos 1999). It spent approximately one billion dollars between 1999 and 2001, carrying out some five thousand public works.

Beginning in the 1990s, interdependence grew between the FNRU, which remained excluded from formal channels of political inclusion, and the PT, which sought to plant party roots outside its union base in São Paulo. As early as 1994, the PT formed a National Committee

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<sup>56</sup> The FNRU was originally called the National Urban Reform Movement (*Movimento Nacional de Reforma Urbana*, MNRU), before changing its name in 1988.

<sup>57</sup> Article 24 of Law 8.028, April 12, 1990.

<sup>58</sup> Article 20 of Law 8.490

<sup>59</sup> Law 9.649

for Urban Reform, which among other things proposed creating a Ministry of Urban Development with secretariats of housing, health, infrastructure, and urban transport (Serafim 2013). The first policy that arose from this proposal was the Living Project (*Projeto Moradia*, or “*Pró-Moradia*”), to provide dignified housing and improved access to essential public services for urban dwellers. *Pró-Moradia* was a template for the Ministry of Cities: it was designed by a group of technicians, analysts, politicians, and social leaders through PT party leader Lula da Silva’s NGO, *Instituto Cidadania*<sup>60</sup>, and its multidimensionality and participatory nature would be reproduced in 2003 (Maricato 2006).

#### **5.2.1.2 The Ministry of Cities and Participatory Policymaking**

Syndicate organizer, Worker’s Party leader, and four-time presidential candidate Luiz Inácio Lula da Silva was finally elected president in October 2002. One of his first actions in office upon assuming office on January 1, 2003, was to unilaterally create the cabinet-level Ministry of Cities (*Ministério das Cidades*, MC).<sup>61</sup> In fact, the president appointed a transition team led by São Paulo University professor Ermínia Maricato to design the ministry in November 2002, before even assuming office. The group established dialogue with the FNRU, other allied social movements, and *Pró-Moradia* participants, who agreed that it was necessary to construct a common housing, health, movability, and planning policy within a cabinet-level agency (Anonymous interview in Serafim 2013). The ministry was established with the goals of 1) urban development; 2) housing, health, and urban transport; 3) policy coordination with different government, private sector, and NGOs; 4) granting housing subsidies; 5) planning and regulating urban development; and 5) developing water conservation plans (*Medida Provisória* 103). A

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<sup>60</sup> Renamed the *Instituto Lula* in 2011.

central component to all of this was social participation, including “participatory budget making”, via City Councils (*Conselhos das Cidades*) and biannual conferences between ministry representatives and social sectors. Lula even appointed an original PT member and participatory budget pioneer Olívio Dutra as minister.

The Ministry of Cities was not the only new agency created by Lula, nor was its design unique. The PT government broadened participatory spaces in different areas through the creation of various councils and conferences (Serafim 2012), as well as a series of cabinet-level agencies, including the Ministry of Tourism (*Ministério do Turismo*), the Ministry of Fishing and Aquaculture (*Ministério da Pesca e Aquicultura*), the Special Secretariat of Human Rights (*Secretaria Especial dos Direitos Humanos, SEDH*), the Special Secretariat of Women’s Policies (*Secretaria Especial de Políticas para as Mulheres, SEPM*), the Special Secretariat of Policies for the Promotion of Racial Equality (*Secretaria Especial de Políticas de Promoção da Igualdade Racial, SEPPIR*). The president also created the Special Secretariat of Indigenous Health (*Secretaria Especial de Saúde Indígena*), although this did not reach the same status as the three other special secretariats.

These new bureaucratic structures possessed a substantial ideological component. Ministry of Cities Executive Secretary Ermínia Maricato—longtime urban planner for the PT, professor in the Faculty of Architecture and Urbanism (FAUUSP) at the University of São Paulo, coordinator of the Secretariat of Housing and Urban Development in São Paulo, and a strong critic of contemporary capitalism—was responsible for much of the Ministry of Cities’ planning and organization. Instead of neutral outcome-based objectives (e.g. tending to the urban housing shortage), Maricato characterized the ministry’s primary objectives to be “fighting for urban

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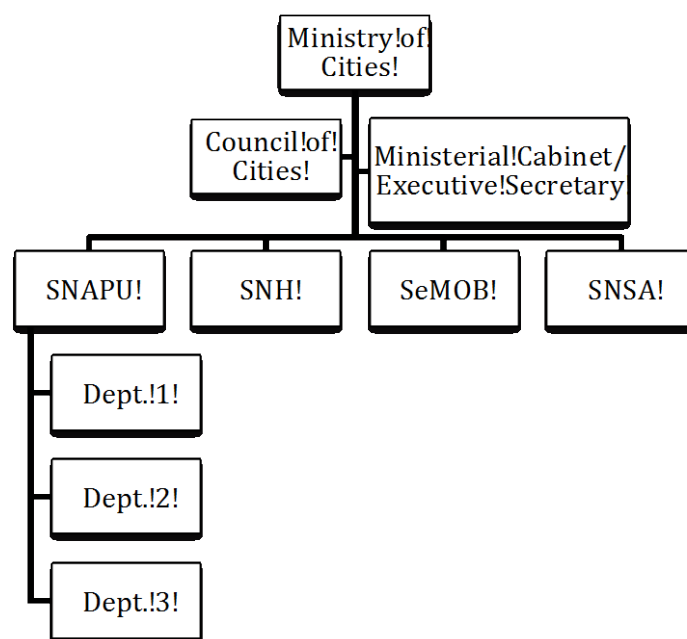
<sup>61</sup> *Medida Provisória* 103

justice in capitalism's periphery" amidst the neoliberal policies from the "core capitalist countries" (Maricato 2009: 195). She and others on the Brazilian Left were publicly critical of the private market and understood the Ministry of Cities as a type of historical vindication against the problems wrought by neoliberal adjustments in the 1980s and 90s.

The organization and staffing reflected this ideological battle, but it failed in its attempt to create a high capacity agency. Unlike Ecuador's Basic Education Universalization Unit, the Ministry of Cities was cobbled together from the remnants of existing agencies and brought in policy managers directors based not on technical capacity but partisan affiliation (as I show below, this pattern of political appointments later ended up radically changing part of the ministry's mission). A majority of the rank-and-file came from the Special Secretariat for Urban Development of the Presidency (*Secretaria Especial de Desenvolvimento Urbano da Presidência da República*, SEPURB), which was absorbed wholesale by the ministry, and the National Council of Urban Development of the Presidency (*Conselho Nacional de Desenvolvimento Urbano da Presidência da República*), which became the Council of Cities.<sup>62</sup> Positions of importance were given to PT allies rather than career bureaucrats or technocrats: the executive director, minister, four undersecretaries, and twelve directors were all PT-affiliated political appointees.

The ministry's organization is sketched in Figure 5-5. The Council of Cities is the channel through which municipal-level councils of citizens can have a say in the policy design and budget disbursement process, and is hierarchically above the ministry's secretariats. The four secretariats are: the National Housing Secretariat (*Secretaria Nacional de Habitação*, SNH); the National Secretariat of Environmental Care (*Secretaria Nacional de Saneamento Ambiental*,

SNSA); the National Secretariat of Urban Mobility Transport (*Secretaria Nacional de Transporte da Mobilidade Urbana*, SeMOB); and the National Secretariat of Accessibility and Urban Programs (*Secretaria Nacional de Acessibilidade e Programas Urbanos*, SNAPU). Each secretariat in turn possesses three different departments.



**Figure 5-5.** Organizational schematic of the Ministry of Cities

The first years of ministry were marked by aperture for the incorporation of proposals generated by civil society actors, but also by budget restrictions that restricted the implementation of all its desired actions. These limitations were in part a conscious government strategy in response to public concerns about the reach and radicalness of policies carried out by the ministry (Serafim 2013: 116). In subsequent budget cycles, the ministry's budget has

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<sup>62</sup> Initially, the National Department of Transit (DNIT; see Chapter 5) also came under its purview via the Ministry of Justice, before switching jurisdictions to the Ministry of Transport.



increased significantly, especially since the promulgation of the Growth Acceleration Program in 2008 and the tens of billions of dollars that the policy has generated for the ministry. Still, as the following sections show, policies within the ministry remain divvied up by the fiefdoms that are the secretariats<sup>63</sup>, and there has been an almost inversely proportional decrease in participatory policymaking during this time.

The ministry's biggest problem is that politics has interfered with policy: although Lula enjoyed great autonomy in creating and designing the MC, the Brazilian political system's reliance on cabinet coalitions to govern in a fragmented, multiparty system means it is difficult to control any one agency for a long period of time. The major critical juncture in the ministry's development, and a reflection of the fickle nature of politicized government agencies, was the legislative vote-buying scandal in June 2005 known as the *mensalão*<sup>64</sup>. In a newspaper interview, government-allied deputy Roberto Jefferson claimed that the PT was making clandestine payment of 30,000 *reais*—US\$12,000 at the time—a month to more than a dozen congressmen in exchange for legislative support. Making matters worse, the money was alleged to have come from the public purse via fake advertising contracts signed by state-owned companies with corrupt advertising firms. The resulting criminal investigation and charges against the legislators caused huge political fallout. Several deputies were expelled from Congress, and Lula was forced to remove the supposed ringleader of the scheme, Chief of Staff Jorge Dirceu (replaced by then-Minister of Mines and Energy Dilma Rousseff).

In the wake of the scandal, Lula was forced to renegotiate his cabinet coalition to achieve governability in Brazil's fragmented multi-party system (Machado 2013). He removed Dutra as

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<sup>63</sup> *Minha Casa, Minha Vida*, for example, whose budget dwarfs that of all other projects combined, falls only under the SNH's jurisdiction.

<sup>64</sup> “Mensalão” is a Portuguese neologism roughly meaning “big monthly stipend”.

Minister of Cities and, in a negotiation with President of the House and Progressive Party (PP) leader Severino Cavalcanti, handed the ministerial portfolio to Márcio Fortes. Overnight, the Ministry of Cities had been turned from a bastion of the left to one of the right—since despite its name, the PP is a conservative party. The new minister did not enjoy a good working relationship with the PT secretaries, and they and various FNRU members of Dutra’s technical team soon resigned (Loureiro et al. 2013).<sup>65</sup> The FNRU’s presence in the ministry decreased dramatically, as did the participatory policymaking through the Council of Cities, resulting in agency loss by the political principals. Housing policy, for instance, shifted from a participatory program known as the National Housing Plan to the My House, My Life policy designed by the central government and the private sector.

The National Housing Plan (*Plano Nacional de Habitação*, PlanHab) is a 25-year integrated housing policy formulated by the SNH<sup>66</sup> in conjunction with diverse social groups, including the Council of Cities, the Management Committee of the National Housing and Social Interest Fund, and the Trustee Council of Service Time Guarantees Fund, and others (Magalhães 2009). It grew out of Law 11.124/05, which constructed the National Housing System of Social Interest and defined housing in social rather than merely physical terms. As such, the policy’s four objectives—a finance and subsidy plan for low income citizens, a property ownership policy, institutional arrangements, and a productive civil construction chain—were designed to work in concert to universalize access to dignified housing for all Brazilians. In using the adjective “dignified”, designers consciously stressed that effective housing policy must also

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<sup>65</sup> Under Dilma (2011-present), the ministry has remained in the hands of the PP through ministers Mário Negromonte (2011-2012), Aguinaldo Ribeiro (2012-2014), and Gilberto Occhi (2014-present).

<sup>66</sup> During this time, the SNH remained the only PT enclave within the ministry—and the formulator of Brazil’s only participatory housing plan.

include health, sanitation, and transportation components; the physical construction of houses is not sufficient to improve the social status of the people the policy intends to serve.

Since 2009, however, the ministry's predominant policy has been the My House, My Life (*Minha Casa, Minha Vida*, MCMV) program, a housing construction plan that has greatly overshadowed PlanHab, and become one of the government's most visible policies. The MCMV was announced in early 2009 and created via Law 11.977/09 in July of that year as a part of a broader infrastructure development package known as the Growth Acceleration Program (*Programa de Aceleração do Crescimento*, PAC, see Chapter 5). With the international financial crisis of 2008 in effect, Chief of Staff Dilma Rousseff met with suddenly idle (private) firms Cyrela, Rossi, MRV, WTorre, and Rodobens to negotiate the construction of some one million homes. The companies would be able to be productive and profit economically, while the government would generate employment and housing. The initial plan was to use a R\$34 billion subsidy (about US\$16 billion) to construct one million housing units for needy families making up to three times the minimum wage. Despite construction delays, over budget homes, and accusations of a massive kickback scheme and other acts of corruption ("Fraudes no Minha Casa Minha Vida lideram ranking de investigações no MP" 2014; Portilho 2015), the MCMV has become one of the government's most recognizable policies, more than doubling the program's budget to R\$72 billion (US\$34 billion) in 2011 and upping its expectations to two million units.

### **5.2.2 Motives for Delegation Decisions**

Lula and the PT created the Ministry of Cities to unite urban policy under a single umbrella—a policy objective—but just as importantly, and unlike existing agencies, to build an agency ideologically synched with his government and civil society allies. The significance of urban

housing and development innovation to the FNRU and the forum's importance to the PT made the creation of the ministry quite logical. The president's bureaucratic alternatives in 2002 included a multiplicity of non-cabinet level agencies pursuing top-down policymaking incompatible with the Statute of Cities and bottom-up FNRU proposals. Although both capacity and ideology were motivations for the government, the latter was fundamental—until the promulgation of the PlanHab in 2005, the ministry was not in charge of any iconic national-level policy.

Ideological issues were paramount in the creation of the ministry. In their survey of Brazilian ministries' capacity and autonomy, Bersch, et al. (2013) show the Ministry of Cities to be one of the most closely aligned to the government. Social sectors aligned to the PT demanded the creation of the ministry, and Lula appointed PT co-partisans as minister, secretaries, and directors. In fact, all high-level appointees were active militants from left-wing parties with experience in municipal or state management in the areas to which they were nominated—although none were career bureaucrats. Others came from social movements and labor unions (Maricato 2009). For this reason, neither the Brazilian military nor the private sector were reasonable circumvention alternatives; it is unlikely leftist sectors allied to the PT would have accepted collaboration with these ideologically divergent options.<sup>67</sup>

At the outset, the Minister of Cities was Olívio Dutra (PT), a founding member of the Rio Grande do Sul section of the PT in 1980, and was president of the organization until 1986. He was elected federal representative from the state in 1986, and among other things, shared an apartment in Brasília with fellow deputy Lula da Silva. However, Dutra was chosen not only for his strong ties to the PT and Lula, but his strong approval among FNRU rank-and-file. As mayor

of Porto Alegre (1989-1992), Dutra pioneered the use of *Orçamento Participativo* (Budgetary Participation), a mechanism of participatory democracy allowing citizens a say in the conformation and disbursement of public budgets. This experience (and policy expertise) and his tenure as Governor of Rio Grande do Sul state (1999-2002) allowed him to curry favor among the Brazilian Left. The PT, however, also initially controlled the secretariats and mid-level administrative positions. Beyond Executive Secretary and de facto designer Ermínia Maricato, the Secretary of Accessibility and Urban Programs (SNAPU) was Raquel Rolnik, also a professor at the FAUUSP and Special Rapporteur on Adequate Housing for the United Nations, as well as a PT stalwart. Similarly, José Carlos Xavier (Secretary of the SeMOB), Jorge Fontes Hereda (Secretary of the SNH), and Abelardo de Oliveira Filho (Secretary of the SNSA), were all affiliated with the PT (Serafim 2012).

Nonetheless, existing and expected agency capacity also played a role in founding the ministry. On one hand, various bureaus already existed to implement policies related to urban housing, transportation, health, and sanitation. On the other, these agencies were not well coordinated, did not enjoy cabinet status, and most importantly, did not include civil society participation; they were ill equipped to address urban issues holistically. As Serafim (2013: 102) explains, the ministry was created not necessarily to deal with something new, but to deal with something old in a new way.<sup>68</sup> And while the PT may not have achieved high ministerial capacity at the outset—despite some officials’ policy expertise, Bersch, et al. (2013) measure the Ministry of Cities as one of the least capable and least autonomous of the more than thirty Brazilian cabinet agencies due to organizational weaknesses—groups supporting the PT

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<sup>67</sup> This fact makes delegation of roadway construction to the military engineering corps (Chapter 6) all the more fascinating, although roadway construction is much more of a valence issue than highly partisan urban policy.

government preferred the *way* the ministry carried out policy in comparison to its predecessors, including public deliberation, citizen proposals through the Council of Cities, and tying together a number of dimensions within urban policy.

The cost of creating a cabinet agency is undoubtedly high—although the government offset some expenses by using existing physical infrastructure in a Ministry of Finance annex in Brasília and folding existing (and disparate) agencies and some personnel into the ministry as a type of meta administrative reform. Yet this cost was tempered by the political importance Lula placed on the having an urban affairs ministry, creating it via decree on his very first day in office.

### **5.2.3 Implementation Success**

It is no easy task to evaluate the success of the Ministry of Cities' policy implementation (see Pires 2011), in part because there are few large programs to analyze prior to the PlanHab and MCMV housing plans. At the same time, as the above makes clear, *what* the ministry carried out is much less important than the *how*: that is, whether policy was designed and carried out from a bottom-up or top-down perspective. Lula, Ermínia Maricato, Olívio Dutra, Raquel Rolnik, and others not only sought an integrated urban policy for Brazil, but one that could be formulated and implemented in concert with progressive sectors of civil society. The PT's exodus from the Ministry of Cities in 2005 resulted in bureaucratic drift and agency loss in the delegation process, and meant that many of the Brazilian Left's goals remain incomplete. After 2006, the Ministry

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<sup>68</sup> As I argue is the case with most new agencies, this explanation does not support the alternative hypothesis from Chapter 2 that suggests new agencies may come about in response to the emergence of "new" policy areas.

of Cities got things done, but not in the way the political principal—the PT government and its civil society allies—wanted.

The government's objective in creating the ministry was to open a space for dialogue between the government and the public to develop a comprehensive urban policy consistent with the objectives of the Statute of Cities. From 2003 to 2005, Minister Dutra was able to incorporate a large degree of the left's urban reform agenda into the ministry's practices and management. However, his removal resulted in a number of intended and unintended consequences: a decrease in direct participation of leftist elements in ministry; a decrease in the Council of Cities' participation and influence; and a move away from participatory policymaking in favor of a top-down, construction-heavy housing policy anathema to the City Statutes' recommendation for integrated urban planning. Safe to say, the current profile of the ministry is not the way the FNRU and others pictured it in 2003, nor has it been able to fulfill the promise of implementing policy in the way envisioned upon its creation. As Ermínia Maricato herself concludes, "in spite of advances in fighting poverty and promoting social policies in sectors of the administration retained by the left, one is compelled to recognize that the impact on the broader economy and politics has been limited" (Maricato 2009: 205).

First, after beginning its existence as a forum for the left, the removal of Dutra resulted in limited direct participation by the PT in leadership positions within the ministry. In a professionalized bureaucracy, civil servants' party affiliation should ideally not matter to how policy is carried out, yet it seems to have quite a bit here. The PP was quite audacious at not only abandoning many key aspects of the PT's urban agenda, but in using the ministry as a clientelistic base from which to bestow favorable construction contracts for housing projects (Loureiro et al. 2013; Serafim 2012; Maricato 2009; Krause et al. 2013). In one sense, though,

the PT and FNRU are equally to blame, since it was they who politicized the ministry in the first place rather than develop a professional, neutrally competent agency. As Lula's Environmental Minister and erstwhile presidential candidate Marina Silva stated in 2014, "After 12 years, the ministry [of Cities] is but one more negotiating chip in electoral arrangements"<sup>69</sup> (Silva 2014). The impetus for its creation—a PT pet project to appease the far left rather than a policy with broad political support—lowered the probability of continued success.

Second, the change in minister was accompanied by decreases in the participation and importance of social groups within the ministry. The National Council of Cities—a massive forum of municipal and national delegates—met in 2003, 2005, 2007, 2010 and 2013. As the dates make clear, the council was originally set to meet biannually, but in 2006, after the first round of wholesale ministerial changes, President Lula instead decided it should occur every three.<sup>70</sup> Not only did it meet less often, but after a monotonic rise in the number of municipalities and national delegates participating from 2003-2007 (3000, 3120, and 3277 municipalities; 2095, 2230, 2513 delegates), these number decreased in both 2010 and 2013 to lows of 2,248 and 2,045, respectively (Ministério das Cidades 2013). Meanwhile, the influence of the permanently established Council of Cities also decreased: the percentage of approved resolutions published by the ministry—the fruit of political debate among the social sectors that make up the council, and evidence of the public's role in forging ministry policy—dropped from nearly 100% in 2004-2006 to around 65% in 2007-2009 (Table 5-3). Simultaneously, the raw number of published resolutions dropped from a high of 31 in 2006 to only 3 in 2009, while the mean number of days from which the resolutions moved from approval to publication within the ministry more than quadrupled from a low of 26 days in 2005 to 120 in 2008. In other words,

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<sup>69</sup> "Passados quase 12 anos, o ministério é mais um a ser negociado nos arranjos eleitorais".



the ministry was much more responsive to social sector demands while ministry leadership was controlled by the PT, but much less so under PP leadership.

**Table 5-3.** Resolutions approved by the Council of Cities and published by the Ministry of Cities (2004-2009)

Year	Approved resolutions	Published resolutions	Approved/published	Mean days, approval to publication
2004	24	23	96%	32
2005	15	15	100%	26
2006	32	31	97%	53
2007	24	14	59%	87
2008	35	23	66%	120
2009	4	3	75%	98
<b>TOTAL</b>	<b>134</b>	<b>109</b>	<b>81%</b>	<b>57</b>

Source: Cavalcanti (2009: 44)

Third, and finally, the ministry's major housing policies, represented by the PlanHab and MCMV, also shifted from a bottom-up to a top-down approach. PlanHab was launched in 2008, and represents the last major policy formulated in conjunction with social sectors as the ministry's creators envisioned. Ministry representatives and civil society groups met under a variety of circumstances across the country throughout 2007 and 2008 to construct a subsidized housing plan that also integrated improved public transit and social services to the new edifices.<sup>71</sup> As Table 5-4 shows, the collaboration between the two sectors included ample presentations and debate at the 2007 National Council of Cities in addition to regional seminars, presentations to city councils, and discussions with research and technical groups.

**Table 5-4.** Participatory activities in the formulation of the PlanHab (August 2007-December 2008)

Activity	Number
City Council presentations	13
Meetings with the PlanHab oversight group	11
Regional Seminars	5

<sup>70</sup> Decree 5.790, May 25, 2006.

<sup>71</sup> Magalhães (2009: 31-33) presents a monthly breakdown of the type and location of these public debates.

Public presentation/discussions with segments of organized civil society	21
Technical offices and specialist groups	10
National level meetings at the Conference of Cities	2

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Source: Magalhães (2009)

The president and especially the FNRU experienced further agency loss with subsequent changes to housing policy. The promulgation of the PAC in 2007 and the money this freed up for housing caused a symbolic and literal transformation in the MC's housing policy. According to Loureiro et al.,

the PMCMV represented a political shift in the Ministry of Cities' previous housing policy priorities under the direction of Olívio Dutra and the consultants involved in PlanHab, and the imposition of new priorities determined as much by the necessity of a rapid response to economic crisis and the growing role of the Casa Civil in the management of high priority policies, as by business sector pressure" (Loureiro et al. 2013: 17; translation mine).

This meant a move from bottom-up "social-interest housing" that had flourished in the last years of Dutra's ministerial tenure to a top-down policy aimed at maximizing the number of units constructed that would characterize the PP's time in control of the ministry. In short, the MCMV was not a participatory policy, but one dictated by Dilma Rousseff and the Casa Civil in coordination with the private business sector. To that effect, Krause, et al. (2013) argue that the MCMV was not oriented to confront Brazil's housing deficit according to the principles established in the PlanHab, but as an economic development strategy. Further, the swiftness with which the policy was put into place also meant hasty development of sometimes poor quality homes built on cheap land to increase construction profits, far from centers of commerce and without proper transportation; essentially the opposite of PlanHab. At the same time, the speed and scope of the project meant that the government reprioritized housing policy, ensuring a large financial commitment as well as high public visibility.

In sum, the Ministry of Cities has shown mixed effectiveness at meeting the government's goals as an implementer, a reflection of the lack of policy continuity within the ministry. Initial programs designed to be carried out by politically friendly bureaucrats, but the current personnel profile and ministry tasks are very different now than in 2003. From a participatory perspective—which, according to the Left, was one of the ministry's *raison d'être*—the ministry was better with Dutra at the helm. Yet the MCMV plan and its inclusion in the PAC was, “an expression of the change in housing policy... [which] if on one hand implied the subordination of the low income population's social objectives, on the other brought significant advantages by becoming a priority on the government agenda” (Loureiro et al. 2013: 17-18).

#### **5.2.4 Discussion**

The Ministry of Cities is an example of agency design driven by the political demands of a long time ally, and not a search for the most effective long-term policy outcomes (if this had been the case, the . It is also an example of Guy Peters (1998) argument that coordination inside the public administration is an inherently political process. When the top- and mid-level managers belonged to the left-leaning PT, policy was oriented and carried out in coordination with the Statute of Cities and the FNRU; however, when right-of-center politicians replaced these managers, policy veered away from popular participation and toward a more traditional top-down approach. The differences were further exacerbated by the low institutionalization of the

recently created ministry<sup>72</sup>. This is proof that politicization remains a real problem in Brazil, despite comparative scholarship that places Brazilian government agencies as among the best performing in Latin America (Zuñiga and Iacoviello 2010; Gingerich 2013) or shows especially high performing cases (e.g. Tandler and Freedheim 1994; Piovesan and Labra 2007).

By designing an agency whose yields depended on partisan affiliation, Lula and the PT condemned it to mission drift and uneven implementation outcomes, as illustrated by the nearly simultaneous and contradictory PlanHab and MCMV policies. If efficiency were the goal, bureaucratic party preferences would not matter. However, if designing and carrying out urban policy in a manner consistent with those ideological allies are the government's main objectives, as here, then the implementation will only be successful so long as those allies hold sway within the agency. By not prioritizing implementation efficiency but ideology, no long-term outcomes was guaranteed. Politicization impacted agency capacity in a direct way: whereas the UNDP in Ecuador was able to offer high salaries and draw bureaucrats through an open, public competition of merit—a process ensuring the technical competency of those involved and little politicization—in Ecuador's Education Universalization Unit, the Brazilian Ministry of Cities restricted the number of applicants to be considered for jobs. While the minister, most secretaries, and most directors did possess ample experience in academia, labor, and politics, they were not career bureaucrats.

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<sup>72</sup> The ministry suffered from a fragmented internal organization and lack of institutional cohesion, especially right after its creation (Serafim 2013: 180-181). The SNH possesses a lion's share of the ministry's budget and projects, while one interviewee from the SeMOB told me that her department had no projects until urban transport plans for the World Cup were drawn up in 2010. More recently, Silva (2014) worries that education and health are still separated within the ministry, and that municipal, state, and federal organs are out of synch with each other.

## **6.0 OUT-OF-JURISDICTION DELEGATION: THE MILITARY**

Brazilian President Dilma Rousseff, or Dilma, as she is popularly known, was a Marxist guerrilla tortured under the country's military dictatorship as a student agitator in early 1970s, and she and the Brazilian armed forces have long had an adversarial relationship. Nonetheless, when then-President Lula da Silva named Dilma his Chief of Staff in 2005, a curious thing occurred: the amount of money handled by the Army's Department of Engineering and Construction (DEC) more than doubled, as it executed public works projects from one of the country's flagship public policies, the Growth Acceleration Program. Why did Dilma, and Brazil's left-of-center administration collaborate so handily with the army? Given all possible state entities and private construction firms, why did a former guerrilla instead settle on the DEC? The short answer is that political expediency demanded successful attainment of the policy goal. Lula and Dilma thus turned to an ideologically distant agent, since successful implementation completion of public works projects meant policy returns and further consolidated political strength.

Post-Cold War activity for a majority of Latin American militaries has focused on public order, business, or developmental activities instead of suppressing internal or external threats. Participation in domestic task implementation for development is often a political necessity. As Pion-Berlin and Arceneaux argue, "Governments know they cannot do without military assistance in the realm of development—there are just too many tasks that need to be completed and not enough civilian capacity and know-how. When push comes to shove, the armed forces

may be better than civilians to call upon a well-trained team of engineers and foot soldiers to get the jobs done” (Pion-Berlin and Arceneaux 2000: 425). Militaries boast already existing infrastructure that can be repurposed for civilian tasks. This chapter tests this conventional wisdom by evaluating the effectiveness of military management of infrastructure construction in Brazil and food policy in Venezuela, two examples of out-of-jurisdiction policy delegation that involve the military.

The first part of the chapter uses cross sectional data on infrastructure construction in Brazil’s Program for Growth Acceleration to statistically demonstrate how the Army’s Department of Engineering and Construction is better able to complete tasks than its equivalent civilian departments and private sector enterprises. In the second part, I employ a before-and-after study of Venezuelan food policy in the 2000s, comparing military management of the Plan Bolívar 2000 program with state agency management of the Nutrition Mission policy. The government’s motivation to turn to the armed forces for the Plan Bolívar 2000 was in search of an agent with both higher agency capacity and greater ideological proximity—the sweet spot that should offer the greatest chance for success. Despite these expectations, the execution of the policy was largely a failure as a result of incongruence between the military’s area of high capacity (e.g. manual labor and construction) and the demands of the policy at hand (e.g. policy planning and management of fiscal resources).

## 6.1 THE BRAZILIAN ARMY AND THE *PROGRAMA DE ACELERAÇÃO DO CRESCIMENTO*

*“Driving [federal highway] BR-101 and seeing the projects developed by the Brazilian Army, we realized we were facing a new era of highway engineering.... The imposing equipment drew our attention, but it was the organizational aspects of the work sites, showing off a range of different services and new technology, that most impressed us.”*<sup>73</sup>

Paraíba State Deputy and civil engineer Francisco de Assis Quintans, opening the legislative session by requesting an addition four engineering battalions for his state (August 7, 2006)

São Paulo-Guarulhos International is Latin America’s busiest airport, offering departures of over 6.7 million international and 12 million domestic seats in 2010, and total traffic of over 35 million passengers (ALTA 2011). Yet, like nearly all airports in Brazil, Guarulhos’ infrastructure is outdated, and its service poor; around only 59% of its flights arrive on time, making it one of the most-delayed airports in the world (Wingfield 2008). In 2009, the Brazilian Enterprise for Airport Infrastructure (*Empresa Brasileira de Infraestrutura Aeroportuária*, Infraero) announced a R\$1.5 billion (US\$785 million) renovation plan, including the construction and enlargement of additional taxiways, and the construction of a third passenger terminal by the beginning of 2011.<sup>74</sup> However, by the end of the year, private contractors had not met their deadlines, and Infraero was forced to call the Army Department of Engineering (*Departamento de Engenharia e Construção do Exército*, DEC) to complete renovations.

Consistent with other infrastructure projects, the DEC completed the works—under budget and ahead of the four-month schedule. On May 2, 2012, the department handed over two

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<sup>73</sup> “*Percebemos, trafegando a BR-101, nos trabalhos desenvolvidos pelo Exército Brasileiro, que estávamos diante de uma Nova Era da Engenharia Rodoviária... A imponência dos equipamentos chamou a atenção, mas foram os aspectos organizacionais dos vários Canteiros de Obras, mostrando uma gama de serviços diferentes e todos com novas tecnologias, que muito nos impressionaram.*”

<sup>74</sup> Invepar-ACSA, a private consortium, has operated Guarulhos jointly with Infraero since February 2012.

new runways, a repaved third runway, and new lighting, signage and grooving to Infraero. The 137 members of the military detachment worked 6 am to 10 pm shifts, six days a week. The army also spent a mere R\$280 million on the renovations, approximately R\$150 million—about 30%—less than the project’s budget ("Exército devolve 150 milhões de 'sobra' de obra pública e entrega o trabalho dentro do prazo" 2013). Although the government’s reliance on the military to carry out diverse infrastructure projects is far from rare in contemporary Brazil, this is a government tool often overlooked by analysts.

### **6.1.1 Brazilian Infrastructure Development and Policies**

#### **6.1.1.1 Problem: Brazil’s Infrastructure Gap**

Brazil’s dated airports, antiquated ports, and inconsistent roads are unbecoming of a country of its economic might and competitive ambitions. In fact, poor physical infrastructure is one of the primary hindrances limiting the country’s economic development. In 2013, the World Economic Forum (WEF) rated Brazil’s infrastructure 114 out of 148 countries in the world, with roads (120), air transport (123), and ports (131) faring particularly poorly. An expert survey within the WED report also cited “inadequate infrastructure” as the most problematic factor for doing business in the country (19.7%), ahead of such things as tax regulations (16.8%), tax rates (15.1%), efficient government bureaucracy (14.9%), corruption (7.3%), and a dozen others (Schwab 2013). More to the point, despite boasting the third-most extensive road network in the world, only 12% of Brazilian roads are paved, and only half of these are in good condition (Biedermann and Galal 2013: 6).

The root of the policy problem includes a prolonged failure to invest combined with rising demand. Infrastructure investment has lagged since a road- and dam-building boom in the



1950s. Under the military dictatorship (1964-1985), infrastructure investment averaged about 4 percent of GDP, below the 5 to 7 percent of OECD countries; yet this figure has only worsened since then. *The Economist* finds that only 1.5% of Brazil's GDP goes toward infrastructure investment, in contrast to a long-run global average of 3.8%. Meanwhile, the McKinsey Global Institute estimates the total value of Brazil's infrastructure at only 16% of GDP, well below the "big economy" average of 71% ("The Road to Hell" 2013).

This pattern of underinvestment has been compounded by the rise of the Brazilian middle class since the 2000s, which has created more demand for basic infrastructure. In June and July 2013, a bus and metro fare increase resulted in massive nationwide protests. Antigovernment demonstrations began in São Paulo city, where the fare hike occurred, but soon spread to other cities, and included over two million people, mainly from the middle class. Protestors' demands were varied, but cheaper, more efficient public transportation infrastructure was one cornerstone (Romero and Neuman 2013).

Still, there was little government commitment to making needed maintenance and upgrades until at least 2005. Democratic governments from the Sarney to Cardoso administrations focused largely on forging institutional and macroeconomic stability, while Cardoso himself also promoted social welfare programs towards the end of his time in office (1995-2002). This left little time or political capital for ambitious infrastructure plans (Correia 2011). Cardoso's successor, Luiz Inácio "Lula" Da Silva, committed his government to social welfare through the establishment of Bolsa Família in his first term in office (2003-2006). Things started to change midway through Lula's first term, in 2005, with the creation of the Investment Pilot Project (PPI). The PPI was a three-year, R\$11.6 billion (over US\$5 billion) pilot plan that selected 97 strategically important projects for improvement or completion,

mainly in the transport sector ("Projeto-Piloto de Investimentos: relatório anual exercício 2006" 2007). Under the control and guidance of the Ministry of Planning, Budget, and Management (MPOG), the PPI foreshadowed the PT government's larger commitment to infrastructure beginning in 2007.

#### **6.1.1.2 Solution: The *Programa de Aceleração do Crescimento* (PAC)**

Lula made infrastructure investment and development the keystone policy of his second term in office through the major initiative known as the Growth Acceleration Program (*Programa de Aceleração do Crescimento*, hereafter PAC).<sup>75</sup> Using the PPI financial structure as a model, the PAC is a set of large-scale public and private investment projects focused on strategic sectors of energy, housing, sanitation, and transportation, with the dual objective of attending to Brazil's infrastructure gap and of attracting foreign investment to improve the country's rate of fixed capital formation.<sup>76</sup> The PAC had a budget of \$513 billion *reais* (about US\$225 billion) for the 2007-2010 period. Funding came from state enterprises, especially *Petróleo Brasileiro S.A.* (Petrobras), as well as the private sector. In its first four years, the PAC helped double Brazilian public investments and generated an estimated 8.2 *million* jobs in the midst of global recession (Secretaria PAC 2011).

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<sup>75</sup> Decree 6.025/2007, January 22, 2007.

<sup>76</sup> Part of the PAC dealt with urban issue and urban policy corresponding to the Ministry of Cities (Chapter 5), while the focus of this chapter is on transportation infrastructure policy. Note that these are different policy fields that also happen to overlap—like two sets in a Venn diagram that intersect while also simultaneously possesses unique unshared traits. Terrestrial transportation policy includes both urban and rural terrestrial transportation planning, especially that of automobiles, trucks, and rail transport. It is much less concerned with water or air. Urban policy, meanwhile, is concerned with a diverse range of disciplines and approaches to the study of all aspects of cities, their suburbs, and other urban areas. This includes urban economics, urban planning, urban ecology, urban transportation systems, urban politics, sociology and urban social relations. In short, while road or transport policy and urban policy may each study terrestrial transportation in urban areas, the former includes the study of transportation outside of cities, while the latter includes the study of many other elements related to urbanity, like housing, ecology, and resource and service distribution.

Upon Dilma's election in 2011, the PAC entered its second phase—PAC 2—with more resources and state and municipal partners. Its budget was set at around US\$885 billion, four times larger than PAC 1, with over half of this directed towards oil, gas, and biofuels, and over US\$100 billion directed towards each of housing and transportation (Biedermann and Galal 2013: 3). The public and press have paid particular attention to stadium, airport, and mass transit overhauls in the run up to the 2014 soccer World Cup and the 2016 Olympics, but equally important for the government are long-term investments in energy, telecommunications, and transportation. In fact, before her re-election in 2014, Dilma was already preparing a PAC 3 for the 2015-2018 period emphasizing urban transportation and telecommunications (Agência O Globo 2014).

The exact number of projects initiated, completed, or in progress through PAC funding is difficult to assess. Official announcements for PAC 1 refer to some 12,000 projects, while the first PAC 2 ledgers list more than 22,000 ("Obras do PAC, 3º balanço" 2011). The balance sheet from December 2013, on the other hand, shows 49,000 total works ("Obras do PAC, 9º balanço" 2013). Of course, not all are equally significant. The latter of these ledgers includes a note beside each project to assess its importance; of these, a "mere" 291 are considered to be emblematic projects. Some examples of these include 17 maintenance and extensions of coastal trunk road BR-101; renovations to 12 major airports; 14 different hydroelectric projects; a high speed train line between Rio de Janeiro and São Paulo; port dredging in Rio de Janeiro; Metro expansion in Fortaleza and Recife; and completion of a stalled third reactor at the Angra Nuclear Power Plant ("Obras do PAC, 9º balanço" 2013).

### 6.1.1.3 Management and Implementation: The State, Private Sector, and Army

The size and scale of PAC make its management and implementation complex, even more so when considering the complicated nature of federalism in combination with Brazilian coalitional presidentialism (see, for example, Figueiredo and Limongi 2000; Raile et al. 2010).<sup>77</sup> As Table 6-1 shows, the PAC Management Committee (*Comité Gestor do PAC*, CGPAC) that coordinates the implementation and execution of the policy is formally composed of the ministers of Planning, Finance, and the *Casa Civil*—part of the presidency similar to the office of the Chief of Staff. The PAC Executive Group (*Grupo Executivo do PAC*, GEPAC), made up of secretaries from Planning, Finance, and the Casa Civil, monitors policy implementation and progress. Lastly, smaller “Situation Rooms” (*Salas de Situação*) monitor individual public works.

In practice, some agencies exercise more influence than others. From 2007-2010, PAC was largely managed through the (suddenly) powerful Casa Civil, headed by Lula confidant and future president Dilma Rousseff (Lameirão 2011). In 2011, as president, Dilma shifted control to the Ministry of Planning, Budget, and Management (*Ministério de Planejamento, Orçamento e Gestão*, MPOG), and its newly created PAC Secretariat (*Secretaria do Programa de Aceleração do Construção*), a 22-person unit designed to coordinate PAC 2’s many moving parts. The Casa Civil was left with organizing a wave of PAC concessions. In both periods, the relevant central agency directed projects towards one of a dozen cabinet ministries.<sup>78</sup>

**Table 6-1.** PAC Monitoring and Oversight Structure

Unit	Participants
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<sup>77</sup> Machado (2013) provides an excellent summary of the political negotiations and interactions involved in carrying out the PAC.

<sup>78</sup> The ministries involved included: Agricultural Development; Cities; Communication; Culture; Education; Health; Mines and Energy; National Integration; Planning, Budget, and Management; Sports; Tourism; and Transportation.

Management Committee (CGPAC)	Ministry of Planning, Budget, and Management
	Ministry of Finance
	Casa Civil
	Sectorial Ministry
Executive Group (GEPAC)	Ministry of Planning, Budget, and Management
	Federal Budget Secretary (SOF)
	Planning and Investment Secretary (SPI)
	Ministry of Finance
	National Treasury Secretary (STN)
	Political Economy Secretary (SPE)
	Casa Civil
	Undersecretary of Articulation and Monitoring (SAM)
Situation Rooms	Ministry of Planning, Budget, and Management
	Ministry of Finance
	Casa Civil
	Sectorial Ministry
	SAM
PAC Management Committee	Unique to each ministry

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Sources: Ministério das Cidades (2010: 30-31); Machado (2013: 26)

Implementation is carried out by a variety of agencies from the private sector to state agencies to the army. Agent choice depends on the type and scale of the project. For example, the Ministry of Transportation (*Ministério de Transportes*) delegates planning to the Enterprise of Planning and Logistics (*Empresa de Planejamento e Logística, S.A.*, EPL), concessions to the National Agency of Terrestrial Transport (*Agência Nacional de Transportes Terrestres*, ANTT), rail infrastructure to VALEC Engineering, Construction, and Railways (*Engenharia, Construções, e Ferrovias S.A.*, VALEC), and federal road construction, restoration, duplication, maintenance, and oversight to the National Department of Transportation Infrastructure (*Departamento Nacional de Infraestrutura de Transportes*, DNIT). The vast majority of transportation projects and bridges are carried out by private enterprises via concession (through the ANTT) or the tender process (through the DNIT). In the latter case, the DNIT manages and

oversees the work done by the private sector.<sup>79</sup> Yet the Ministry of Transportation and the DNIT have also turned increasingly to the armed forces.

Since serving as Chief of Staff in 2005, Rousseff has also relied to an unprecedented degree on the Army's Department of Engineering and Construction (*Departamento de Engenharia e Construção*, DEC). Under her command, the army has become Brazil's largest construction company, with nearly 15,000 soldiers executing dozens of projects worth an estimated US\$1 billion (Queiroz 2010). Historically, the military was responsible for approximately 3% of federal investment in infrastructure and the DEC's twelve Engineering Battalions were limited to small projects (Valor Econômico 2012). However, the DNIT and DOC established cooperation agreements during the first Lula administration<sup>80</sup>, and the army's share of infrastructure investment more than doubled (Medina 2005).

While the government gains an extra hand to carry out prized projects, the military benefits in a number of ways: experience and training for its engineers and soldiers, beneficial budgetary perks, and continued justification for its own size and existence in an age with few state security threats. First and foremost, constant engineering activity provides training to the DEC engineers and soldiers. Second, the military wants to show government that it can perform at a high capacity to curry favor with the president and acquire benefits: other defense projects, budget increases, etc. Third, the military accepts public works projects in order to justify its existence. Without external threats, the army needs to prove to the government as well as society that it has a reason to exist. Fourth, domestic task implementation is consistent with the army's

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<sup>79</sup> By contrast, for air transport infrastructure, state agency Infraero is responsible for project management, soliciting bids for construction, as well as undertaking construction itself.

<sup>80</sup> Interministerial Order DM/MT No. 230/2003 and Interministerial Order No. 408/2005.

longstanding “doctrine of presence” (Hunter 1994a), that is, being present across the country not just physically, but via actions.

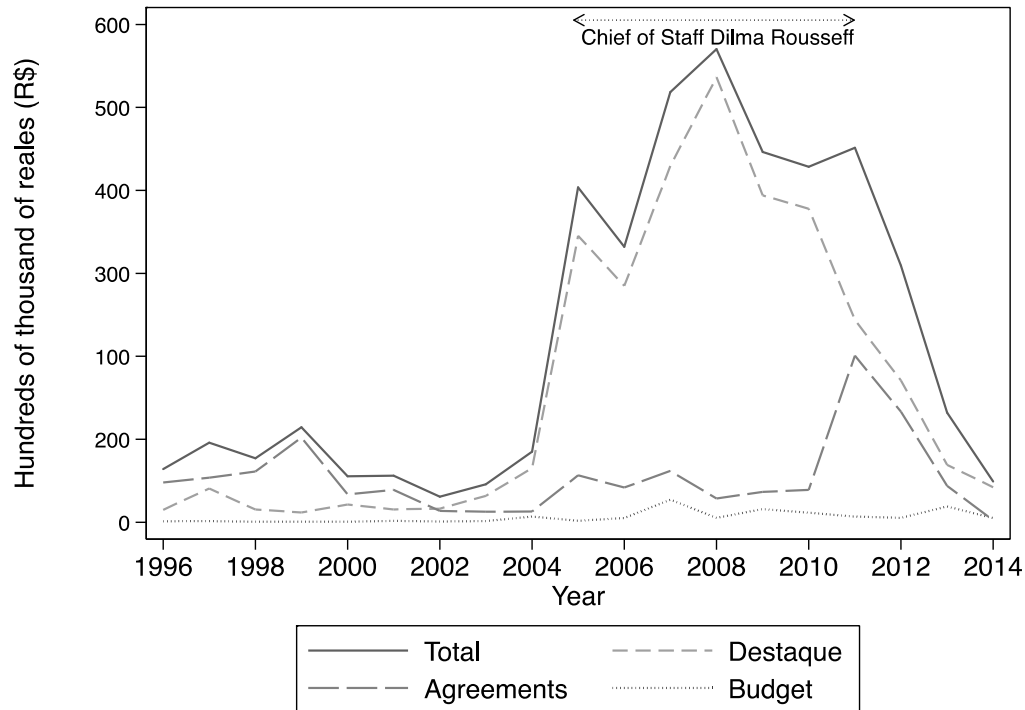
The Commander of the Army from March 2007 to February 2015 was General Enzo Martins Peri, an engineer who had spent his career working with different engineering and construction units and who served as head of the DEC from March 2003 until he took over as Army Commander. General Peri used to maneuver a *de facto* budget increase for the army, as well as to curry favor with the Lula and Dilma administrations to move forward other army projects. For one, the Army was able to demonstrate its merits to legislators and the public through public works projects to gain a leg up in the competition with the Navy and the Air Force for budget allocations, since all three compete for the same pool of project money. Second, by completing public works for the government—preferably on time and efficiently—General Peri and the Army’s High Command also courted the president to approve pet projects, such as the replacement of “Engesa” combat vehicles from the 1980s by new “Guaraní” Armored Personnel Carriers, the Integrated Border Monitoring System (*Sistema Integrado de Monitoramento de Fronteiras*, SISFRON) to protect Brazil’s borders, or the strategic infrastructure protection system known as PROTEGER (*Sistema Integrado de Proteção de Estruturas Estratégicas Terrestres*).

Lula’s appointment of Dilma as Chief of Staff and the development of the PAC were watershed events for the DEC. As Figure 6-1 shows, total money managed by the department, including budget outlays, agreements, and appropriations destined to pre-determined projects called *destaques* remained at between R\$100-200 million (about US\$45-90 million) from 1996 to 2004, before *doubling* when Dilma took office. In other words, the government’s dependence on the military occurred prior to the announcement of the grand infrastructure scheme. There are

a number of reasons why the government might have engaged the military: to keep the army in the barracks, to simply buy fealty from an institutional adversary, and/or, as I argue below, the government recognized the DEC's efficiency (especially vis-à-vis the private sector and the DNIT) and immediately decided to hedge its bets. The promulgation of the PAC only raised the threshold further, to nearly R\$600 million in 2008. Through contract management and direct execution of airport, road, bridge, and port projects that go beyond emergency operations, the DEC has enjoyed more than R\$3 billion in funding from 2005-2014, with R\$2.4 billion through the PAC.

Surprisingly, relatively few academics and bureaucrats are familiar with the DEC and what it does. The agency was created in 1880 as a part of the Ministry of War. Similar to the U.S. Army Corps of Engineering, its initial mission was to construct and renovate public structures and military buildings, and to identify future state infrastructure projects. It is the only military force that carries out public works, due in part to the terrestrial nature of the army (the Air Force, for example, lost jurisdictional authority to ANAC and Infraero). The DEC itself is divided into four chief departments: the Direction of Military Works (*Diretoria de Obras Militares*, DOM); Direction of Patrimony and Environment (*Diretoria de Patrimônio Imobiliário e Meio Ambiente*, DPIMA); Direction of Engineering Projects (*Diretoria de Projetos de Engenharia*, DPE); and the Direction of Works Cooperation (*Diretoria de Obras de Cooperação*, DOC). The PAC falls under the DOC's jurisdiction.





**Figure 6-1.** Resources managed by the Army’s Department of Public Works Cooperation (DOC), 1996-2014

Source: Brazilian Army DOC

### 6.1.2 Motives for Delegation Decisions

It is impossible to understand the evolution of the DEC and the Brazilian army’s role in infrastructure implementation without considering electoral politics. Dilma—and Lula before her—have made the PAC one of the two most emblematic policies in the country, and need to guarantee its success. Incentives to seek the most capable implementation agents possible are reinforced by a bumbling bureaucracy, an inefficient contract award processes, and an often unproductive private sector; despite record spending, a large percentage of PAC-funded projects

are significantly—sometimes embarrassingly—incomplete (e.g. Pereira 2013a, 2013b).<sup>81</sup> The DEC not only boasts a higher capacity to carry out many of the programs infrastructure goals, but lower costs than the private sector, since it may not profit from its work, owns its own equipment, and pays soldiers through the existing military budget. Given the political importance of the PAC, the government is willing to overlook its ideological divergence from the military in favor of gains in capacity and cost—earlier governments did not bother to do the same because none had confronted such a large infrastructure policy. Unlike the establishment of the Ministry of Cities (Chapter 5), where Lula traded policy efficiency for ideological proximity in order to satisfy an important political actor and social ally, here the politically advantageous delegation decision also happened to be the one that represented the greatest likelihood of implementation success.

Like the special case in Chapter 2's theoretical model where gains in capacity or ideology are sufficient to offset losses along the other dimension, the PT government's reliance on the DEC is an example of increased bureaucratic effectiveness proving much more important than ideological losses. Dilma and the military leadership are not ideological allies, and entrusting the army with domestic task implementation seems to run counter to longstanding concerns of military subordination to civilian authorities in the country (Hilton 1982; Barros 1985; Conca 1997; Filho and Zirker 2000; Hunter 1994a, 1997b). In one sense, it was strange for the left-of-center Dilma—who as a student was tortured under the military dictatorship—to seek military cooperation. It is even stranger that the total resources managed by the DEC nearly sextupled

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<sup>81</sup> The North-South Railroad and parts of the São Francisco River Transposition, for instance, are 54 months behind schedule (Fariello 2012).

under her ministerial tenure (see Figure 6-1, above).<sup>82</sup> Yet, it demonstrates the president's commitment to the bottom line: completing a highly visible project in the face of social and political pressure. Given PT ideology and the party's relationship to the military, this delegation action diverges significantly from expectations of the Ally Principal. Instead, the decision was based entirely on capacity.

The DEC has a reputation as trustworthy, capable and efficient organization, which stands in contrast to many government agencies involved with infrastructure, any possible new government agency with an unknown capacity, and, perhaps surprisingly, even the private sector. The DEC's engineers are trained at the Military Engineering Institute (*Instituto Militar de Engenharia*, IME) and distributed across the department's twelve battalions and engineering groups. While this national presence of an educated corps is an obvious advantage, it is not the only one.<sup>83</sup> First, DEC personnel are highly qualified engineers with high levels of experience; one previous director, General Jorge Ernesto Pinto Fraxe, was later appointed director general of the DNIT in 2011 in order to undertake reforms. Second, through defense funding, the DEC is able to enjoy cutting edge technology and state-of-the-art construction equipment. Third, as a not-for-profit government agency, the DEC possesses a key organizational advantage over the private sector: it does not engage in any time-consuming bidding process to win contracts, making it the most sought-after agency for time-sensitive public work projects. The combination of policy expertise in the domain of infrastructure projects and high organizational capacity are more striking when placed against the weakness of alternative agents.

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<sup>82</sup> Although in another sense, using the DEC is ideologically logical, since it represents the Left relying on the state rather than the private sector.

<sup>83</sup> Major Armando Siqueira Neves Filho of the DEC has said that, "The Army's work is generally solicited in works of little commercial interest, when there are many logistical difficulties and operations or to attend to isolated locales

The jurisdictionally appropriate government agencies are highly inefficient. In 2013, the World Economic Forum (WEF) rated the quality of Brazilian government efficiency to be 124 out of 148 countries, and “inefficient government bureaucracy” (14.9%) was the fourth most-cited problem for doing business in its Executive Opinion Survey (Schwab 2013). Relevant infrastructure agencies fare terribly. In 2011, the DNIT was enveloped corruption scandal involving allegations of government kickbacks going back years (Savarese 2011), while in 2012, Dilma removed six regional DNIT heads due to their slow implementation of PAC roadway projects, as well as accusations of preferentially awarding contracts to business associates (Fabrini 2012). The director appointed in 2011, General Fraxe, has vowed to increase the number of career civil servants after seeing the extent of politically appointed bureaucrats. In aviation, Infraero, responsible for operating the main Brazilian commercial airports, is almost comically incompetent; between 2007 and 2010 it managed to spend just 800m of the 3 billion *reais* it was supposed to invest (“The Road to Hell” 2013). In desperation, the government leased three of the biggest airports to private operators in 2012, and turned to the DEC to carry out the on-the-ground renovations in a handful of them.

Meanwhile, poor management and overregulation burden Brazil’s inefficient private sector. Trebat (1983), McKinnon (1993) and others argue that the Brazilian private sector may be weak precisely because of past government intervention in the market. In a cross-national comparison of management practices in twenty countries, Bloom, et al. (2012) find Brazilian firms to be, on average, third-worst, behind regional counterparts Mexico, Chile, and Argentina, and ahead of only China and India. The authors also find a high deviation around this value, with the effect of a few well-managed firms offset by a large tail of very badly managed firms.

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that will not generate interest from private enterprises” (quoted in Colombo 2012). This is true, but it also

Brazil was also second (to Greece) in largest margin of domestic firm underperformance compared to multinationals. Similarly, Transparency International's 2013 evaluation of 100 emerging market companies found Brazilian giant Odebrecht—a primary recipient of PAC funds and the major private contractor in the country—tied for the lowest score in anti-corruption programs and organizational transparency of all 100 (Kowalczyk-Hoyer and Côté-Freeman 2013). According to the World Bank's Doing Business survey for 2015, Brazil was ranked 120th of 189 economies, sandwiched between Nicaragua and St Kitts and Nevis ("Doing Business 2015. Going Beyond Efficiency" 2014). In other words, private firms might be happy to have the business, but any political principal delegating works to them face the possibility not merely of agency loss, but unfinished and costly work.

Perhaps predictably, the concession and bidding processes between the state and the private sector are fraught with problems. Minister of Transportation César Borges noted that many concessionaries had failed to abide by their contractual obligations, and the government was forced to take legal action to demand completion or to void the contracts entirely (Borges 2013: 22). The bidding process for awarding construction contracts is also infamously inefficient, taking on average over seven months to complete. The director of the DNIT has explained that as a result, when the government needs a project done quickly, it is much easier to sign an agreement with the military than seek out the private sector via a tender process (Medina 2005).<sup>84</sup>

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considerably underplays the DEC's organizational advantages.

<sup>84</sup> To improve the efficiency and competitiveness of the tendering process, the federal government passed Law 12.462, a new contract bidding process applicable to the DNIT known as the Differentiated Contract Administration (*Regime Diferenciado de Contratações*, RDC), in 2011. This process sets shorter timeframes and simplifies procedures for projects and engineering contracts. According to the Minister of Transportation, the average bid tendering process in 2012 was 232 days, while in 2013 under the RDC, it was only 107 (Borges 2013: 25). The RDC applies exclusively to contracts related to the 2013 Confederations Cup of Soccer, the 2014 World Cup of

What is more, it is less costly to delegate public work execution to the DEC than the private sector. The price of contracting the military is low, since soldiers' salaries are already paid through the Ministry of Defense and the military already possesses the necessary heavy machinery for projects (Ribas 2013a). As a result, Luiz Munhoz, DNIT General Coordinator of Highway Construction, estimates that the DEC offers a 16-18% discount compared to work carried out via tenders to the private sector (Alvarez 2006). Meanwhile, others guess that public works carried out by the DEC may be anywhere from 20-30% less expensive—as the Guarulhos case illustrates—in part because inefficient oversight of the private sector has led to an epidemic of overpricing (Queiroz 2010)

In addition to gains in bureaucratic capacity and monetary savings, the visibility of the PAC is also a decisive factor in the government's agency choice. Since 2002, the party has essentially pursued two enormous, long-term, national policies: social welfare reforms such as Bolsa Família aimed at addressing inequality and microeconomic growth, and multi-sector infrastructure development through the PAC aimed at promoting macroeconomic growth. Simply put, the PAC is one of the two pillars of PT policy. What is more, the government has worked and—is still working—frantically to fulfill its promises to complete transportation upgrades, stadiums, and other projects before the 2014 soccer World Cup and 2016 Olympics; the speed and efficiency of the DEC are welcome solutions.

Notably, the projects delegated to the DEC are the important ones within the PAC itself. The department's manpower capped at 15,000, limiting the number of new projects the DEC/DOC may accept. Since they do not want to “waste” the DEC's efforts, the PAC Secretariat, Infraero, and the DNIT tend to direct a much greater proportion of high priority

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Soccer, the 2016 Olympics and Paralympics, major airports, health services, education, and especially major actions

works to the army than concessionaries. On the project ledger for December 2013, 33% of PAC transportation projects (15 of 45) delegated to the DEC were considered by the government to be “emblematic”, while same was true for only 9.5% (68 of 716) projects carried out by other agents. With such an important policy, it is logical that the government is willing to overlook its ideological differences with the military in order to complete it.

### 6.1.3 Implementation Success

The government has had mixed success with implementing the PAC. *The Economist* estimates that two-thirds of the biggest projects are late and over budget, noting the half-built trans-northeastern railway, the unfinished east-west integration railway, and the northern stretch of the BR-163, an unfinished trunk road started in the 1970s (“The Road to Hell” 2013). *Veja* newspaper and the Brazilian NGO *Contas Abertas* (Open Books) found that only 12% of PAC works had been finished, with 35% of work in the execution stage and 53% in the pre-implementation stage (although the Ministry of Planning contends that this is due to implementation shortcomings at the municipal level) (Castro 2014). At the same time, many DEC-specific projects have been finished *ahead* of schedule, such as the Guarulhos construction and paving of trunk road BR-163.

To test the impact of implementation agent on outcomes, I use compare implementation of projects where “DEC” is the treatment and “non-DEC” is the control. This setup does not reach experimental status since the treatment condition assignment and the criteria used for assignment are ultimately unknown (Campbell and Stanley 1963); nonetheless, there is a high

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in the PAC (Agência Senado 2014).

degree of cross-sectional (and spatial) variation in the distribution of the assignment of implementation agent. Comparing execution by agent is actually a conservative test for any “DEC effect”, since the DEC is often saddled with projects in more isolated areas, those left uncompleted by private enterprises (such as like BR-163, and transposition of the São Francisco River), and those unwanted by private industry in the first place. In other words, the deck is stacked against the DEC performing well, so any significant effect should be doubly impressive.

The Ministry of Planning releases quarterly balance sheets on the progress of PAC projects, recording the work, its budget, oversight agent, executor, its progress, and expected completion date. I use data from the December 31, 2013, balance sheet. I include only the transportation sector, since the DEC does not participate in the energy or health sectors to any significant degree. In total, there were 761 transportation projects undertaken by the government in the 2011-2013 period, of which 376 were in progress. This leaves 385 transportation projects in the PAC 2 that were supposed to be completed by the date the report was published.

As Table 6-2 shows, agents fulfilled the conditions of their contract in 63.4% of PAC 2 projects (244 of 376) included in the sample.<sup>85</sup> The rate for non-DEC agents was not far off, at 61.7% (221/358), while the DEC completion rate was significantly higher, at 85.2% (23/27). Hypothesis testing supports statistically significant differences between the two types of agents. The nonparametric Mann-Whitney *U* test, also known as the Wilcoxon rank-sum test, allows me to reject the null hypothesis of no relationship between the median completion rate for the DEC and other agents with greater than 98.5% certainty ( $z=-2.436$ ,  $p<0.0148$ ).

**Table 6-2.** Summary of DEC proportion of PAC 2 Projects (December 31, 2013)

Incomplete	Complete	In Progress	Total
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<sup>85</sup> Note that these are official figures, and they diverge from press reports that allege lower completion percentages.



State	137 (19.1%)	221 (30.9%)	358 (50%)	716 (100%)
DEC	4 (8.9%)	23 (51.1%)	18 (40%)	45 (100%)
Total	141 (18.5%)	244 (32.1%)	376 (49.4%)	761 (100%)

Sources: "Obras do PAC, 9º balanço" 2013), DEC

Note: See Appendix for all 45 DEC works

These results are also consistent when I account for other potentially confounding variables. Using *work finished on schedule* (0=Yes, 1=No) as the dependent variable and *agent* (0=Private sector/State, 1=DEC) as the treatment variable, I run a series of logistic regressions that include other independent variable: 1) a dummy for the public work being an emblematic project, since agents undertaking these may face greater pressure to meet completion goals; 2) the 2011-2014 budget for that particular project, expressed in Brazilian reais (R\$), to control for smaller projects being potentially easier to complete; and 3) dummies for the type of project being undertaken (roads; airports; ports/other), to control to account for potentially greater ease at carrying out policies in one area. Beginning in Model 6.1, I add an additional independent variable to each subsequent model.

As Table 6-3 shows, *DEC* is statistically significant and positive across all specifications, indicating that it is indeed beneficial to the bottom line for the army to be carrying out policies. Substantively, the predicted probability for a completed project when a non-DEC agent is in charge of implementation is 61.8% (se=2.6%) while using the DEC brings the expected completion percentage to 84.1% (se=7.4%), a considerable swing.<sup>86</sup> One potential red flag is the low overall model fit, with small Pseudo R-squared values. The DEC only participated in 27 of the 385 cases in the sample, and over 60% of projects carried out by private sector or Infraero were completed on time, meaning that none of this success can be attributed to using the DEC. Nonetheless, while the models do not do a good job of explaining the completion of projects, per

se, they do show that agent choice for policy execution is an important consideration for political leaders.

**Table 6-3.** Determinants of completed PAC projects (logistic regression)

DV=Completed Work	Model 6.1 coef/se	Model 6.2 coef/se	Model 6.3 coef/se	Model 6.4 coef/se
DEC	1.271* (0.553)	1.338* (0.558)	1.286* (0.571)	1.402* (0.577)
Emblematic project		-0.339 (0.315)	-0.477 (0.334)	-0.410 (0.341)
2011-2014 Budget			0.000 (0.000)	0.000 (0.000)
Roads/Bridges				-1.035** (0.373)
Airports				-0.740** (0.293)
Ports/Other				
Constant	0.478*** (0.109)	0.520*** (0.116)	0.479*** (0.123)	-0.713*** (0.143)
Number of observations	385	385	365	365
Pseudo R <sup>2</sup>	0.013	0.016	0.019	0.044
AIC	503.051	503.902	476.963	468.706
BIC	510.958	515.762	488.663	488.206

note: \*\*\* p<0.001, \*\* p<0.01, \* p<0.05

#### 6.1.4 Discussion

The PAC was originally designed in 2007 by President Lula and continued under current president Dilma Rousseff to address Brazil's longstanding infrastructure deficit in energy, housing, transportation, and sanitation. The government has relied on state actors and the private sector for the implementation of the thousands of projects that make up the PAC, but it has also used the army's Department of Engineering and Construction to an unprecedented degree in democratic Brazilian history. The government is motivated by the agency's professionalism and

<sup>86</sup> Predicted probabilities calculated based on Model 6.3, with other variables held at their means.

capacity (in part to meet electoral and international deadlines) and lower costs, and has shown its willingness to sacrifice ideological affinity to achieve this goal. Further, as the statistical comparison shows, the DEC really does perform better than the private sector and relevant jurisdictional authorities at meeting completion deadlines, meeting 84% of deadlines in comparison to 62% for other actors, and therefore benefitting both politicians and citizens.

However, some caveats must accompany this rosy evaluation of DEC performance. By its own admission, the agency has also reached the upper limits of its operating capacity with the current number of PAC projects. According to General Joaquim Maia Brandão, the department would have to remove soldiers from other functions in order to attend to add additional projects to its docket (Monteiro 2011). So while the agency's competence is high, it is also finite, and the government cannot expand the department's role in the PAC without making significant personnel and budget additions. Second, it bears repeating that the army's policy expertise is limited to external and internal defense—such as United Nations peacekeeping missions in Haiti or policing some urban areas in Brazil—or as I show here, technically oriented domestic task implementation by the engineering battalions of the DEC. The army's success in completing projects on time, and in at least some cases, under budget, does not mean that it would perform well in tasks outside the training of its soldiers, as the following case will attest.

## **6.2 SOLDIERS AND CIVILIANS: PLAN BOLÍVAR 2000, MERCAL, AND FOOD POLICY IN VENEZUELA'S FIFTH REPUBLIC**

*The National Armed Force constitutes an essentially professional institution, without political militancy, organized by the State to guarantee the independence and sovereignty of the Nation and ensure the integrity of the geographical space through military defense,*

*cooperation in the maintenance of internal order, and the active participation in national development, in accordance with this Constitution and the law.*

Article 328 of the Constitution of the Bolivarian Republic of Venezuela (1999)

In contrast to the Brazilian military's circumscribed role in domestic policymaking and implementation, the Venezuelan Bolivarian National Armed Force (*Fuerza Armada Nacional Bolivariana*, FANB) constitutes an integral part of that country's internal policy process, both as a manager and street-level implementer. This has been especially true since 1999, when President Hugo Chávez greatly expanded the FANB's role in politics and society as part of the government's "civil-military union" (D'Elia and Maingon 2009; Trinkunas 2004; Coletta 2010; Ochoa Hernández and Rodríguez Colmenares 2003; Jácome 2011). The involvement includes sending the FANB to implement national literacy programs, run health clinics, construct infrastructure, and even manage nationalized industries. Yet despite greater involvement in carrying out the work of the state than the DEC, the FANB's effect on implementation success has been mixed.

After taking office, President Hugo Chávez promulgated a development and infrastructure policy known as Plan Bolívar 2000 that included, among other things, a National Agricultural Food Program created to help feed the poor. Chávez delegated this entire package of policies to the military seeking improved agency responsiveness and increased loyalty in comparison to more jurisdictionally appropriate ministries. Unfortunately, contrary to the president's expectations, the program was failed to produce its desired outcomes, and the government largely abandoned it by the end of 2001. In the wake of the plan's failure, Chávez promulgated an ambitious nutrition proposal known as the *Misión Alimentación* (Nutrition Mission) that included vast distribution networks and state-run groceries through the *Mercado de Alimentos* (*Mercal*) and the Venezuelan Production and Distribution of Foodstuffs (*Producción y*

*Distribución Venezolana de Alimentos*, PDVAL). Despite returning control over policy execution to a more appropriate agency—the Ministry of Nutrition—the mission has also been dogged by accusations of corruption, food scarcity, falling coverage, and administrative malfeasance.

## **6.2.1 Food Policy in Venezuela’s Fifth Republic**

### **6.2.1.1 Plan Bolívar 2000**

Hugo Chávez Frías was elected in December 1998 as a political outsider. One of the first policies he pursued was the ambitious Plan Bolívar 2000, a social welfare and development plan initiated on February 27, 1999, and designed to cement the president’s *bona fides* as a man of the people.<sup>87</sup> This program incorporated the armed forces into domestic political and economic affairs via refurbishing and constructing infrastructure, providing health care for the poor, combating illiteracy and unemployment, and distributing food. It consisted of three principal phases to be developed in the short-, medium-, and long-term: 1) Action for Social Integration Project (*Proyecto de Acción de Integración Social*, Propaís), aimed at social protection of the most vulnerable population during 1999; 2) Homeland Project (*Proyecto Patria*, Propatria), a two-year labor and economic stimulation plan; and 3) Nation Project (*Proyecto Nación*, Pronación), consisting of structural changes over a five-year period.

From the beginning, Chávez placed the project in the hands of the National Armed Force Central Command (*Comando Unificado de la Fuerza Armada Nacional*, CUFAN)<sup>88</sup>, managed

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<sup>87</sup> Executive Decree 33

<sup>88</sup> The 2008 Organic Law of the Armed Forces (Official Gazette 5891) changed the official nomenclature from CUFAN to the Strategic Operational Command of the National Armed Force (*Comando Estratégico Operacional de la Fuerza Armada Nacional*, or CEOFAN).

between 1999 and 2002 by Army Generals Germán Marín Gómez, Gonzalo García Ordóñez, and Manuel Antonio Rosendo. The CUFAN in turn created the Country Project Foundation (*Fundación Proyecto País*) to administer the program's funds. This foundation was organized geographically into 26 zones, called Social Operation Theaters (*Teatros de Operación Social*, TOS), which corresponded to the country's 26 military garrisons—one in each of the country's 22 states, with two each in Carabobo, Apure, Táchira, and Sucre. The garrison commanders, colonels and generals appointed by the CUFAN, directed the foundation in their respective TOS. Multilateral commissions made up of local authorities, ministries, and other regional agencies also provided input to the garrison commanders and the foundation through each zone's military interlocutor (Ochoa Hernández and Rodríguez Colmenares 2003).

As I explain in Section 6.2.2.1, below, the president was motivated to delegate to the military for at least three reasons: 1) to the president's military background as an ex-Army Lieutenant Coronel and his loyalty to the organization; 2) Chávez's belief of the FANB as possessing high capacity; and 3) the ideological similarities between the president and the organization. In fact, the president was so enamored of the FANB that he promulgated a civic-military union to govern political affairs, involving the armed forces in myriad aspects of public life and significantly strengthening his and their power. Chávez's delegation of the Plan Bolívar 2000 hit the motivational sweet spot for the president by optimizing (in his mind) efficiency, ideology, and political efficacy. As I show below, it was only after widespread improprieties were discovered, that Chávez began to question his assumption of high organizational capacity.

Regardless, the National Agricultural Food Program (*Programa Agroalimentario Nacional*) was one of the plan's major dimensions. In broad terms, the food program sought to promote the competitive development of Venezuela's agro industry, guarantee nutritional

security for the population, generate wealth and employment, improve the conditions of the rural population, and achieve a positive agro-nutritional commercial balance (Anido 2002). This program was at partially based on ex-President Rafael Caldera's Strategic Food Program (*Programa de Alimentos Estratégicos*, PROAL) to provide at least five basic foodstuffs to millions of under- or malnourished citizens. Yet whereas PROAL established the largest distribution system in the country, including at least 200 distribution centers and 16,000 popular markets at highly subsidized prices, the National Agricultural Food Program diverged in some important areas. First, the Ministry of Agriculture and Breeding managed PROAL, while the military was in charge of the National Agricultural Food Program. Second, the food program was also much more centralized, with direct vertical coordination between Chávez, the CUFAN, and the garrison commanders. Third, whereas PROAL distributed subsidized basic foodstuffs, the Plan Bolívar 2000 simply assumed the role of buyer (from agricultural producers) and seller (to citizens), allowing soldiers even to sell basic goods at below-market prices to hold down costs in lower- and working-class marketplaces rather than applying a subsidy.

The military's food distribution network consisted of four different prongs, all of which later served as models for the Misión Alimentación: 1) Mega Market, agglomerations of dozens of producers; 2) Popular Market, open air markets organized in many urban locales where producers sell directly to customers; 3) Normal Market, run bi-weekly by the military in every TOS; and 4) ambulatory convenience stores run by different army units in hard-to-reach urban areas and/or those zones not covered by PROAL.<sup>89</sup> Of these four different types, the normal and ambulatory markets involved the highest degree of direct military intervention. Each eliminated middlemen from the supply chain process by allowing the military to sell produce and meat

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<sup>89</sup> Despite their official names, all four of these markets are known colloquially as "Popular Markets".

obtained from producers directly to the public. Since the military could not profit from these transactions, it theoretically passed on a high degree of cost savings to consumers. The garrisons also directly determined where the markets would be held, and in some slums, teams of social workers delivered food directly to the needy (U.S. Embassy Caracas 1999). However, President Chávez wound down the ambitious plan towards the end 2001, as military personnel began to face accusations of inefficiency and corruption.

#### **6.2.1.2 *Misión Alimentación: Mercal, PDVAL, and State-Run Grocers***

In the wake of Plan Bolívar 2000's demise and intense socio-political strife throughout 2002—including a brief coup against the president, and then a two-month long general strike demanding a recall vote against him—Chávez created a series of social missions to shore up his support and deepen the role of the state in society. One of the first of these was the *Misión Alimentación* (Nutrition Mission), a state-run food distribution and subsidized grocery system to confront the risk of food shortages through “food sovereignty”, created on April 24, 2003. The design of the mission, like the Plan Bolívar 2000, was decreed into effect without much long-term planning or a clearly defined bureaucratic structure, problems the government tried to rectify throughout 2003 and 2004. The most important of these changes was the creation of the Ministry of Nutrition (*Ministerio de Alimentación*, later changed to *Ministerio del Poder Popular para la Alimentación*, MINPPAL) on September 15, 2004, to absorb a variety of institutions and dependencies related to the nutritional security, including the state enterprise *Corporación de Abastecimiento y Servicios Agrícolas*, S. A. (La Casa, S.A.), *Mercal* (***Mercado de Alimentos***, or



“Food Market”), and the *Fundación Programa de Alimentos Estratégicos* (FUNDAPROAL), the agency created to manage PROAL.<sup>90</sup>

The mission’s logic included: 1) a system of purchases and food storage, coordinated by La Casa; 2) a distribution and sales network made up of different enterprises (for which Mercal was specifically created); and 3) a group of special programs under the responsibility of FUNDAPROAL. The largest, and most public component of these was Mercal, whose objective was to lower final cost of basic foodstuffs through a reduction of costs derived from eliminating intermediaries between producers and consumers, as well as a 50% subsidy on seven basic food products for those living in extreme poverty (Patruyo 2008).<sup>91</sup> The program aimed to reach at least eight million Venezuelans through a network of establishments that included 300 distribution centers, 300 Type I Mercals (with a 16-23 ton capacity of Casa-brand items), 2,000 Type II Mercals (franchised markets selling both Casa and other brand goods), 7,000 neighborhood mini-markets in hard-to-access areas, and 100 mobile markets<sup>92</sup>—and later to include Super- and Mega-mercals, Casa-brand supermarkets. In 2009, the most-sold products by volume were precooked corn flour (for *arepas*), chicken, rice, sugar, sauces, powdered milk, and black beans (IV Encuesta Nacional de Presupuestos Familiares 2009).

Between 2003 and 2006, Mercal’s territorial coverage expanded significantly, reaching more than 15,000 points of sale, and offering consumers an average savings of 37% on its food products compared to market prices. Despite closures since 2007, the number of establishments

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<sup>90</sup> Executive Decree 3.125. The other agencies under the MINPPAL’s control are the *Superintendencia Nacional de Silos, Almacenes y Depósitos Agrícolas (SADA)*, *Lácteos los Andes, C.A.*, *Red de Abasto Bicentenario, S.A.*, *Industrias Diana C.A.*, *Empresa de Almacenes Nacionales, C.A. (ENACA)*, *Instituto Nacional de Nutrición (INN)*, and *Farmapatria, C.A.*

<sup>91</sup> Mercal, like PDVAL below, was created by President Chávez for the purpose of carrying out specific tasks, and therefore constitutes an additional treatment (“agency creation”). However, I use them as a control against which to compare the Plan Bolívar 2000 by considering them in conjunction with the existing state food apparatus.

<sup>92</sup> Executive Decree 2.841

was still above 14,000 in 2012 (MINPPAL 2013: 35-36). In contrast to Plan Bolívar 2000, whose food program created approximately 1,375 markets, the sheer number of Mercal markets and Fundaproal special programs allowed the mission to permeate even the most remote corners of the country. Predictably, it had the highest name recognition of any government program in 2009 at 45.1%, nearly surpassing the value of the other 16 missions combined (IV Encuesta Nacional de Presupuestos Familiares 2009). Further, nearly 20% of respondents had made purchases at Mercal in the previous week, constituting a national total of some six million people.

Unfortunately, as the scope of Mercal grew, it began to encounter problems. At the outset, most of the program's food came from domestic production, yet La Casa-imported food—including that from international agreements—has slowly replaced much of this production over time (Hurtado Power and Rodríguez Rojas 2012), increasing the government's fiscal responsibility.<sup>93</sup> Consumers, meanwhile, have faced such problems as food scarcity (García Mora 2011) and a drop in coverage (Contreras 2011), resulting in a decrease in the mission's public approval. The press also reported numerous accusations of trafficking in Mercal foodstuffs, although these claims have yet to be substantiated by government reports.

Finally, on January 6, 2008, in direct response to Mercal's failures, Chávez announced the creation of Venezuelan Production and Distribution of Foodstuffs (*Producción y Distribución Venezolana de Alimentos*, PDVAL), a state enterprise and PDVSA subsidiary under the aegis of the Ministry of Energy, to guarantee the national supply of food and the opportune

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<sup>93</sup> These include bilateral agreements with Argentina, Belarus, Bolivia, China, Cuba, Iran, Nicaragua, and Uruguay in which the countries development joint technical cooperation programs in addition to negotiating food purchasing contracts, such as importing red beans from Nicaragua (MINPPAL 2007). As with the binational agreements utilized in housing development (see Chapter 7), these partnerships are motivated in large part by geopolitics rather than a desire to improve the efficiency or reduce the cost of goods.

and permanent access to it by the public consumer. Its formation represented an instance of *double* bureaucratic redundancy, since PDVAL's jurisdiction and tasks overlapped many of Mercal's goals—which in turn overlapped many of Fundaproal's tasks. Over half of the food was purchased and imported by Bariven S.A., a PDVSA corporation that handles the oil giant's international purchases, including, since 2003, foodstuffs for Mercal and PDVAL (Contraloría General de la República 2010). Bariven would import the food through a range of shipping companies, and then PDVAL would deliver it to its web of six different types of markets. Out of Misión Alimentación's 23,000 total markets in 2012, PDVAL operated 2,822, managing about a third of Mercal's volume (433,900 tons in 2012) and reaching nearly two million people (MINPPAL 2013: 35-36). However, it too has been severely critiqued by civilians on both sides of the political aisle, as well as the Venezuelan comptroller, for revelations of severe administrative incompetence.

## **6.2.2 Motives for Delegation Decisions**

### **6.2.2.1 The FANB in the Plan Bolívar 2000**

It is no surprise that Chávez turned to the FANB in 1999 to execute his ambitious social development plan, owing to the president's military background as an ex-Army Lieutenant Colonel, the FANB's reputation of high capacity, and the ideological similarities between the president and the organization. Beginning in 1971, the president was educated at the military academy under the progressive Plan Andrés Bello that emphasized leadership training and professional development as well as combat readiness (Trinkunas 2002: 45-46), and he and others, such as Commander Francisco Arias Cárdenas, embraced the FANB as an effective tool for undertaking social change. Article 328 of Venezuela's 1999 Constitution even broadened the

FANB's mission to include cooperation in the maintenance of internal order as well as active participation in national development. Active-duty and retired military officers assumed political and bureaucratic positions, occupying up to a third of cabinet portfolios, and the FANB became one of the principal executors of government programs and policy, clearly moving from a restricted domestic role to an active one (Ochoa Hernández and Rodríguez Colmenares 2003; Trinkunas 2004; Jácome 2011).<sup>94</sup>

President Chávez turned to the military at least in part because of the human and technical resources it provided (McCoy and Myers 2006: 57; Trinkunas 2004), a consideration equal to the agency capacity dimension in Chapter 2's theoretical model. The president publically touted Plan Bolívar 2000 as an example of what a properly organized and capable bureaucracy could achieve, noting the "infinitely" lower cost of the program compared to previous social work campaigns. At the time Chávez came to power, the two highest capacity agencies in the country were probably the armed forces and the state oil company. Ellner writes that, "Plan Bolivar 2000 was also designed to produce a bureaucratic shakeup.... By accomplishing in several weeks what took months by the official process, the program served to show up the government bureaucracy" (Ellner 2001: 18). This may have to do with the perception—in 1999 as now—of the Venezuelan bureaucracy as hopelessly bloated, inefficient, and limited in its reach, and of the presidents antagonism towards the private sector.

The FANB, by contrast, is a hierarchical agency with high obedience, twenty-four hour availability, and 200,000 agents. It is also unencumbered by many of the restriction of civilian agencies, including the law of government contracting (*ley de licitaciones*, known since 2009 as

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<sup>94</sup> Even with more limited powers, the FANB had still collaborated informally with civil authorities. One interviewee told me that, "we always collaborated—'hey, lend me some soldiers to donate blood, some soldiers to

the *ley de contrataciones*), which imposes all sorts of different checks on open bidding, the contract tendering process, and payments. Without this limitation, generals and other responsible parties were able to expedite the sub-contracting process and the project itself—although this lack of deliberation and paperwork also created poor conditions to track how, where, and when government monies were spent. Marxist historian Marta Harnecker sums up the Chávez government's motivations in a question posed to the ex-president in 2002. In her interview, she tells the president:

I understand the anguish of the leader of a government who must make swift decisions to fundamental problems *but who cannot count on a state apparatus adequate to the circumstances. I think this is what has driven you to look for support from the military.* But then it seems that there is a contradiction between the fact that the main executors of the most important tasks of the revolutionary process are the military and the fact that this process is conceived as one in which the sovereign people exercise power through participation in all areas. *I understand that the military is often efficient and disciplined...* (Harnecker 2002; italics mine)

Although Harnecker expresses her worry with the level of military intrusion in domestic affairs, she also recognizes the perceived weaknesses of existing civilian agency capacity as a driving factor behind this action.

Others argue that an additional motive for the civil-military union was political efficacy and Chávez's trust in the institution and many of its leaders (Jácome 2011), a dimension similar to the preference divergence variable in Chapter 2's theoretical model. As a political outsider from a newly created party, the Fifth Republic Movement (*Movimiento Quinta República*, MVR), Chávez initially had few links to the civilian bureaucracy and traditional party politicians. Instead, as an ex-Lieutenant Colonel in the Army, his most trusted confidants were his friends, co-conspirators in the *Movimiento Bolivariano 200* group, and acquaintances from

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help me finish this highway'—with the mayors, the ministries—'send me seven little soldiers'—just like that, in diminutive—'some little soldiers to help me fix this thing' (Interview No. 6).

that FANB. Further, as an ex-*golpista* who unsuccessfully tried to overthrow President Carlos Andrés Pérez in 1992, Chávez understood the importance of military support for retaining civilian leaders.<sup>95</sup> In short, in order to implement his ambitious development plan, Chávez sought both superior agency capacity from the military, as well as an ideological affinity. Unfortunately for Venezuelans, this did not necessarily translate into efficient policy.

#### **6.2.2.2 The Return to Civilian Agencies**

Despite Chávez's reliance on the FANB during the Plan Bolívar 2000, the military played only a small logistical role in the Misión Alimentación.<sup>96</sup> Given the FANB's broadened scope of action under the 1999 Constitution, and involvement in other social mission (e.g. *Barrio Adentro*, Robinson, Sucre), why was it largely overlooked in the implementation of Chávez's enormous nutrition mission? Why did the president subsequently return to civilian agencies to carry out nutrition policy after employing the military? Chávez's decision was informed by reconfigurations in civilian agency capacity and ideology, as well as a rise in the cost of delegating to the military.

First, by 2003, the FANB was no longer as high capacity as it appeared in 1999. The corruption scandals and reports of military inefficiency in the Plan Bolívar 2000 weakened the perception of the FANB's strength, especially in non-defense, and non-logistic work. This made civilian agencies, especially specialized, jurisdictionally appropriate ones such as La Casa and Fundaproal, more attractive to the government. New agencies such as Mercal and PDVAL were better still, since they were created specifically to meet the mission's new tasks.

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<sup>95</sup> If this is indeed true, it was quite a prescient motivation, for Chávez was toppled in a military coup in April 2002, and subsequently reinstated by loyalist factions within the FANB.

<sup>96</sup> Although it must be noted that two-time Minister of Nutrition Rafael Oropeza is an ex military official.

Second, there was a reconfiguration of agency ideology. By early 2003, Chávez had enjoyed four (admittedly tumultuous) years in office, and had used his appointment powers to make more than a thousand appointments inside his bureaucratic apparatus (LAEDD 2014). As a result, the president was more likely to trust these loyalists staffing his civilian agencies rather than the strangers appointed under the previous Caldera government. Additionally, Chávez was more wary of the military in 2003 than four years earlier.<sup>97</sup>

Third, the opportunity cost of delegating to the military became increasingly expensive in 2003 as the FANB was employed in other domestic tasks. Soldiers were used to build health units and distribute goods for the Barrio Adentro health mission, and as educators in the Sucre and Robinson I education missions (D'Elia 2006). With thinned forces at its disposal, the CUFAN was limited in the number of specialists and resources it could dedicate to nutrition. In other words, the “circumvention cost” of military delegation was higher at this point in time than in 1999.

### **6.2.3 Implementation Success**

#### **6.2.3.1 The FANB and Plan Bolívar 2000**

Plan Bolívar 2000 was a policy that afforded isolated instances of policy success but is largely remembered for its high inefficiency and accusations of corruption against members of the FANB. The military was able to reach rural areas and poor neighborhoods with otherwise little

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<sup>97</sup> Many of the generals associated with the Plan Bolívar 2000 leadership, such as Generals Manuel Antonio Rosendo and Lucas Rincón Rincón, had failed to act in defense of the president during the April 2002 coup d'état against him.

state penetration, taking advantage of its immense operational capabilities and a presence in all 22 states and the federal district. In fact, in its first year of operation, the FANB installed 1,375 popular markets, 229% more than the goal of 600 (Contraloría General de la República 2000: Appendix 4). Further, in a representative sample of 393 individuals in the communities targeted, the comptroller general found 81% were satisfied with the services. Nonetheless, many soldiers were ill equipped to carry out the “street-level” tasks assigned, and execution was irregular from state to state and from task to task. The press denounced hundreds of cases of corruption, and in an extensive national audit, the government’s own Office of the Comptroller General (*Contraloría General de la Nación*)—the equivalent of the U.S. Government Accountability Office—found that nearly 35% of funds issued to regional military commanders were unaccounted for. Whatever positives the program offered were rendered moot by the high degree of inefficiency generated from disappeared money and poorly equipped forces.

There were various causes for the program’s troubles. To begin with, specific objectives and tasks were also not clearly defined when the program began. Plan Bolívar 2000 was designed on the fly, established just three weeks into the president’s first term, and involved some 70,000 soldiers (U.S. Embassy Caracas 1999). As a result, specific roles were initially poorly defined, and military commanders were simply given too much autonomy in interpreting and implementing orders. For example, the 342 Communications Battalion, stationed at Fuerte Tiuna in Caracas, was given four broad suggestions for effectively carrying out popular and normal markets: planning and organization of the markets, meeting with the executing unit commanders from the markets, meeting with food providers, and settings prices (342 Battalion 2002). Soldiers were not told where to set up, what the price range for products should be, or how to go about fulfilling any of these four obligations.



One commander explained his job as: “I did what they called ‘civil-military integration’, I worked with civilians and the military, we worked together, I was—excuse the comparison—I was a ‘local Chávez’ on the eastern coast, in Cabimas, Tía Juana, Bachaquero [inland cities in the state of Zulia], I worked there as if I was Chávez, without anyone saying anything” (Interview No. 6). Others echoed this. In a personal interview, ex Army General Álvaro Carrasco Roa said, “I was like Robin Hood: I took from those who had and gave to those without. Anyone who hasn’t seen Robin Hood doesn’t know what I’m talking about—or hasn’t seen Simón Bolívar—... I broke the bonds of ignorance; I taught them to read and write!”<sup>98</sup> Chávez himself recognized the lack of guidance, re-launching the project in November 1999 with tasks more precisely defined (Contraloría General de la República 2000: 15).

Excessive discretion was doubly problematic, since commanders were working outside of their traditional defense-related jurisdictions. In many cases, military personnel confronted limitations in executing conservation, building, and repairs since they had never been trained in those areas. This was especially true in military divisions without Engineering Battalions (Contraloría General de la República 2000). Unsurprisingly, the comptroller found that 43% of a 511-project sample had not been adequately repaired or attended to, including plumbing, electric systems, school desks, rain gutters, fences, and schoolrooms (Contraloría General de la República 2000). The military was most successful when it sought widespread collaboration and partnerships with local and civil society actors: governors, mayors, local businesses, and civil society volunteers that possessed knowledge of the services required by specific populations. However, TOS commanders only achieved this collaboration if they actively pursued it.

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<sup>98</sup> “*Era como Robin Hood, le quitaba al que tenía y le daba al que no tenía. El que no ha visto Robin Hood no sabe qué es eso, el que no ha visto a Simón Bolívar... entonces yo le rompí la cadena de la ignorancia; los alfabetiqué*”.

A lack of technical infrastructure or a system of control combined with the aforementioned autonomy led to a dearth of institutional accountability. One interviewee said, “I was autonomous because I was—, was building my houses and at the same time ran my humanitarian missions and sold food, medicine, ran courses, donated... I grabbed contractors and said ‘I need two thousands notebooks’. And since I wasn’t corrupt, I didn’t ask for any commission under the table, like asking two million [bolívars] for a job of one million” (Interview No. 6). Corruption was, however, Plan Bolívar 2000’s biggest problem. The media, academics, and the Venezuelan government have documented hundreds of cases of illicit enrichment by actors connected to the program.

In late 2000, the Comptroller General’s Office investigated 23 of the 26 TOS and discovered high levels of irregularities in how funds were disbursed. There appears to have been two strategies for officers motivated to illicitly enrich themselves: cash purchases or kickbacks. All services and contractors were supposed to be hired via check, leaving a paper trail of both the TOS and contractors. The regional directorates circumvented this control, however, by simply writing checks to themselves, cashing them, and paying contractors in cash—with some of the money disappearing in the transaction process. In other cases, commanders provided forged or exaggerated receipts for services rendered, indicating the likelihood that businesses were paying kickbacks to the units doing the contracting.

Table 6-4, which lays out some results of the comptroller’s audit, reveals some alarming figures. In all, TOS commanders justified nearly 35% of the 5.3 billion bolívars<sup>99</sup> of audited purchases through non-existent or forged bills (Contraloría General de la República 2000). In eight TOS—Barcelona, Ciudad Bolívar, Maturín, Puerto Ayacucho, Acarigua, San Juan de los

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<sup>99</sup> This represented about 7% of the total 73 billion spent.

Morros, Mérida, and Maracay—there were no receipts for 59% of the money spent by the garrisons; in Barcelona, Maracay, and San Juan de los Morros, 85% of purchases lacked a paper trail. Either the commanders were extremely poor bookkeepers, or they were especially brazen in their private enrichment. As a result of these findings, formal charges were brought against General Jorge Luis García Carneiro (TOS Mérida) and General Mervin López Hidalgo (TOS Guárico), as well as the complicity of members of the CUFAN, including General Manuel Antonio Rosendo in 2001. Yet none of these generals was convicted, and Chávez defended Rosendo publicly, saying, “perhaps it is an administrative mistake that requires a fine; but it is nothing to get worked up about”<sup>100</sup> (Poliszuk 2013). However, amid the mounting corruption scandals, the president all but abandoned Plan Bolívar 2000 by the end of 2001.

**Table 6-4.** Audit of *Proyecto País*, 1999-2000 (millions of bolívares)

<b>Regional Direction</b>	<b>Billed</b>	<b>Invoiced</b>	<b>Missing</b>	<b>% Missing</b>
Barcelona	70.63	7.94	62.69	88.76
Ciudad Bolívar	10.74	2.51	8.23	76.63
Maturín	383.88	156.51	227.37	59.23
Caracas	1286.02	870.16	415.86	32.34
Porlamar	184.10	184.10	0	0.00
Cumaná	283.32	247.53	35.79	12.63
Carúpano	105.29	105.29	0	0.00
Pto. Ayacucho	320.33	73.55	246.78	77.04
Trujillo	218.38	218.38	0	0.00
Maracaibo	92.23	76.81	15.42	16.72
Barquisimeto	318.20	318.20	0	0.00
San Felipe	133.84	133.84	0	0.00
Acarigua	148.86	31.00	117.86	79.18
San Juan de los Morros	496.49	72.71	423.78	85.36
Valencia	174.90	157.89	17.01	9.73
Pto. Cabello y Mora	144.99	144.99	0	0.00
San Carlos	114.33	114.33	0	0.00
Barinas	502.50	471.21	31.29	6.23
San Fernando de Apure	99.49	99.49	0	0.00

<sup>100</sup> This last part is an academic interpretation of the popular expression “*no es para prender el ventilador*”.

Mérida	74.27	29.90	44.37	59.74
San Cristóbal	83.18	50.44	32.74	39.36
Punto Fijo	98.50	79.59	18.91	19.20
Maracay	167.34	24.31	143.03	85.47
La Fría	N/A			
Guasdualito	N/A			
Tucupita	N/A			
<b>TOTAL</b>	<b>5379.81</b>	<b>3538.68</b>	<b>1841.13</b>	<b>34.22</b>

Source: Contraloría General de la República (2000)

### 6.2.3.2 The Success of Mercal and PDVAL in the *Misión Alimentación*

Despite high levels of name recognition and acceptance by the population at large, Misión Alimentación's implementation has also been mixed. Although the program has helped feed millions of Venezuelans, it failed to meet its infrastructure goals, food sovereignty goals (i.e. food autarky), and even consistently stock all basic foodstuffs, all while incurring a high fiscal cost. Distribution problems and scarcity have caused the closure of thousands of markets. PDVAL, created to address Mercal's shortcomings, has failed to improve things, with poor agency coordination and oversight causing the loss of over a hundred thousand tons of food since 2008.

To begin with, Mercal has failed to meet one of the program's motivating goals, that of domestic food sovereignty. After it was established in 2003, around 50% of food products sold through the supply chain were imported. However, price controls and the poor production of state-run enterprises have caused the domestic food supply to dwindle (Obuchi 2011). As a result, between 2005 and 2008, the percentage of imported food in Mercal jumped from 54% (2005) and 48% (2006) to 73% (2007) and 71% (2008) (Hurtado Power and Rodríguez Rojas 2012). While the government was able to place a large amount of food management under state control through the mission, Mercal has actually moved toward a greater dependence on foreign imports.

Second, the mission has not met its goals for physical infrastructure. By the end of 2003, Mercal had constructed only 33% of the structures set forth upon the mission's creation, approximately 1,625 markets (MINPPAL 2008). As a result, the government was forced to contribute an additional 69 million bolívaes to the expansion of the network through the Exceptional Plan Economic and Social Development (Executive Decree 2841), establishing a total of 8,299 markets through July 2004 and some 13,000 by the end of 2004.<sup>101</sup> This enormous aggregate number, while surpassing the mission's goals, obscures a wild imbalance between the types of markets built. Table 6-5 shows the evolution of Mercal's physical infrastructure by market type as a function of program goals. While Mercalitos and Mobile Mercals reached 188% and 300% of the stated objectives, only 113 of 3000 (38%) of distribution centers were built and only 850 out of 2000 (42.5%) of the Type II markets.

Mercalitos far outnumber all other modes of food distribution, with numbers ranging from 100 in Amazonas state to 2,217 in Zulia. By contrast, Type I Mercals number only 30 (in populous Miranda and Zulia states) and Type II Mercals only 78 (Miranda again). One reason for this imbalance is that small markets are inexpensive and easy to build, and provide a political service as a visible sign of the government's presence in marginal neighborhoods and small towns. By contrast, the distribution centers, where products are received from domestic producers and importers and sent out, are a fundamental cog in the supply-and-distribution process, but are more expensive to build and less conspicuous than the markets.

**Table 6-5.** Mercal's Physical infrastructure (2003-2007)

<b>Year</b>	<b>Super Mercal</b>	<b>Type I</b>	<b>Type II</b>	<b>Mercalitos</b>	<b>Mobile Mercal</b>	<b>Distribution Centers</b>
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<sup>101</sup> Despite a peak of 15,741 markets at the end of 2006 (MINPPAL 2008), scarcity and distribution problems caused hundreds of markets to close their doors in 2007, and three thousand more to close by the end of 2011 (Contreras 2011).

2003	0	163	26	1376	0	23
2004	30	208	78	12115	261	101
2005	32	209	867	13286	273	109
2006	34	210	1007	13286	294	110
2007	33	210	850	13200	393	113
Goal	N/A	300	2000	7000	100	300
% Executed	N/A	70	42.5	188.6	393	37.7

Source: Patruyo (2008: 17)

The paucity of distribution centers in relation to the quantity of smaller markets, in combination with the aforementioned price controls, has conspired to produce sluggish sales (Ochoa 2009; Caselli 2013). Average daily sales of foodstuffs in Mercal markets hovered around three to four thousand tons from July 2004 to November 2005, before shooting up past six thousand tons at the beginning of 2006. However, over the course of the following year, this dropped down to below two thousand tons daily, and at different times since then, there has been scarcity of powdered milk, refined sugar, meat, vegetable oil, chicken, black beans, hard cheese, canned sardines, and others. Mercal's sales have continued to decrease since then (Hurtado Power and Rodríguez Rojas 2012).

The causes of poor sales are distribution inefficiencies from La Casa to Mercal, as well as food shortages caused by government price controls. In 2007, Minister of Nutrition Rafael Oropesa concluded that food shortages under previous Minister Érika Farías were due to “a poor calculation of inventory and restocking times” (Últimas Noticias, 3 February 2007, cited in Patruyo 2008). Yet, Mercal ran a scarcity index of 47% in 2008 and 2009 (Ochoa 2009), and in 2011, the polling firm Datanálisis found greater scarcity in Mercal markets (57%) than private supermarkets (17.5%). Even at Supermercales, consumers are unsure what products will be in stock, and when scarce products are rationed when they arrive.

Nor did the creation of PDVAL in 2008 improve the management problems of state-run grocery stores. In 2010, after just two years of existence, a scandal known as the *Caso*

*PDVAL*—or the “*Caso PUDREVAL*”, a play on the agency acronym and the Spanish *podrir* (to rot)—made the agency infamous for its administrative incompetence. Between May and July of that year, the Sebin, Venezuela’s equivalent of the FBI, discovered over one hundred thousand tons of expired PDVAL food rotting in shipping containers in the ports of Puerto Cabello and La Guaira. Poor coordination with shipping agencies, a lack of internal controls, and an admitted limited distribution capacity meant that some food sat for months or even years in shipping containers. In some cases, the food’s arrival was never registered with PDVAL, while in others, there was no record of the food having been shipped—discrepancies lending credence to accusation of PDVAL officials reselling the food on the private market (“Cronología sobre los alimentos en descomposición de Pdval” 2010)

Both pro-government and opposition activists made accusations of malfeasance,<sup>102</sup> and the National Assembly convened a commission to evaluate the agency on June 8 (“Cronología sobre los alimentos en descomposición de Pdval” 2010). In the fallout, PDVAL’s former president, Luis Pulido, was arrested for misappropriation of public funds, along with General Manager Ronald Flores and Executive Director Vilyeska Betancourt. Control of the agency was transferred from PDVSA, under the Ministry of Energy, to the Vice Presidency, and then to the Ministry of Nutrition ostensibly to promote better oversight. Simultaneously, on July 26, General Carlos Osorio replaced Félix Osorio as Minister of Nutrition.

Of the many problems surrounding PDVAL’s failed implementation, two related issues stand out: low agency capacity and poor controls and coordination. A leaked U.S. Embassy cable said that an ex-president of Bariven, George Kabboul (2003-2009), admitted that the enterprise lacked expertise in food purchases, and that its early efforts to support PDVAL had

been beset by mistakes (Steuart 2010). PDVAL lacked sufficient refrigeration units to store imported chicken and milk, and even many supposedly unspoiled foods were not kept under hygienic conditions (Contraloría General de la República 2010). PDVAL knowingly accepted a total volume of goods three times its stated distribution capacity in 2010: an internal PDVAL report from June 2010 revealed that Bariven purchased 597,000 tons of food in 2008 despite a known distribution capacity of only 191,000 tons. Worse, PDVAL was only able to deliver 122,000 tons that year (Hinds 2010).

As with the other pre- and post-Misión Alimentación food programs, PDVAL also suffered from poor administration and coordination. In fact, internal controls were almost nonexistent. In the comptroller's audit, only 54% of the 266,517 tons of food received by Bariven between February and October 2008 were actually turned over to PDVAL and distributed, while the remaining 44% were kept in shipping containers in the ports (Contraloría General de la República 2010). The cause of this discrepancy was a lack of coordination between the shipping and distribution arms of the organization. For example, employees manually entered the reception of food on Excel spreadsheets and were not shown any master list, nor were checks scheduled to confirm that the registered food was in the containers (Contraloría General de la República 2010: 29). The general accountability office found over 6,000 tons of unregistered food stored by companies; in other cases, over one thousand tons was stored by the companies but not registered by the shipper. Whether these crossed wires were

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<sup>102</sup> For example, in July 2010, PSUV governor of Anzoátegui Tarek William Saab threw out a shipment of melamine-contaminated milk from China.



truly a product of sloppy coordination or a conscious effort to subvert the supply process<sup>103</sup>, the lost food would certainly have been beneficial to needy Venezuelans.

#### **6.2.4 Discussion**

Both soldiers and bureaucrats have failed in the policy execution process of Venezuela's food policy. In 1999, motivated by its perceived high capacity in comparison to discredited civilian agencies as well as a trust based in his own professional training, President Chávez turned to the Venezuelan military to implement the Plan Bolívar 2000. Despite not sacrificing capacity gains for ideology in choosing the military over civilian agencies, there were numerous inconsistencies in the implementation, including numerous allegations of corruption. The FANB established dozens of popular markets and improved food distribution, helping voters, but counterfactually, it also failed to implement as well as it could have. Faced with a lower military capacity and increased costs, the government turned back to civilian agencies for the Misión Alimentación. Once again, though, implementation outcomes have been mixed, with the mission being rocked repeatedly by management scandals and food shortages.

Common factors in the programs' mixed success include poor policy formulation, high politicization, high agency autonomy, and a lack of effective state oversight (see, for example, Ochoa Hernández and Rodríguez Colmenares 2003; Steuart 2010; Hurtado Power and Rodríguez Rojas 2012). Agency choice motivations correlate less directly with outcomes than in other cases, in part because of the political principal's misperceptions regarding agency quality. Despite Chávez's perception of the FANB as high capacity—at least relative to other

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<sup>103</sup> PDVAL and Bariven were also hounded by accusations of demanding bribes from food supply companies in the

government agencies—it revealed itself to be much less professional and more disorganized (and as the president would later see, less loyal than he thought as well). Further, supporting one of the alternative hypotheses regarding military delegation from Chapter 4, the FANB's type of capacity and the demands of the policy were incongruent; the FANB boasts organizational and technical qualities, but is not trained to run food distribution or set up markets.

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U.S. ("U.S. Food Firm Sues Venezuela's Oil Giant PDVSA Over Requested Bribes" 2009).

## **7.0 GOVERNMENT OUTSOURCING**

Outsourcing through the private sector, public-private partnerships (PPPs), and non-profits, while the source of highly charged debate among policymakers and the public, has become ubiquitous in the modern state (Feigenbaum and Henig 1994). The popularity of this strategy has increased since the wave of administrative reforms that swept over the UK, New Zealand, and Australia in the 1980s (Barzelay 2001) and been likened to a “boom” (Dunleavy 1986), while the numbers and reach of NGOs and other non-profits have similarly expanded since the 1950s (Bryce 2005; Werker and Ahmed 2008). Following advances in public choice theory, this type of policy delivery can generate lower implementation costs, higher performance, and greater agent responsiveness than the equivalent public sector bodies—although results seem to vary extraordinarily in practice (Bel et al. 2010).

This chapter contributes to the debate on outsourcing by showing how politicians’ motivations for choosing private sector or non-governmental agents affect policy outcomes. It does so through an analysis and comparison of the success of housing construction outsourcing to foreign governments in Venezuela, and privately managed “Build-Operate-Transfer” highway concessions in Ecuador. Foreign entity outsourcing in Venezuela represents an example of ideology and political considerations taking precedence over completion goals, while highway concessions in Ecuador—especially those planned under President Correa—are an example of agency capacity being worth more. As a result of these differences, outsourcing produced

divergent outcomes. In the first case, foreign government construction management failed to increase the quality or quantity of housing projects, since these agents possess lower capacity than their domestic counterparts. The strategy has, however, strengthened the Venezuelan government's relationship with other countries. In Ecuador, concessions have been more successful at producing higher quality roads, while simultaneously proving politically advantageous. The chapter concludes with implications from a comparison of the two cases.

## 7.1 HOUSING CONSTRUCTION IN THE *GRAN MISIÓN VIVIENDA VENEZUELA*

*“We are going to solve the housing drama, which is only possible as a collectivity: a national union of the private and public sector, the private and public bank, workers, honest business people, Venezuelans, and the world—Cuba, Iran, China, Belarus, Russia, Portugal, Brazil!”*

Venezuelan President Hugo Chávez, explaining his mixed policy delivery strategy in the *Gran Misión Vivienda Venezuela*, 2011

Venezuelans refer to their country's slums and the individual improvised constructions as *ranchos*. These feats of engineering are ubiquitous throughout the country; they spill down the hills and mountains surrounding the capital city of Caracas, and dominate the periphery of even more intermediate cities. Some Venezuelans claim that the ranchos that have overtaken the colonial town of Petare in eastern Caracas actually make it the largest slum in the world, with over 1.5 million inhabitants (although its official population is a mere 369,000). Not surprisingly, since Hugo Chávez took office in 1999, providing free or affordable housing has become a centerpiece of state policy.

The Venezuelan government's current housing policy, the aptly named *Gran Misión Vivienda Venezuela* (hereafter GMVV) was developed in 2011, with the chief objective of

providing housing for the homeless and shanty dwellers. This includes entire “socialist cities” like Ciudad Caribia, tucked in the mountains on the route from Caracas to the port of La Guaira, and Ciudad Tiuna, the enormous complex of nearly 20,000 units located within the confines of the country’s largest military base, in addition to thousands of smaller buildings. In total, the government aims to construct two million housing units nationally between 2011 and 2017 (MINVIH 2013). The program is so large, that the GMVV is not merely “a” policy of the national government or the Ministry of Housing and Habitat; it is *the* policy.<sup>104</sup> From its inception in 2011, it has been the most costly social program in the country, costing an estimated USD 13.25 billion in 2011 (Transparencia Venezuela 2013a: 244).

Using funds generated by the state-owned oil company, *Petróleos de Venezuela, S.A.* (PDVSA), the administration employs a multi-pronged and multi-layered implementation strategy that depends on the central government, regional governments and municipalities, state-owned corporations, organized communities, and foreign groups to oversee construction of thousands of homes and housing complexes across the country. This last mechanism consists of bilateral agreements with foreign countries—Belarus, China, Iran, Portugal, Russia, Spain, Turkey, and Uruguay, among them—in which governments are represented by small groups of delegates (*comitivas*) linked to construction companies. As I will show here, this has not been the case: foreign firms have met fewer of their construction goals than the Venezuelan government as a result of a lack of government oversight and perverse economic incentives.

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<sup>104</sup> This lack of differentiation is noted as far back as 2005 and 2006 by Patruyo (2008: 63).

### **7.1.1 Venezuela's Housing Gap and Government Solutions**

#### **7.1.1.1 The Housing Deficit and Natural Disaster**

Venezuela has long suffered from a housing deficiency. Since at least the Federal War (1859-1863) spurred large-scale internal migration from the *llanos* to the Andes, adequate housing had been a concern for the popular classes. Twentieth-century rural to urban migration and damaging natural disasters made this problem more acute, especially along the heavily populated littoral region. Although the Worker's Bank and other state organizations constructed public housing throughout the 1970s and 1980s, this growth has not kept pace with the housing deficit. Using data from the Venezuelan Chamber of Construction, Alayón and Viana (2012) estimate a national housing shortage of around two million homes, while others put this figure at about three million (Abadi 2013). Moreover, of the 8,211,059 houses in Venezuela's 2011 census, 9.1% (over 747,000) were identified as ranchos (Instituto Nacional de Estadística 2011). That is to say, despite varied housing policies and enormous increases in the number of units built over the past eighty years, millions of Venezuelans continue to live in precarious, informal housing.

The housing shortage became especially salient in December 1999, when torrential rains and flash flooding hit the densely populated coastal states of Vargas and Miranda. Entire towns in Vargas—on the coastal plain at the base of the mountains separating the state from Caracas—were swept out to sea in tidal waves or buried beneath up to ten feet of mud from landslides, and as many as 50,000 or more people were killed. Hundreds of thousands more were left homeless, adding to the preexisting deficit of some 1.8 million homes (D'Elia 2006: 111; Patruyo 2008; Provea 2012). The government responded with a massive construction, infrastructure, and social service program called Plan Bolívar 2000 (see Chapter 6). The housing goals of this program were twofold: first and foremost, offer a solution to the recently homeless and those in extreme

poverty, and second, begin a process of repopulating the country through internal migration to under-populated states (D'Elia 2006: 111). Subsequent plans have been spurred in part by the failure of the plan. As of 2013, many victims of the 1999 floods are still without homes.

#### **7.1.1.2 The *Gran Misión Vivienda Venezuela* (GMVV)**

The Venezuelan government adopted housing as a flagship policy and created the GMVV in April 2011 after heavy rains and flooding once again battered the country and left more than 130,000 people homeless (Abadi 2013).<sup>105</sup> Its goal was to provide dignified housing for the homeless, those living in geomorphological “high-risk” areas, and the poor. Anyone earning up to four times the country’s minimum wage qualifies for the program (Gobierno Bolivariano de Venezuela 2013b), and completed houses are given to recipients or purchased it at a heavily discounted price. However, demand far exceeds supply, meaning that not all eligible citizens are provided housing. Applicants enroll through a registry kept by the MINVIH; houses are then given or raffled off, depending on the specific circumstances. As with most of Venezuela’s social missions, the GMVV is funded in large part through PDVSA, the state oil company.<sup>106</sup>

The GMVV is overseen by the MINVIH, but remains a program of “excessive complexity” (Transparencia Venezuela 2013b: 2; Provea 2012). The execution of the policy, from planning to management to construction, involves at least ten government ministries, dozens of other agencies, nearly 100 private contractors, local political bodies, organized communities, and foreign governments. Compounding this complexity is an alarming lack of

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<sup>105</sup> Presidential Decree 8.143

<sup>106</sup> Determining the mean cost per unit is difficult. In a report on GMVV accountability, Transparency Venezuela surveyed information on more than 17,000 housing units accounted for by the MINVIH in the first trimesters of 2011, 2012, and 2013. It found that building costs were only made public for 1,005 of these units, or less than 5.6% of cases (2013b: 12). Of these cases, cost per unit depended greatly on the managing agency and construction companies involved.

information, which also impedes adequate oversight. Transparency Venezuela, a watchdog group, explains that, “The majority of information available about the GMVV is program propaganda. There is little or no concrete information, with objective and verifiable data” (Transparencia Venezuela 2013a: 3).

The GMVV is also highly politicized, a factor that appears to influence agent choice (see section 7.1.2). To begin, it is promoted at the top of the governing PSUV’s website, and part of its logo features a beret-wearing Chávez with left fist raised in the air. On Thursdays, Venezuelans are treated to *Jueves de Vivienda* (Housing Thursday), an audacious example of political theater shown on the state-run *Venezolana de Televisión* (VTV). On the broadcast, reporters clad in *chavista* red interview red-clad government officials who formally hand over completed housing units to red-clad citizens. These actions is consistent with the dual nature goals of other social missions: distributing funds directly to low-income populations while manipulating the political context (Penfold-Becerra 2007; Díaz Cayeros et al. 2012).

There is little official public information as to how specific housing sites are chosen (Transparencia Venezuela 2013a, 2013b; Provea 2012). In theory, the Vice-President of Territorial Development coordinates a team that is supposed to determine housing development sites based on at least six criteria.<sup>107</sup> However, through the Emergency Law for Terrain and Housing, the Venezuelan president is able to unilaterally decree “Vital Housing and Residence Areas” (*Áreas Vitales de Viviendas y Residencias*, AVIVIR) to be used for housing construction.<sup>108</sup> As of 2013, there were 219 AVIVIR nationally, accounting for 5,155 hectares of land (MINVIH 2012: 17).

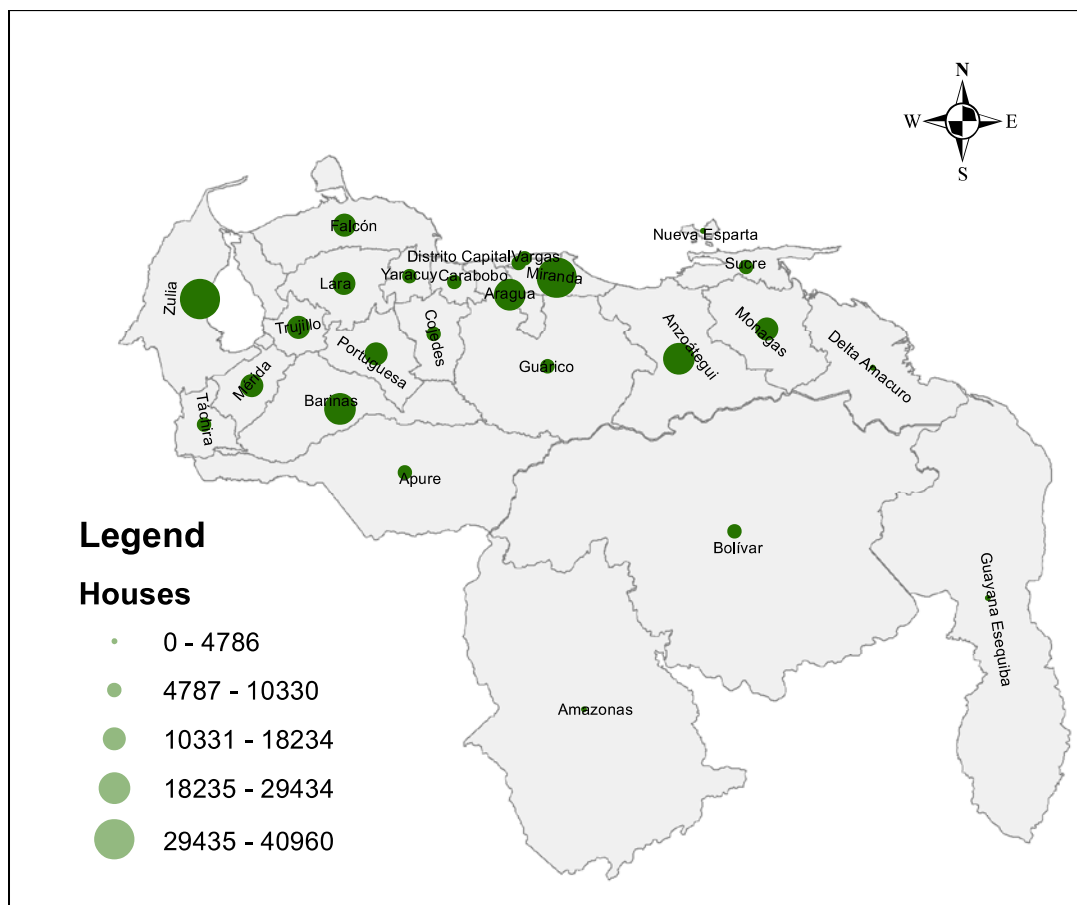
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<sup>107</sup> The criteria are 1) at most 5 Km from an urban area; 2) roadway accessible; 3) topographically appropriate; 4) non-agricultural; 5) non-seismic; and 6) not ecologically protected.

<sup>108</sup> Presidential Decree 8.005



The map in Figure 7-1 shows that housing projects built in the 2011-2012 period are concentrated in the most populous, coastal states of Zulia (40,960 units), Miranda (37,033), and Anzoátegui (29,434), but also include the sparsely populated *llanos* states of Barinas (20,568) and Portuguesa (16,557).<sup>109</sup> The three heavily populated states with relatively few houses built in these two years—the Metropolitan District of Caracas, Carabobo, and Táchira—represent three of only seven administrative units governed by opposition party politicians. Meanwhile, lightly populated states governed by the *Partido Socialista Unido de Venezuela* (United Venezuelan Socialist Party, PSUV), such as Cojedes, Barinas, and Portuguesa, have high ratios of houses built per thousand residents, indicating political preferences are at play.



<sup>109</sup> Data from: Gran Misión Vivienda Venezuela, "Vértice Ejecutores"

**Figure 7-1.** Housing units constructed through the GMVV (2011-2012)

Note: Data from Gobierno Bolivariano de Venezuela (2013b)

### **7.1.1.3 Management and Implementation: A Mixed Delivery System**

The Venezuelan government uses a “mixed delivery system” (Warner and Hefetz 2008) of public and private agents to carry out the GMVV—some of which are domestic, and others that are foreign. The government itself classifies five major types of implementation management: the federal government; organized communities; local governments; domestic private firms; and foreign entities (Table 7-1).<sup>110</sup> These broad categories, of course, are composed of a dozens of smaller agencies; the term “federal government”, for example, refers to ten cabinet ministries, as well as the President's Office of Planning and Special Projects (OPPPE).

Agent choice is somewhat opaque. The government selects some agencies through a closed bidding process, while its assigns others according to geographical jurisdiction. For example, DUCOLSA, Corpozulia, and Metromaracaibo are responsible for the western state of Zulia, where they are based, while Metro de Caracas only builds in greater Caracas, and the CVG focuses on the eastern state of Bolívar. Local entities such as the Mayoralty of Caracas (via the Caracas Foundation, or *Fundacaracas*), the Government of the Capital District, and the Autonomous Institute of Housing from Vargas State (IVIVAR) are all focused on development in greater Caracas and the nearby coastal area around the city of La Guaira. The domestic private sector plays a central role in the construction of houses, yet is more muted in design and

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<http://www.granmisionviviendavenezuela.gob.ve/index>, accessed October 4, 2013.

<sup>110</sup> The GMVV is also carried out via the “self-construction” (*auto-construcción*) of homes and the “Substitution of Ranchos with Housing” (*Sustitución de Ranchos por Viviendas*, SUVIs) program. In the former, the government gives materials directly to citizens to build homes from scratch, while the latter, developed for the Habitat Mission in 2005, involves improving conditions of pre-existing residences. Both programs are managed by communal councils (*consejos comunales*) and implemented by voluntary citizen brigades from that community. Services are tied heavily to the PSUV.

management, accounting for only 7.8% of construction (Table 7-1). Developments undertaken entirely by the private sector are rare since, as a social welfare project, the federal government institutes caps on private enterprise profits. The government also takes over private sector developments that it deems overpriced, further discouraging potentially enterprising domestic firms.

**Table 7-1.** Housing units constructed by entity

<b>Agent</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>	<b>%Total</b>
National Government	69745	56001	125746	35.49
Organized Communities	49171	40324	89495	25.26
International Agreements	10307	54536	64843	18.30
State/Municipal Governments	13423	33053	46476	13.12
Private Firms	8779	18965	27744	7.83
<b>Total</b>	<b>151425</b>	<b>202879</b>	<b>354304</b>	<b>100</b>

Source: Gobierno Bolivariano de Venezuela (2013b)

One notable development is government contracts with foreign governments and enterprises. Since early 2011, Venezuela has signed agreements with Belarus, China, Iran, Russia, Portugal, Spain, and Turkey—in addition to previously existing arrangements with Argentina, Brazil, and Uruguay—to construct housing complexes. These contracts are a component of a broader series of mutual cooperation agreements to exchange services and goods and craft deeper political and commercial links. In the case of the GMVV, foreign countries create parties of political delegates who then grant the contract to a corresponding firm from their country via a closed bidding process. The foreign political groups are supposed to provide oversight of the firms, who officially carry out the project. As Table 7-2 shows, countries tend to use the same private—or in China’s case, public—enterprise for all housing developments, although agreements do not stipulate this condition. In all, there are at least 26 such agreements in place, with most countries signing multiple agreements for various projects.

**Table 7-2.** Outstanding foreign contracts for the GMVV

Country	Enterprise	State	City, Municipality	Complex	Goal
Belarus	BZS Belzarubezhstroy	Capital District	Caracas, Libertador	Fuerte Tiuna	4500
Belarus	BZS Belzarubezhstroy	Miranda	Guarenas, Plaza	Guarenas	3500
Belarus	BZS Belzarubezhstroy	Miranda	Guatire, Zamora	Margaritas	3500
Belarus	BZS Belzarubezhstroy	Barinas	Barinas	Santa Inés	500
Belarus	BZS Belzarubezhstroy	Barinas	Barinas	Zona Industrial	2500
Belarus	BZS Belzarubezhstroy	Aragua	Maracay, Palo Negro	Base Aérea Libertador	4448
Belarus	BZS Belzarubezhstroy	Aragua	Girardot	Guasimal	2540
China	CITIC International	Capital District	Caracas, Libertador	Fuerte Tiuna	13034
China	CITIC International	Barinas	El Arsenal, Mario Briceño Iragorry	N/A	2016
China	CITIC International	Barinas	Palmasola, Barinas	N/A	5360
China	CITIC International	Miranda	Caucagua, Marizapa	Ciudad Caucagua	2220
China	CITIC International	Aragua	La Victoria	La Mora	1800
Iran	Kayson Company	Lara	Iribarren	Yucatán	4464
Iran	Kayson Company	Yaracuy	San Felipe	Comunivares	2520
Iran	Kayson Company	Carabobo	Valencia	Ciudad Ambrosio Plaza	3024
Iran	Kayson Company	Capital District	Libertador	Ciudad Caribia	7000
Russian Federation	Rosneft	Capital District	Caracas, Libertador	Fuerte Tiuna	10000
Portugal	Legna	Miranda	Lomas de la Guadalupe	Independencia	4000
Portugal	Legna	Miranda	Río Tuy	Cristóbal Rojas	5012
Portugal	Legna	Miranda	Urdaneta	Ciudad Zamora	3500
Turkey	SUMMA	Vargas	Playa Grande, Vargas	Playa Grande	1488
Spain	Essentium	Miranda	Santa Teresa del Tuy, Independencia	El Triplex	3264
Brazil	Constructora Odebrecht	Norberto Bolívar	Bolívar, Heres	Fuerte Cayaurima	486
Uruguay	UMISSA	N/A	N/A	N/A	8110
Uruguay	UMISSA	N/A	N/A	N/A	12193
Argentina	Conlat	Carabobo	N/A	N/A	N/A
					110,979

Note: Uruguay's commitment is sending housing "kits", or pre-fabricated units

PDVSA, the state oil company, is in charge of material provision and housing inspection at each work site. This is an attempt to curb the trafficking of state-controlled construction materials, such as sand, concrete, and piping—although it is debatable how effectively the oil company fulfills this role. In the case of foreign involvement, the state offers *further* technical assistance and oversight. This agent’s role is to facilitate contact between the foreign builders and local contractors and oversee technical aspects of the construction, including architectural guidance and site planning. As depicted in the flowchart in Figure 7-2, this addition makes the path from policy proposal to construction even more convoluted, with up to seven different administrative strata.

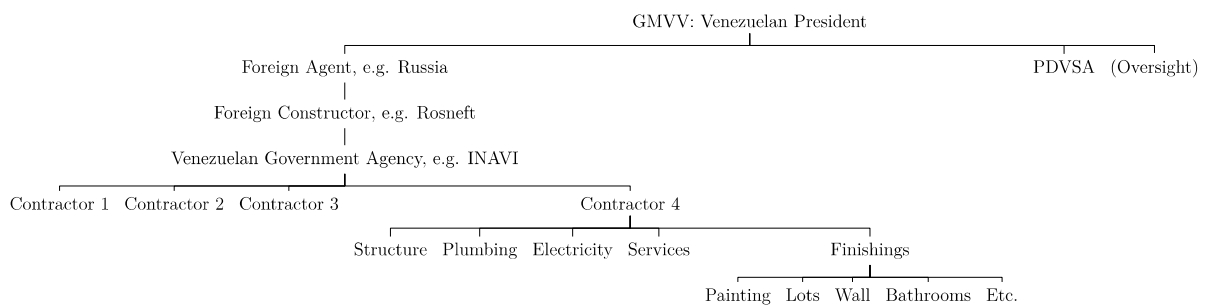
Management agents delegate at least part of the actual construction to one or more of 90 different local contractors (Gobierno Bolivariano de Venezuela 2013a). Their specific responsibilities depend on the type of structure: individual housing units, multi-family buildings, *super bloques*, or “socialist cities” with dozens of buildings, recreational areas, commercial space, and other amenities. The type, in turn, depends on the space available: in densely populated central Caracas and Maracaibo, individual buildings or small clusters are possible; on the outskirts of major cities, it is possible to construct larger clusters; in the country’s vast interior, it is possible to construct small houses. In all cases, space, hygiene, and building characteristics must adhere to standards set by the MINVIH and the National Housing Council.<sup>111</sup>

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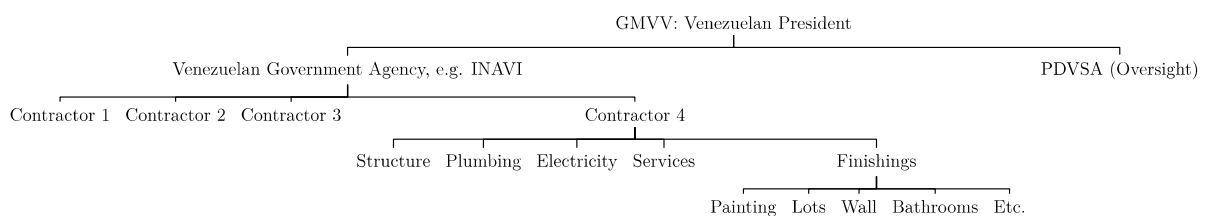
<sup>111</sup> Quality varies. Many beneficiaries, for instance, have expressed dissatisfaction with the low quality of prefabricated housing units donated by Uruguay and intended as individual residences (Provea 2012: 249-250). Yet dissatisfaction is not restricted to these “kits”. Trafficking in construction materials and a lack of quality control have created a range of problems, such as buildings constructed without reinforced concrete (due to stolen rebar), and those lacking basic amenities such as plumbing, electricity, and gas service. One sixteen-story building in the Libertador municipality of Caracas was built without elevators (Navas 2013). In other cases, slight seismic activity has left cracked foundations, walls, and floors (Hernández 2012: 17).

As the scale of the projects grows, certain agencies are preferred over others. In the case of Rosneft's projects in Fuerte Tiuna, four different Venezuelan firms are involved in the macro-construction: Maquivial (18 buildings), Tresinca (11 buildings), América Proyecto (nine buildings), and Navia & Navia (four buildings; Interview 10). At the second level of outsourcing, these constructors in turn subcontract smaller, specialized firms to complete different aspects of the edification, including structure, plumbing, electricity, services, and finishing (López 2006). Firms may further subcontract finishing, including painting, wall finishes, bathroom fixtures, and tiling. In all, it is a long journey from choosing the building site to handing over the keys to new tenants.

### GMVV Delegation through a Foreign Entity



### GMVV Delegation through a Government Entity



**Figure 7-2.** Flowcharts of GMVV delegation processes for two types of agents

### 7.1.2 Motives for Delegation Decisions

Evidence indicates that outsourcing the management and construction of GMVV housing complexes to foreign agents as part of a broader mixed delivery system is an example of a government selecting an agent *less* efficient than the alternatives, but more ideologically proximate. The foreign agents the government chose are of dubious quality, at best, in comparison to local domestic firms, and are more costly. Nonetheless, the government selects them and grants them advantageous contracts in order to align itself with countries friendly to—if not consistent with—the government’s socialist ideology. In sum, in choosing its strategy of policy implementation, the government has prioritized its own political goals at the expense of striving for a more effective policy outcome for its citizens.

Foreign outsourcing offers the opportunity to cultivate and affirm of ideologically palatable political allies. The government has often attacked Venezuela’s private sector and targeted key sectors for expropriation (Obuchi 2011; LatinNews Daily Report 2013), seeing it as a tool of the right and anathema to the country’s Bolivarian Revolution. By contrast, selectively signing contracts with ideologically similar foreign governments (Belarus, Russia, Iran, China, etc.), even if most of these governments bring in private firms themselves, allows the Venezuelan state to refrain from depending too heavily on its ideologically dissimilar private sector. What is more, these agreements are part of a broader pattern of cooperation—or international patronage—with politically strategic countries to solidify Venezuela’s international allies. The *selective* use of the agreements indicates that supply of interested foreign parties is limited, and that this strategy is too costly or inefficient to use for all developments.

Aside from the political benefits for the government, many of the foreign firms are of dubious quality. BZS Belzarubezhstroy, founded in 2007 by Belorussian oligarch Viktor

Shevtsov as an amalgamation of smaller companies, had no prior construction experience in Venezuela or Latin America. Shevtsov meanwhile was jailed in his home country in 2012 on charges of corruption (Poliszuk 2012). Similarly, the British government's Export Control Organisation placed the Kayson Company—which signed at least four cooperation agreements with Venezuela on the behalf of Iran—on its Weapons of Mass Destruction End-Use Controls Watch List in 2010 (KPMG 2010).<sup>112</sup> Nor do the better-established firms pass muster. Transparency International rated the business practices and transparency of Brazilian, Russian, Chinese firms poorly in comparative context, and it was especially critical of the Brazilian Constructor Norberto Odebrecht, which tied for the least transparent of the one hundred firms surveyed (Kowalczyk-Hoyer and Côté-Freeman 2013). Viewed from another perspective, if agency capacity were the most important consideration, then the contract bidding process would likely be open instead of closed, in order to attract the most competitive bids. Further, the constellation of firms would not be limited to those from Venezuela's strategic partners (Russia, Iran, Belarus, etc.), but also include those from places boasting construction companies of higher repute and experience.

One result of these differences in capacity is a higher cost of foreign agreements. Simple geographical and geological differences compel foreign firms, regardless of their capacity, to endure high transaction costs to implementation than experienced domestic agencies. The members of *comitivas* in Venezuela may not speak Spanish, are not familiar with Venezuelan culture (business or otherwise), and have few contacts. As one contractor told me, “in Venezuela, everything is through leverage and contacts” (Interview No. 12) making coordination among foreign firms and local contractors and sub-contractors inefficient. In addition, many

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<sup>112</sup> What is more, in 2013, German customs authorities apprehended Iranian ex-Minister of Economy Tahmaseb



foreign construction groups are not accustomed to Venezuelan soil types, the difference in quality of materials, or construction needs in a tropical environment. The INAVI and Corpozulia, by contrast, have decades of successful experience in housing construction in Venezuela (Orellana de García-Maldonado 1989). In short, the Venezuelan government is so motivated by ideology and political factors, it is willing to select more costly agents of dubious quality that possess those characteristics.

### 7.1.3 Implementation Success

I return to the quasi-experimental, post-test only research design to test how agents meet GMVV building goals. Unfortunately, I am unable to test the *quality* of this construction, since there are few official sources of data, and many existing figures are unsystematic or contradictory (Transparencia Venezuela 2013b: 7-11).<sup>113</sup> Instead, I measure each agent's success as the proportion of housing units constructed over intended units for each complex, drawing data from the MINVIH's 2011 and 2012 yearly reviews.

Of the 26 different viable projects that exist through foreign agreements, only seven possess construction figures (see Table 7-3 for a complete list). Two agreements involve Belarus and two China, while Brazil, Russia, and Turkey are involved in one each, with the completion percentage ranging from a pitiful 3% (Rosnoff's performance in the notoriously slow Fuerte Tiuna project) to 78% (Turkey's SUMMA firm constructing complexes in Playa Grande,

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Mazaheri with an undeclared check worth approximately US\$70 million (Neuman 2013).

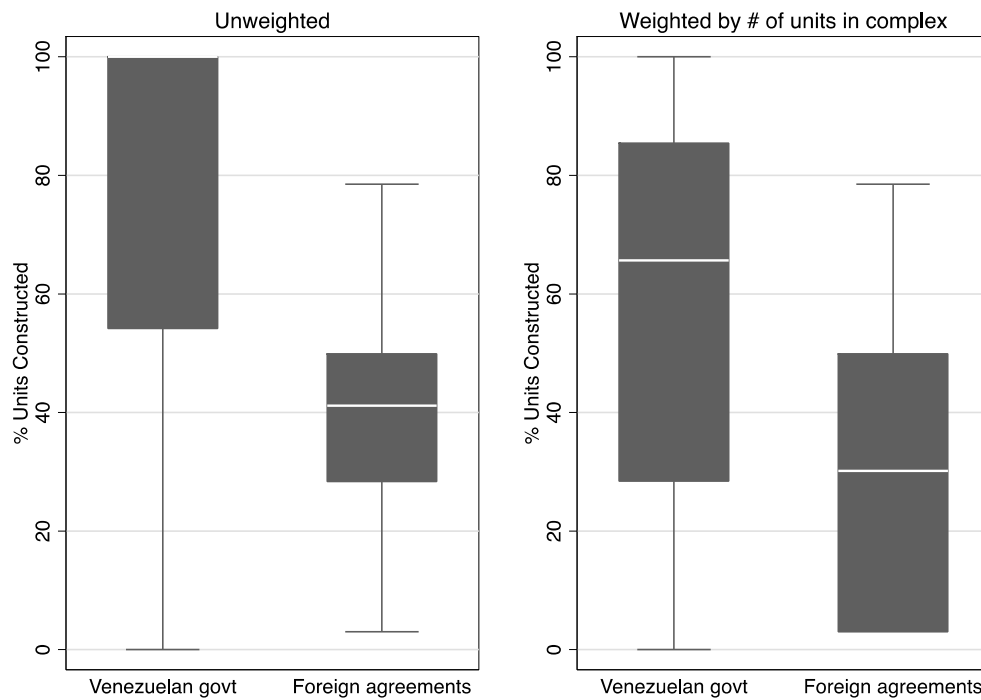
<sup>113</sup> The information on the GMVV webpage, for example, claims that 354,304 housing units were completed in 2011 and 2012 (Gobierno Bolivariano de Venezuela 2013b), yet in an information audit of the first trimester performance of the GMVV in 2011, 2012, and 2013, Transparency finds 17,832 built units, a rate that extrapolated across the full three years would reach just over 70,000 (Transparencia Venezuela 2013b: 6). Of the 17,832, there was no parish (*parroquia*) listed for 16,423 of them, no housing project attributed to 14,227, and no municipality for 11,471.

Vargas). Figure 7-3 shows the mean completion percentage is just over 40%, quite indicative of these agents' difficulties in fulfilling their contracts in a timely manner. By contrast, projects managed by state entities completed nearly 60% of their expected units spread out among 66 different complexes.

**Table 7-3.** Summary statistics of GMVV construction data

Country	Company	State	Housing Complex	# Units Intended	# Units Completed	%
<b>Foreign agents (N=7)</b>						
Belarus	BZS Belzarubezhstroy	Aragua	Guasimal	2540	720	8.35
China	CITIC International	Barinas	El Arsenal	2016	608	30.16
China	CITIC International	Barinas	Palmasola	5360	2674	49.89
Belarus	BZS Belzarubezhstroy	Aragua	Base Aérea Libertador	4448	2120	47.66
Turkey	SUMMA	Vargas	Playa Grande	1488	1168	78.49
Brazil	Odebrecht	Bolívar	Fuerte Cayaurima	486	200	41.15
Russia	Empresa Rosneft	Distrito Capital	Fuerte Tiuna	10000	302	3.02
<b>Domestic agents (N=66)</b>						
	Various	Various	Various	158641	95335	60.09

The boxplot in Figure 7-3 shows two figures: the unweighted mean and range of completed units per contract on the left, and the same statistics weighted by the number of units per complex on the right. The frequency weight accounts for differences in the characteristics of the samples. Most domestic contracts tend to involve fewer units per housing complex than the foreign agreements, making the completion of these 100-unit complexes easier than the thousand-unit ones delegated to foreign entities (as Table 7-3 shows, six of the seven foreign contracts reach the thousands). However, other domestic contracts are in fact *larger* than the largest foreign contract, especially projects undertaken by the INAVI, which may also include entire cities such as Caribia. As a result, the mean in the weighted sample actually falls for both domestic and foreign contracts.



**Figure 7-3.** Boxplots of mean share of units completed per contract, by agent

Hypothesis testing supports imbalances in performance between the two types of agents. The two-sample  $t$ -test comparing the means of the treatment and control samples provides evidence of statistically significant differences. There is a significant effect for bureaucratic agent,  $t(71) = 2.98$ ,  $p < .0039$  in a two-tailed test, with Venezuelan government bureaus completing a higher proportion of units in their assigned projects than their foreign counterparts. These results are also robust when accounting for unequal variance between groups—the weighting issue—with a significant effect of  $t(8.7701) = 3.93$ ,<sup>114</sup>  $p < .0036$  in a two-tailed test. A third method of comparison, the nonparametric Mann-Whitney  $U$  test, also known as the Wilcoxon rank-sum test, also allows me to reject the null hypothesis of equal performance medians with greater than 99.7% certainty ( $p < .0027$ ).

These conclusions are consistent across OLS specifications (Table 7-4), which regress *percentage of units constructed* on the treatment of *agent type* as well as two potentially mitigating factors, *state* and *number of intended units*. *State* accounts for the fact that foreign entities may not be randomly assigned to specific states.

**Table 7-4.** Estimated effects of implementation agent on construction efficiency

	<b>OLS (7.1)</b>	<b>OLS (7.2)</b>
Foreign agreement	-36.550* (12.588)	-33.274* (13.509)
No. Intended Units	-0.001 (0.001)	-0.001 (0.001)
Baseline: 0=Aragua		
Barinas		5.974 (0.926)
Bolívar		10.098 (21.505)
Capital District		19.353 (15.106)
Miranda		-40.702* (14.416)
Falcón		5.844 (21.755)
Mérida		-45.563 (28.577)
Trujillo		-6.878 (18.944)
Vargas		5.242 (18.527)
Zulia		-8.309 (14.370)
National		-35.471* (16.201)
Constant	80.267*** (4.108)	80.491*** (11.414)
Number of observations	73	73

<sup>114</sup> The value of 8.7701 refers to the Satterthwaite approximation for degrees of freedom, and is appropriate in cases of unequal variance.

$R^2$	0.152	0.509
note: *** p<0.001, ** p<0.01, * p<0.05		

Table 7-4 shows the results. *Foreign agreement* is negative and statistically significant in all four of the estimations. The substantive effect of a foreign agreement is also high, ranging from -27 and -36. The constant of 80 and the *foreign agreement* coefficients indicate that, controlling for the number of units in the complex (not significant in any model) as well as the building location, projects managed by the Venezuelan state complete almost 80% of the promised housing units, while those overseen by foreign groups complete between 44 and 53%. This is an enormous difference in completion rate, and indicates that even if all of the foreign contracts are ultimately fulfilled, the execution is not more efficient in the short term.

This, unfortunately, makes sense, since the administrative design biases foreign agreements towards greater corruption and higher costs. The additional two layers of bureaucracy in foreign agreements provide more opportunities for skimming money or selling construction materials as contraband (see Figure 7-2). Beginning in 2004 and growing more acute after the first National Socialist Plan in 2007, Chávez sought to draw strategic sectors (oil, gas, construction, technology, etc.) under state control via nationalizations and expropriations (López Maya and Lander 2010; Obuchi 2011). In August 2008, for instance, the government expropriated Mexican cement giant Cemex (50% of domestic production) and nationalized the French giant Lafarge and the Swiss firm Holcim (the other 50% of production), wresting away control of this vital supply from the private sector. As with other industries, however, state control of construction materials has resulted in production shortfalls and increases in scarcity

(Obuchi 2011).<sup>115</sup> Further, the Central Bank estimated in 2013 that 90% of concrete and rebar in the country are used in the GMVV, creating shortages in the private sector, skyrocketing prices, and a thriving black market (Abadi 2013).

Adding more bureaucratic layers in GMVV implementation creates additional opportunity for goods to be siphoned off. In fact, the shortage of rebar for projects managed by the Belzarubezhstroy and law enforcement's apprehension of Belzarubezhstroy president Victor Shevtsov in his home country have revealed the so-called *Mafia de la cabilla* (Rebar Mafia) operated by the firm's employees in Venezuela. Even Belorussian President Alexander Lukashenko has admitted that the company appears to have stolen at least US\$10 million (Poliszuk 2012). Similar stories abound regarding Russian and Chinese construction ("Denuncian mala condición de trabajo en viviendas rusas de Fuerte Tiuna" 2013).

#### **7.1.4 Discussion**

The *Gran Misión Vivienda Venezuela* (GMVV) is one of a long line of Venezuelan public housing programs that ostensibly seeks to address the country's enormous housing shortage. The scale of the policy is enormous and the government's cost likely equally large. Instead of relying exclusively on experienced state agencies to carry out the GMVV, the governing PSUV has instead turned to a mixed delivery system involving both domestic and foreign actors—and generally low capacity foreign actors, at that. This is a result of the Socialist government's search for ideological gains rather than the highest quality or most effective builders.

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<sup>115</sup> Shortages of basic necessities in the consumer sector have even spurred the development smartphone applications designed to alert the user of the nearest provider of corn flour, coffee, milk, sugar, cooking oil, rice, and even toilet paper (Paniagua 2013).

The empirics bear out the consequences of this delegation decision. Regression analyses of building completion statistics from the 2011-2012 period show a large statistically and substantively significant difference in the completion percentage between domestic and foreign actors, with the less-qualified foreign firms fulfilling less than 50% of their construction obligations on time. Further, construction companies from Belarus, China, and Russia have all come under intense scrutiny for irregularities in their business practices as part of the project. Signing agreements with other nations appears to offer political advantages for the government, but little gains for voters.

## **7.2 ROADWAY CONCESSIONS AND ECUADOR'S HIGHWAY REVOLUTION**

*"There has been great corruption and inefficiency in this country's road concessions."*  
Ecuadorian President Rafael Correa, one month into his first term, on February 25, 2007  
("Gobierno revisará las concesiones viales" 2007)

*"We are going to [improve roads] through concessions to the private sector. We will have to pay a toll... but we will all come out ahead! Because we are going to be delighted to pay one or two dollars in a car to save ourselves one or two hours of travel, and to drive on a super safe road."*

Correa, on October 12, 2013, explaining the government's about face regarding roadway concessions (*Enlace Ciudadano* 343, 2013)

Unlike foreign firm housing construction outsourcing in Venezuela, highway concessions to the private sector in Ecuador have been largely beneficial to users. Like Venezuela's relationship with housing, Ecuador has suffered poor transportation infrastructure for much of its history. Yet despite suffering from a lack of revenue, poor planning, and an ineffective bureaucratic apparatus for nearly the entire twentieth century, Ecuadorian presidents were unable or unwilling to seek the assistance of the private sector. Finally, in October 1996, in search of improvements

to the country's crumbling roads, politicians issued the country's first two roadway concessions—outsourcing in which at least part of the management and control of utility operations from governments are transferred to private enterprises<sup>116</sup>—over the country's two most heavily-transited roadways. In this first stage of outsourcing, the private sector represented the “sweet spot” of ideological proximity to the president and increased agency capacity in comparison to the government bureaucracy.

As the above epigraphs show, current President Rafael Correa has also shown a willingness to seek out the private sector as part of his ambitious “Roadway Revolution”. In this case, the president is disposed to making ideological concessions in order to benefit from efficiency gains. Correa was elected in 2007 to pursue his mandate of “Citizens’ Revolution” and an ideology of “Good Living Socialism” (*Sumak Kawsay* from the indigenous Kichwa, or *Socialismo del Buen Vivir* in Spanish), which included a healthy skepticism towards Ecuador's private sector. However, in order to fulfill his government's infrastructure promises, he has turned to private enterprise and drawn up plans to increase the number of major roadway concessions. A statistical comparison of Ecuador's road quality shows that privately managed roads are in better condition than publicly managed ones, and demonstrating how choice based on agency efficiency often results in better outcomes for citizens.

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<sup>116</sup> Other types of private sector outsourcing include management contracts, an arrangement under which operational control of an enterprise is vested by contract in a separate enterprise that performs the necessary managerial functions in return for a fee, and outright privatization (involving divestiture accompanied by structural reforms of market structures and regulations) (Guasch 2004).



## 7.2.1 Ecuadorian Road Infrastructure and the “Roadway Revolution”

### 7.2.1.1 Deficient Roadways, Poor Planning, and Limited Resources

Ecuador’s transportation system has been underdeveloped for decades, if not centuries. In 1935, the country possessed only 5,818 km of roads, all of it unpaved: 2,240 km of compacted track and 3,578 km of loose surface (i.e. dirt). Over 20% of this network corresponded to the 1,200 km of the Panamerican Highway, or *Pana* (Borrero Vega 2009). Until President Isidro Ayora created the Ecuadorian Ministry of Public Works (*Ministerio de Obras Públicas*, MOP) on July 9, 1929, there was no government body dedicated specifically to infrastructure (Ministerio de Transporte y Obras Públicas 2011).<sup>117</sup> Even then, the MOP lacked modern equipment and technology to realize a sustained road plan; the ministry’s 1946 report notes that it did not have a stable annual budget (Montero Vela 1946: 25-29). Unable to begin construction on a planned 6,000 km of roads in 1945, the minister was personally dispatched to the U.S. to purchase machinery and equipment.

Construction and maintenance were also mired in nineteenth-century practices. Until 1949, the execution and maintenance of roadways in Ecuador were almost never contracted out to professional construction firms or other state agencies specializing in roads, but delegated to conscripted units of unpaid peasants. In fact, under the protection of the Road Conscription Law, Ecuadorian presidents were able to enlist workers for their *obligatory and free service in building public works*. The contribution of this free labor, of course, was offset by a complete

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<sup>117</sup> Supreme Decree 92

lack of training or professionalization of the workers, normally peasants living in the surrounding areas.<sup>118</sup>

A succession of national roadway plans drawn up by the MOP between 1953 and the 1990s achieved moderate success, due in large part to an increase in government revenue beginning in 1973. As Figure 7-4 shows, the length of paved roads in Ecuador sextupled in the twenty years between 1962 and 1982, growing from less than 1,000 km to 6,000 km (Borrero Vega 2009). Still, as government reserves dipped in the 1980s and 1990s with falling oil prices and economic crisis, road development stalled. Despite these fiscal difficulties, democratic governments were unwilling or unable to pursue infrastructure concessions or alternative forms of financing for major projects. Unsurprisingly, the country showed no net gain of paved roads during this time. By the 1990s, the primary road network in Ecuador consisted of approximately 5,453 km, the majority of which was in poor condition. Following the 1997-1998 El Niño climactic phenomenon, the MOP found that only 4.8% (262 km) of roads were in “good” condition, 33.6% (1,832 km) “regular”, and 58.5% (3,109 km) “bad” (Ministerio de Obras Públicas y Comunicaciones 1998).

### **7.2.1.2 Roadway Concessions**

Faced with this poor state of public infrastructure and a lack of resources, the conservative government of president Sixto Durán Ballén (1992-1996) turned to decentralization and public-private partnerships (PPPs) to gain access to capital and improve what the president deemed the “shameful structure of privilege of the inefficient public sector” (Hey and Klak 1999: 78). Under the aegis of Vice President Alberto Dahik and in collaboration with the Social Christian

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<sup>118</sup> President Galo Plaza finally struck down the law in 1949 under pressure from unions and a countrywide general

legislative bloc, the government initiated a series of market-oriented reforms beginning in 1992, deregulating industries and allowing for privatization of state industries (Mejía Acosta 2009). Perhaps the most consequential of these reforms was the Law of State Modernization, issued on December 31, 1993, which permitted the state to privatize potable water, sanitation, electricity, telecommunications, roadways, port facilities, airports and train stations, postal service, and similar services (Congreso Nacional de Ecuador 1993: Article 41).<sup>119</sup>

Local governments were the first to act. The Pichincha Provincial Council awarded the country's first road concession, a 15-year contract, to the Tribasa-Colisa Consortium in November 1994. The contract transferred rehabilitation and maintenance of a heavily traveled 11.5 km stretch of the General Rumiñahui Highway in metropolitan Quito that was in especially poor condition (Ministerio de Obras Públicas y Comunicaciones 1998). The consortium, however, did not meet the conditions of the contract, and it was rescinded through a court decision in 2003 (Diario Hoy 2006).

The national government acted shortly thereafter, unbundling viable roads into build-operate-transfer (BOT) concessions awarded through open and competitive bidding. The BOT model represents one of three principal concession procurement schemes, along with Build-Transfer-Operate (BTO) and Build-Operate-Own (BOO) (Gómez-Ibáñez 2003). In BOT projects the concessionaire constructs, owns, and operates a public good or utility for a fixed amount of time. Upon expiration of the concessionaire's contract with the state, the contract can be renegotiated or extended, or the good or service is transferred to the government. This is the

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strike (Borrero Vega 2009: 273).

<sup>119</sup> Only education and public health were expressly prohibited from being privatized.

most frequently utilized form of concession (Guasch 2004).<sup>120</sup> If properly executed, the BOT yields profit for the concessionary through fees charged to the users of the service (i.e. drivers paying tolls), and not direct government investment as in BTO or BOO contracts.

The first concessions from the *national* government were granted in two blocks in October 1996. The first was to Panamericana Vial (Panavial) S.A., a consortium of Herdoíza Crespo Construcciones S.A. and Constructora Herdoíza Guerrero S.A., to manage and maintain two corridors of the Pan-American Highway.<sup>121</sup> The concession was granted for a total of 17 years—two for construction, and 15 for exploitation—with an initial capital investment of US\$90 million and a total 17-year investment of US\$311 million to cover road rehabilitation, operation, and maintenance (Bull 2004). The second concession block was to Dragados and Associates Consortium (DHM) S.A. to cover two coastal corridors.<sup>122</sup> DHM's total capital commitment was US\$37 million at the outset and US\$156 million over the course of that 17-year contract. This second contract was never fulfilled, and ended in litigation after DHM sued the International Finance Corporation for breach of contract (United States District Court 2004).

The Guayas Provincial Council began similar privatization of its provincial road network in 1997, control over which had recently been decentralized and delegated by the MOP. In October 1998, the council granted 20-year concessions to five heavily transited stretches of road

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<sup>120</sup> BTO contracts refer to those where the concessionaire constructs the infrastructure project, operates it, and eventually transfers ownership of the project to the government. In many instances, the government is the firm's only customer and promises to purchase a predetermined amount of the project's output, such as electricity from a power plant. In BOO concessions, the private enterprise is granted the right to develop, finance, construct, own, operate, and maintain a project for an unlimited amount of time. As a result, the private sector partner owns the project outright and retains the operating revenue risk and all of the surplus operating revenue in perpetuity. This may include, for example, power companies or water treatment plants.

<sup>121</sup> The Rumichaca-Ibarra-Otavalo-Guayllabamba corridor from the Colombian border to just outside of Quito (249.4 km), and the Alóag-Latacunga-Ambato-Riobamba corridor from the south of Quito to the central highlands (153 km).

<sup>122</sup> Santo Domingo-Quevedo-Babahoyo-Jujan (214.26 km) in the inland area, and Naranjal-El Guabo (69.9 km) near Guayaquil.

in the eastern part of the province (248.1 km) to Conceguia S.A. and five similarly used tracks in the northern part of the province (266.2 km) to Conorte, S.A. (Concesionaria del Guayas Conceguia S.A. 2013). After planning, rehabilitation, and set-up, these roads finally opened as toll ways on July 1, 2001.

While road concessions have been granted in Argentina (Estache and Carbajo 1996), Brazil (Alencar 2000), Chile (Vassallo 2006), and indeed, throughout Latin America, the rate at which the Ecuadorian government used this tool between 1994 and 1998 was among the highest in the region. A 2004 study for the Economic Commission for Latin America and the Caribbean (Bull 2004) found that a larger percentage of Ecuador's total road transportation network was administered privately (3.0% of all roads and 17% of all paved roads) than any country in the region except for Chile. Ecuador currently possesses 8,653.6 km of primary roads, 6,741 km of which are administered by the state, 1,350 km by concessionaries—almost one-sixth—and 562 km by provincial councils (Ministerio de Transporte y Obras Públicas 2011). The bureaucratic structure was changed to accommodate this, with the creation of the Undersecretary of Concessions via Ministerial Agreement 74 on December 11, 2000.

### **7.2.1.3 Doubling Down: Rafael Correa's Highway Revolution**

Road infrastructure quality has continued to progress since the election of President Rafael Correa in 2007. Despite improvements in the 1990s, only 30% of the 8,500 km principal road network was deemed to be in “good” condition by the MOP in 2007, at least part of which was the privately managed northern stretch of E35 and roads in Guayas.<sup>123</sup> Then-minister of the

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<sup>123</sup> A 2001 democracy audit by the Latin American Public Opinion (LAPOP) found that, “road maintenance is a major problem in all regions of the country, but seems to be far more serious in the Rural Sierra region than

MOP, José Macchiavello, characterized the roads as “deplorable” and blamed this on a lack of previous government investment (Vistazo 2010). Correa confronted transportation infrastructure policy by proposing an ambitious (and costly) road plan, tripling the infrastructure budget, and accelerating the concession process of MTOP-managed roads.

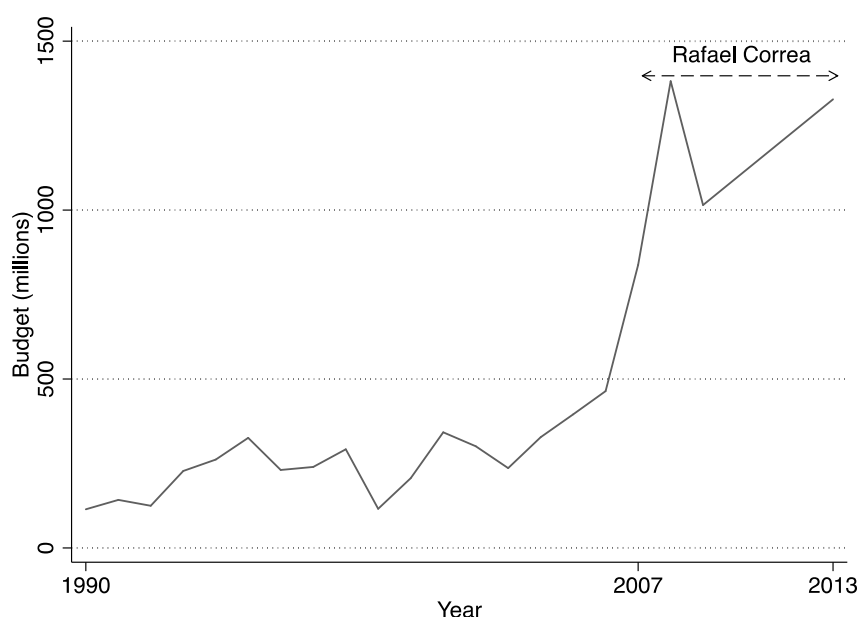
The president’s first step was bureaucratic shakeup, including reorganizing the Ministry of Public Works via Executive Decree No. 8 on the day he took office. He renamed the bureau the Ministry of Transport and Public Works (*Ministerio de Transporte y Obras Públicas*, MTOP) and divided it into four secretariats<sup>124</sup>, with the Public Works and Communication secretariat assuming the responsibilities and structure of the old ministry. The president also decreed the creation of the National Transportation Council to plan and oversee the implementation of a National Strategic Transportation Plan. The Public Works and Communication Secretariat remains the principal institution in charge of roadways and terrestrial transport, and coordinates state enterprises such as the natural disaster emergency program and the public works enterprise Corpoecuador, as well as the Undersecretary of Concession and Delegations.

Confronted with the general state of the country’s transportation network, Correa decreed a national road emergency (Executive Decree 147) on February 26, 2007, after only 45 days in power, and proposed an ambitious national road program called the *Revolución Vial* (Roadway Revolution), headlined by the *Plan Relámpago*, or “lightening plan”. This policy consists of an immediate US\$1.3 billion investment in 140 road works projects assigned to 80 different foreign and domestic contractors (although some projects are carried out exclusively by the ministry). These changes required an increased financial commitment from the state, causing Correa to

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anywhere else” (LAPOP 2003: 87). Still, this figure represented great improvement over the aforementioned 1998 report, which found only 4.8% of roads in “good” condition.

triple the public works' budget from US\$464 million in 2006 to US\$1.3 billion in 2013. As Figure 7-5 shows, the MTOP enjoyed a US\$1 billion or larger budget every year since 2007 after failing to ever break US\$400 million before 2005.<sup>125</sup>



**Figure 7-4.** MTOP Budget (1990-2013)

Sources: MTOP and Vivar Aguirre (2010)

The national government has also doubled down on concessions to improve roads. Correa initially expressed misgivings about infrastructure concessions, arguing that concessionaries in Ecuador were profiting from roadways they merely rehabilitated and maintained (unlike Chile, where enterprises actually constructed many of the highways in true BOT fashion) ("Gobierno revisará las concesiones viales" 2007). Despite this, the president has broadened and accelerated

<sup>124</sup> Road and Train Transport, Ports and Maritime and Fluvial Travel, Airports and Air Travel, and Public Works and Communication.

<sup>125</sup> The policy and the incredible amount of money managed by the MTOP have been highly scrutinized. Between 2008-2010, Ecuador's *Fiscalía General* (attorney general) initiated seven different investigations into how contracts were awarded for Plan Relámpago, the most infamous of which alleged irregularities involving the president's

infrastructure PPPs in an effort to shore up the country's infrastructure and ensure public opinion remains in his favor: in March 2011, the president announced that he was seeking US\$7 billion in infrastructure concessions over the next five years, with a focus on ports, airports, and highways (Barrios 2011: 16). Separately, Undersecretary of Delegations and Concessions César Chevasco said that if it were up to him, he would privatize *all* road networks in the country.<sup>126</sup>

In July 2013, the national government opened bidding over the rehabilitation and management of a 178 km section of the northern coastal transverse (E20) from Santo Domingo de los Tsáchilas to Esmeraldas. The government expects the initial rehabilitation work to be executed within thirty months, after which the concessionary will manage the road for thirty years (MTOP Ministerial Agreement 55, 2013). The MTOP is also planning on offering concessions to three different sections of the Coastal Trunk (E25), which had been previously awarded to DHM, S.A. in 1996<sup>127</sup>. Current and programmed concessions are summarized in Table 7-5. The MOP has outsourced to Panavial, S.A., while provincial authorities in Pichincha, Guayas, and Manabí have awarded the other concessions. The appendix includes a more detailed description of the individual stretches of road composing each concession.

At present, highway infrastructure is managed by the national government, local government entities, or a concessionary. The MTOP retains jurisdiction all primary and secondary roads, while sectional governments are in charge of provincial roads, and municipal councils maintain canton-level roadways. The decision to award a concession depends on the jurisdiction. For example, the Provincial Council of Pichincha is responsible for the east-west Alóag-Santo Domingo road just south of Quito. In 2002, the council awarded the rehabilitation

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brother, Fabricio Correa (LAWR 2011). The ministry itself has recognized construction delays and projects that have come in over budget.

<sup>126</sup> Interview, July 18, 2013.



and management of the road to the Hidalgo & Hidalgo construction company via 17-year concession, and Hidalgo & Hidalgo then invested some US\$12 million in upgrades and maintenance that it offset through tolls. Similar to Venezuela's GMVV, these roadways and their bridges and tunnels are constructed, maintained or rehabilitated by private firms regardless of the managing entity.

**Table 7-5.** Present and future highway concessions in Ecuador (July 2013)

Road (To-From)	Competent authority	Management	Length (Km)	Status
Rumichaca-Riobamba, Inter-Valley road	MTOP	Panavial, S.A.	425.21	Completed
Alóag-Santo Domingo	Pichincha Prov. Council	Hidalgo e Hidalgo	101.19	Completed
Guayas Province (north)	Guayas Prov. Council	Conorte, S.A.	266.2	Completed
Guayas Province (south)	Guayas Prov. Council	Concegua, S.A.	248.1	Completed
Portoviejo-Manta	Manabí Prov. Council	Manabí Vial E.P.	33.87	Completed
Santo Domingo-Esmeraldas	MTOP	N/A	178	In process
Santo Domingo-Quevedo	MTOP	N/A	107	Programmed
Quevedo-Babahoyo-Juján	MTOP	N/A	188.76	Programmed
Juján-Huaquillas	MTOP	N/A	97.19	Programmed

Note: MTOP refers to the Ministry of Transport and Public Works.

Source: Sub-Secretary of Concession and Delegations (MTOP) César Chevasco

### 7.2.2 Motives for Delegation Decisions

The primary motivation for granting highway concessions since 1994 in Ecuador has been a search for improved agency effectiveness and technology, as well as access to capital investments. For conservative President Durán-Ballén and his populist successor, Abdalá Bucaram, privatization was also ideologically preferable to continuing to grow the state in order to achieve political outcomes. Meanwhile, for President Correa, privatization seems to represent an allowance he was willing to make for the reduced cost and improved effectiveness of policy

<sup>127</sup> Santo Domingo de los Tsáchilas-Quevedo, Quevedo-Babahoyo-Juján, and Juján-Huaquillas

execution. It was also clear in the latter case that tangible infrastructure improvements are beneficial to voters, and as a consequence, the president and his party as well. As the literature has shown, infrastructure projects are an easy potential source of political credit claiming (Sharp and Elkins 1991; Feiock et al. 2003), and all publicly visible infrastructure projects throughout the country are marked by the ubiquitous signs declaring the cost of the project as well as the politician(s) in charge of funding it. In this sense, infrastructure improvement is actually a politically expedient policy for all presidents.

The country's first highway concessions were delegations based on a calculus of ideological proximity (despite highway construction being essentially a valence issue) and a search for improved capacity. In 1996, the populist President Abdalá Bucaram formulated a national plan via the MOP to promote and incentivize the private sector's participation in the rehabilitation and maintenance of 686.62 km of national roads (Ministerio de Transporte y Obras Públicas 2011). Though certainly supported by the government's Social Christian allies, ideology was not the only—or even most important—consideration. At least three other factors were at play: 1) the state did not possess sufficient capital to construct or maintain its existing infrastructure; 2) it sought to improve service of that infrastructure; and 3) it hoped to mitigate some of the risks (environmental, design and construction, financial, and operation, etc.) inherent in carrying out large public services (Ministerio de Obras Públicas y Comunicaciones 1998). As section 7.2.1.1 relates, the state suffered from a weak and underfunded MOP for nearly the entire twentieth century that had left the country's roads in deplorable shape (Montero Vela 1946; Borrero Vintimilla 1974; Borrero Vega 2009). Privatizing was ideologically attractive for the government, but it also provided needed capital and mitigated risk while placing rehabilitation and maintenance in the hands of high capacity agencies through open bidding. Although other

agencies, such as the Ecuadorian Army Corps of Engineers and the MTOP possessed policy expertise at highway construction (like Brazil's DEC in Chapter 6), other organizations simply did not possess sufficient capital to make the needed improvements and medium-term roadway maintenance. Since possessing a large enough budget to carry out government policy is a key part of the concept of organizational capacity, it is clear that at least along this dimension, the private sector represented an upgrade over other existing options or some new agency also funded by the central government.

Agency capacity is also at the heart of the proposed wave of concessions under President Correa. Correa is a left-of-center president was elected under a policy of *Revolución Ciudadana* (Citizen's Revolution) and *Sumak Kawsay* ("Good Living" in the indigenous Quichua) and roadway concessions under him are an illustration of the tradeoff between ideal points and policy efficiency highlighted in Chapter 2. Further, the roadway revolution is a keystone government policy, and highway construction provides a conspicuous reminder of government activity and industriousness. As a result of this high visibility, the interests of voters and the government align. In this case, efficiency is more valuable to the government than ideological purity, since well-constructed roads resonant at the polls. Despite Minister Chevasco's exhortation, complete privatization is of course unlikely, not only because privatization is also an ideologically charged topic (Goldsmith et al. 2014) but due to the fact that most secondary roads are not profitable enough to privatize (Paredes Vásquez 2009). Like other presidents in the region, when it comes down to it, Correa is more concerned with the efficiency—his roadway revolution policy is called the "lightening plan"—than dogma.<sup>128</sup> It helps, no doubt, that infrastructure projects

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<sup>128</sup> Leftist Brazilian president Dilma Rousseff has increasingly relied on PPPs to meet construction deadlines for the 2014 World Cup and 2016 Olympics in Brazil ("Facing headwinds, Dilma changes course" 2012), while in July 2013, Venezuela's Socialist oil minister and president of PDVSA, Rafael Ramírez, announced a project to re-

represent valence issues rather than partisan ones, like urban policy, and therefore pose a lesser risk to the president that he or she will suffer agency loss by choosing to favor capacity over ideology—it is difficult to show great ideological divergence in roadway construction and maintenance.

### **7.2.3 Implementation Success**

Plan Relámpago has been a success for President Correa. By 2012, Ecuadorian respondents to LAPOP's Barometer of the Americas survey were found to be the most satisfied with their roads of any in the 26-country sample (Donoso et al. 2013: 177-182). Construction crews are active in all 24 provinces, and there has been a noticeable improvement in often-neglected roadways in the Southern Andes and the routes between the coast and highlands. In part, this improvement can certainly be attributed to the unprecedented budget increases enjoyed by the MTOP, yet part is also due to the effective private management of roadways.

I analyze the effects of road concessions on users by comparing the quality of state-managed roads to privately managed ones.<sup>129</sup> The MTOP released its most recent evaluation of national road quality in September 2013. In the analysis, the ministry rates the condition of 318

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activate at least 1,000 oil wells in the Lake Maracaibo area with the help of private companies in the wake of poor public enterprise performance (LatinNews Daily Report 2013). Left-of-center politicians in the U.S. have relied on similar tactics. President Obama's 2013 budget recommended divestiture of the Tennessee Valley Authority in order to reduce its US\$24 billion debt, effectively privatizing the U.S.'s largest public utility ("Damned if you don't" 2013). Meanwhile, Maryland Governor Martin O'Malley, also a Democrat, announced in August 2013 that his state would seek a private company to build and operate the planned \$2.2 billion light-rail transit link known as the "Purple Line" to create more flexibility in financing and construction of large-scale projects at a time when government resources were limited (Wagner 2013)

<sup>129</sup> There are no systematic data for road construction. Further, quantifying policy success in this way, of course, does not take into account the concessions issued to DHM, S.A. in 1996 that were not fulfilled, or the General Rumiñahui Highway concession to the Tribasa-Colisa Consortium that was only partially realized and then rescinded. These failed concessions are selected out of the cross-sectional analysis despite the fact that they should be considered as failures, and considered in the final evaluation.

different stretches of highway as “good”, “regular”, or “bad”. In 2013, 66.61% of the sections were rated as good—up from 4.8% in 1998 and 30% in 2006—while 26.42% were considered regular and only 5.97% as bad. Quality varied according to operator. Table 7-6 shows that 30 of the 41 stretches of roads operated by private firms (73%) were rated as good and 11 (27%) as regular, while none of the roads operated by concessionaires were in bad condition. At first glance, then, it appears that concessionaires are effective at maintaining high road quality for consumers.

**Table 7-6.** Road conditions by operator in 2013, 318 stretches of roads

Operator	Road Condition			Total
	Good	Regular	Bad	
State	185 (66.8%)	73 (26.4%)	19 (6.9%)	277 (100%)
Private firm	30 (73.2%)	11 (26.8%)	0	41 (100%)
Total	215 (67.6%)	84 (26.4%)	19 (6%)	318 (100%)

Source: MTOP

Since the dependent variable *road quality* is an ordered variable (1=bad, 2=regular, 3=good), I estimate an ordered logit model. In addition to testing outsourcing, I also try to control for some of the underlying factors affecting the ability to manage that particular road: the length of the road, the type of road (primary or secondary highway), and the province where the road is located. The province dummy variable also helps take into account that the concessions are located in only eight provinces: Carchi, Imbabura, Pichincha, Cotopaxi, Tungurahua, and Chimborazo in the highlands, and Guayas and Manabí on the coast. Model 7.7.1 leaves out *type*, which is highly correlated with some of the (lesser-developed) provinces, while 7.7.2 includes all variables.

The results support the expectation that privately run roadways in Ecuador are in better condition than their state-run counterparts. As shown in Table 7-7, *concession* is positive and statistically significant in both models. Other variables also have an impact on quality. *Type* is

positive and significant in model 7.7.2, indicating that primary highways are perhaps predictably in better condition than secondary highways. Seven of the province dummies are statistically significant in model 7.7.1, all with negative coefficients. In other words, in comparison to the road quality in the baseline province of Esmeraldas, highways in Carchi, Pichincha, Napo, Orellana, Guayas, Bolívar, and Galápagos are on average in worse condition. In reality, these provinces do not share geographical, population or regional similarities, and their negative effects are driven in part by the proliferation of secondary roads in their borders. Including *type* in 7.7.2 leaves only three isolated provinces (Napo, Orellana, Galápagos), and Guayas as statistically significant.

The results indicate that concessions provide generally higher services for users than state-run roads. The primary cost for motorists are the tolls they must pay. Further, the successful highway concessions appear to have met expectations, employing private capital to finance road rehabilitation and maintenance, using private firms to mitigate government risk, and improving performance.

**Table 7-7.** Impact on highway concessions on road quality (ordered logit)

	<b>7.7.1</b>		<b>7.7.2</b>	
	<b>coeff.</b>	<b>se</b>	<b>coeff.</b>	<b>se</b>
Concession	1.282*	(0.499)	1.108*	(0.531)
Length (km)	-0.004	(0.005)	-0.005	(0.006)
Type (0=provincial, 1=national)			1.331***	(0.299)
Provincial dummies, 0= <i>Esmeraldas</i>				
Carchi	-1.965*	(0.856)	-1.146	(0.898)
Imbabura	-1.085	(1.384)	-1.149	(1.386)
Sucumbíos	-0.252	(0.905)	1.386	(0.923)
Pichincha	-2.037*	(0.841)	-1.310	(0.876)
Napo	-1.615 <sup>†</sup>	(0.840)	-1.584 <sup>†</sup>	(0.849)
Orellana	-2.654*	(1.048)	-2.299*	(1.047)
Cotopaxi	13.460	(873.1)	14.033	(1,205)
Tungurahua	-0.091	(0.999)	0.435	(1.031)
Chimborazo	-1.376	(0.860)	-0.505	(0.899)

Pastaza	-0.495	(1.454)	-0.569	(1.466)
Santo Domingo	13.629	(773.7)	14.447	(1,037)
Manabí	-0.558	(0.738)	0.274	(0.777)
Guayas	-2.285**	(0.767)	-1.491 <sup>†</sup>	(0.799)
Los Ríos	-0.196	(1.008)	0.466	(1.045)
Santa Elena	-0.749	(1.362)	-0.845	(1.368)
Bolívar	-2.579*	(1.161)	-1.388	(1.205)
Galápagos	-2.794*	(1.326)	-2.950*	(1.345)
Cañar	-0.427	(0.909)	0.226	(0.943)
Azuay	-0.887	(0.777)	-0.144	(0.814)
Morona Santiago	-1.079	(0.813)	-0.780	(0.833)
Loja	-0.879	(0.777)	-0.559	(0.793)
El Oro	-0.718	(0.793)	-0.016	(0.827)
Zamora Chinchipe	-1.435	(0.992)	-0.759	(1.017)
/cut1	-3.989***	(0.694)	-2.878***	(0.741)
/cut2	-1.764**	(0.652)	-0.540	(0.710)
Number of observations	318		318	
Pseudo R <sup>2</sup>	0.094		0.137	
Log-Likelihood	-225.98		-215.38	

note: \*\*\* p<0.001, \*\* p<0.01, \* p<0.05, <sup>†</sup>p<0.10

#### 7.2.4 Discussion

Low quality roadways have limited development in Ecuador for much of its history. After a wave of construction and rehabilitation after the oil boom of the early 1970s, the country's road network had fallen into disrepair by the 1990s. Suffering from a lack of available capital and weak technical capacity from the Ministry of Transportation and Public Works, the conservative government sought solutions from the private sector via granting BOT concessions. After a decade of inaction regarding roadway privatization, the leftist government of Rafael Correa returned to it after 2010 attracted once again by offers of capital and expertise. Correa has shown a degree of ideological flexibility that reflects the importance of his so-called roadway revolution and the necessity of constructing, rehabilitating, and maintaining the country's roads.

This primacy of expertise over ideology has benefitted both voters and the government: statistical analysis shows that privately managed roads in the country are in better condition than state-managed ones (benefitting users), while Correa has been lauded by voters for keeping his political promises (Vistazo 2010; Barrios 2011).

Of course, the Ecuadorian experience also demonstrates some potential limits to reliance on the private sector to delivery services. From an economic perspective, concessions are only likely when they are profitable for both the state and private enterprise (Paredes Vásquez 2009), meaning that their effectiveness is limited in part by geography and traffic volume. As with similar processes in Chile, Colombia, and Uruguay (Bull 2004), the MTOP and provincial governments began their concessions with the most heavily transited and easiest maintained roads in the country: the E35, the E25, and the provincial roads around Guayaquil and Quito. As of 2014, few stretches of these roads remain for the state to auction. Given finite stretches of highway (or bridges, or tunnels), each subsequent concession produces fewer profitable opportunities for the private sector and diminishing future concession possibilities.



## **8.0 UNIFYING AGENCY CHOICE AND IMPLEMENTATION SUCCESS**

The preceding three chapters describe the effective use of bureaucratic circumvention to ensure higher policy efficiency in Ecuadorian education policy, Brazilian public works, and Ecuadorian highway infrastructure. However, they also show the failure of circumvention to yield more efficient outcomes in Brazilian urban policy, Venezuelan food management and distribution, and Venezuelan housing policy. This chapter uses the case studies in an attempt to evaluate three related questions: 1) why politicians turn to one mechanism in one case, and a second in another; 2) why one mechanism successful in one place, and not in another; and, 3) under what circumstance bureaucratic circumvention is most likely to be successful for both politicians and voters. There are a number of different explanations for all three questions, but they are tied together through Chapter 4's hypotheses that implementation success is a function of the political principal favoring efficiency or ideology in her agency choice—and that this decision itself is driven by the confluence of voters' and politician's political allies' interests. In other words, this chapter is a three-part evaluation of Chapter 4's research hypotheses and alternative hypotheses that employs data from all six case studies.

The first two sections exploit the comparative research design that draws a pair of cases from each country (Brazil, Ecuador, Venezuela) as well as two controlled comparisons from each of three circumvention mechanisms (two cases of agency creation, two cases of military delegation, and two cases of outsourcing). In section one, I make within-country comparisons to

demonstrate how presidents chose their circumvention mechanism as a function of the political and policy factors at play. In section two, I employ cross-country comparisons for each circumvention strategy to evaluate under which circumstances the strategy was most or least successful. In the last part of the chapter, I use the evidence from these first two sections to link delegation motivations to implementation outcomes. Evidence from the cases not only reinforces the large-N conclusions from Chapter 3, but also demonstrates how the initial delegation decision itself is the result of a tradeoff between political goals and policy objectives. In short, they provide evidence that politicians' motivations of agency choice have a direct and significant impact on the success of policy implementation—and how misalignment between voters' interests and political allies' interests in the politician's multidimensional policy space has a tendency to interfere with implementation.

## **8.1 UNIFORM COUNTRIES, DIVERGENT ALTERNATIVES: COMPARING AGENCY CHOICE WITHIN COUNTRIES**

The case studies show the use of different circumvention mechanisms by three different presidential administrations: creation of a new agency under some set of circumstances, delegation to the military under others, and outsourcing under still others. This yields a number of intriguing questions: why does the same politician turn to one mechanism in one context, and another in a different one? Is this simply a product of agency capacity, ideology, cost, and the policy importance, as predicted in Chapter 2, or are there additional mitigating factors? Further, what accounts for mixed delegation strategies, where presidents or political leaders rely on more than one agent simultaneously? Lastly, how is it that one delegation decision might be driven by

a search for efficiency (e.g. Lula turning to DEC execution of public works projects in Chapter 6), and another in the same place be motivated by ideology or patronage (e.g. Lula's creation of the Ministry of Cities in Chapter 5)? To answer these questions, I compare the presidential decision-making calculus within each country.

The evidence indicates that in addition to the four factors highlighted in Chapters 2 and 3 (capacity, ideology, cost, policy importance), politicians' choices of implementation agents are also conditional upon the congruence between the policy domain and any alternative in the set of agents. Moreover, the particular moment in the policy implementation timeline when the decision is made influences the weight the president places on each of these factors. The cases show that use of mixed delegation strategies is also logical; in addition to spreading risk, politicians' decision to delegate a single policy over more than one agent represents an attempt to satisfy both voters as well as political allies. Lastly, the within-country comparisons lend support to the hypothesis that when voters and a politician's political allies have aligning interests, the politician maximizes her utility by the most well implemented policy and will be more likely to base her decision on efficiency; and that when the politician's utility with regards to voters and political allies is not maximized by the most well implemented policy, she will be more likely to base her decision on other factors.

### **8.1.1 Brazil**

In Brazil, President Lula da Silva created the Ministry of Cities as one of his first acts in power in 2002. At the beginning of his second term in 2006, Lula then began to delegate public works construction to the military through his Chief of Staff and future president, Dilma Rousseff. In part, these two different delegation decisions were based on Lula's evaluation of the existing

agencies' capacities as well as their domains of policy expertise. The Army's Department of Engineering and Construction (DEC) is a highly regarded and well-trained unit whose specialty is construction. Its members are engineers trained at its engineering school in Rio de Janeiro, and the unit possesses modern equipment and ample resources. While it is therefore logical that the DEC represents a gain in capacity for roadway, port, and airport infrastructure in comparison to Brazil's inefficient private sector firms and other public sector counterparts, it is at the same time contrary to logic for any contemporary Brazilian president to charge the military with the complexities of urban policy, since it is so far outside the training and expertise of the organization.

At the same time, the president had different priorities in the urban policy and the public works one. The creation of the Ministry of Cities was a concession to PT militants and social organizations that were one of the government's key constituencies; delegating associated policies to another agency—or worse, the military—would have been unthinkable, because by doing so the president would not have met his political goals. With infrastructure policy under the Growth Acceleration Program (PAC), however, the government favored efficiency as a result of the deleterious political consequences of implementation delays. In part due to ideological differences between the government and the military, the DEC was not the government's first choice of implementation agent. Despite public perceptions of impropriety and inefficiency within both the state and private sectors, the leftist Lula and Dilma governments still preferred these other organizations to the military. Yet after missed deadlines and delays in key tasks by the private sector and the state transportation agency, the government only turned to the more expedient Army engineering unit, the DNIT (as I show in Chapter 6, the DEC is involved in a higher proportion of "important" PAC construction projects than other agents). The DEC has

proven to be especially successful in completing publicly visible projects in the run up to the 2014 Soccer World Cup and the 2016 Summer Olympics.

The result is government mixing over alternatives, delegating implementation to existing firms, the private sector, and the DEC. Part of the reason for this is the DEC's limited size. Even if the DEC had been the government's first choice, its ability to carry out construction is limited by its personnel and deadlines. In a personal interview, for example, Army Coronel Werner Goulart said that in the DEC was operating at full capacity under Dilma and would not be able to accept more projects from the central government. Given the size and scope of the PAC, a mixed strategy is therefore necessary to attend to all aspects of the policy.

In sum, Lula was motivated by patronage or ideology under one circumstance, and by efficiency in another due to the shifting impact of policy outcomes on his political support. With the establishment of the Ministry of Cities, Lula traded policy efficiency for ideological proximity in order to satisfy an important political actor and social group. In delegating PAC projects to the DEC, the politically advantageous delegation decision also happened to be the one that represented the greatest likelihood of implementation success.

### **8.1.2 Ecuador**

The political decision to choose different circumvention mechanisms in Ecuador was driven to a large degree by the agencies' domains of expertise and bureaucratic demand to carry out a profitable policy versus an unprofitable one. In both cases, the political principals<sup>130</sup> chose

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<sup>130</sup> Recall from Chapter 5 that it was the Education Minister Raúl Vallejo and not the president who pursued the creation of the executing unit to design and implement education reforms intended to meet the Millennium Development Goals.

bureaucratic agents who they assumed to be capable. Private firms initially offered greater capacity in the form of funding for roadway construction and maintenance, and by the late 2000s had shown themselves to be adequate caretakers of inter-provincial Ecuadorian highways—as anyone travelling the E35 trunk north and south from Quito will note—giving the president an inexpensive mechanism to pursue efficiency gains in that area. Moreover, demand for profitable national roadway concessions was high, making the outsourcing easy. On the other hand, outsourcing implementation was not a viable option for the Ten Year Plan for Education (PDE), since national education policy is not something that is easily monetized (and unlike infrastructure concessions, education privatization is controversial). Instead, the minister recruited highly trained technocrats to make up a new temporary executing unit.

The political principals sought implementation efficiency in both cases, either to limit political repercussions from failed implementation, or to maximize political gains from effective execution. Specifically, the Minister of Education pursued proficiency with education policy to meet goals established by the UN and to avoid costly political fallout from not meeting these objectives. Improving highway infrastructure, on the other hand, is an extremely visible policy that benefits the president's and ruling party's image, as Chapter 7 recounts. In both cases, principal's political objectives were strongly aided by well-implemented policy.

### **8.1.3 Venezuela**

The president's choice of bureaucratic agents in Venezuela is, perhaps even more than in the Brazilian example, influenced strongly by political considerations. Here, President Hugo Chávez turned to the Venezuelan armed forces to carry out food policy (as well as a host of other activities), and outsourced the state housing construction to foreign state enterprises. Given

Chávez's criticism of the public administration upon taking power in 1999 and Venezuela's infamous reputation for a bloated and inefficient public sector (Stewart 1978; Iacoviello 2006; Echebarría and Cortázar 2007), as well as the nature of the public policy problem that demanded countrywide mobilization, the FANB was a natural partner to carry out the Plan Bolívar 2000. An ex Army Lieutenant Colonel, Chávez believed the FANB was perhaps the most instrumental resource in fomenting state development, even going so far as to famously establish a "civic-military union". In short, the president opted for both capacity and ideological gains by turning to the military (although the large-scale failure of the Plan Bolívar 2000 indicates that Chávez probably overestimated the efficiency of the military—especially to execute a policy far outside of its jurisdiction). By the time of the GMVV in 2010, President Chávez trusted less in the infallibility of the military—plus, the scope of the GMVV would have made entrusting implementation to a single actor untenable.

Politics was a primary presidential motivation in both cases. Some scholars criticize Venezuelan government social missions such as the Plan Bolívar 2000 and the GMVV as political patronage designed to foster a dependent relationship between voters and the government (Monaldi et al. 2006; Penfold-Becerra 2007, 2010; D'Elia and Maingon 2009), and at the least they are an important government service (MINVIH 2013). Either way, it follows that well executed policies should benefit the government by benefitting voters. Nonetheless, countervailing political factors in both food policy and housing policy limited their effectiveness. By turning to the FANB from 1999-2001 for the Plan Bolívar 2000, Chávez sought an ideological ally and an actor he perceived as high capacity. Yet his political alliance with the military was also strategic: he was part of a group of disaffected junior officers who attempted a coup d'état in 1992, and understood the importance of keeping his country's soldiers busy and

productive.<sup>131</sup> Likewise, as I explain in Chapter 7, outsourcing construction to firms from abroad was a clever way to kill two birds with one stone: locating agencies to build homes for domestic policy, and reinforcing global alliances for geopolitical purposes. At least in this latter case, policy implementation would have been more efficient had the government simply turned to the private sector or the National Institute of Housing.

Lastly, while it is true that improving policy implementation requires choosing a more experienced, capable, and accountable agent than the state-run companies from international allies, it is also true that Venezuela has not created a propitious environment for policy success. Venezuela's political economic reality—price controls and a fixed exchange rate for a weak currency combined with rampant corruption in both the public and private sectors—undermines even the most well intentioned bureaus and firms. Official figures from the Ministry of Habitat and Housing, for instance, indicate that the agency was only able to build 106,000 of a planned 400,000 housing units (26.5%) in 2014, due in part to scarcity of cement and rebar, as well as their exaggerated cost. Although the cost of a sack of cement was regulated at 50 *bolívars* (about five dollars at one preferential official exchange rate), its black market price has skyrocketed to 600-1,000 *bolívars* (60-100 dollars) (Rodríguez 2014).

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<sup>131</sup> President Maduro has maintained this tradition, promoting hundreds of officers to the rank of general, creating a special military television station, and a “special military zone” for military food and clothing production (LAWR 2013).



## **8.2 UNIFORM ALTERNATIVES, DIVERGENT OUTCOMES: COMPARING MECHANISMS ACROSS COUNTRIES**

A comparison of cases also provides support for why one circumvention mechanism is successful in one place, but not in another. In this section, I compare two policies per circumvention mechanism to draw conclusions on the veracity of both the research and alternative hypotheses from Chapter 4 regarding the impact of circumvention on implementation success. The evidence supports the hypothesis that an efficiency-motivated president—and one whose allies and voters share interests—is more likely to choose the most capable implementation agent and actually achieve implementation success, whereas an ideologically-motivated president—and one whose voters and political allies share different interests—is more likely to choose an agent that offers other political benefits, resulting in a lower likelihood of implementation success. It further demonstrates that the weight a president places on efficiency versus ideology is a direct effect of the political benefits of a well-executed policy. As with the large-N study of the determinants of circumvention, many of the alternative hypotheses also hold true here. I begin by scrutinizing agency creation in Ecuador and Brazil (Chapter 5), delegation to the military in Brazil and Venezuela (Chapter 6), and outsourcing in Venezuela and Ecuador (Chapter 7).

### **8.2.1 Agency Creation: Motivation and Design**

The two cases of agency creation illustrated in Chapter 5 support Chapter 4's research hypothesis that a political principal's motivations for bypassing the bureaucracy has a direct impact on the policy's implementation success. In Ecuador, Minister of Education Raúl Vallejo established an

executing unit to develop and implement his ambitious Ten Year Plan for Education and meet the United Nations' Millennium Development Goals. The minister filled the unit with competent bureaucrats through an open, merit-based competition, without considering partisan affiliation, and education indicators have risen across the board since that time. This example also shows how implementation success is linked to policy success in general. Meanwhile, Brazilian president Lula da Silva and his Worker's Party created the Ministry of Cities in 2003 to acquiesce with the party's civil society allies who had long fought for a "participatory" urban policy. Lula initially filled the ministry with PT co-partisans and the ministry was successful in developing the PlanHab. However, the fragile nature of this success became apparent when the president was forced to replace Ministry of Cities' bureaucrats in a cabinet reshuffle, resulting in a drastic policy about-face.

The Ecuadorian and Brazilian experiences provide mixed evidence in support of the alternative hypotheses for the effect of agency creation on implementation success. Ecuador's Education Universalization Unit was quite autonomous and successful, contradicting the alternative explanation that an increase in presidential control will raise implementation success if the president's primary motivation is efficiency. The Ministry of Cities is a poorer example, since high presidential control was offset by a motivation anchored in ideology. However, evidence from these two cases better supports the contention that the smaller the amount of political patronage exercised in creating a new agency increases the likelihood of implementation success. The more successful Ecuadorian case carefully avoided patronage politics, while this was a central aspect of the more disappointing Brazilian one. This conclusion also demonstrates a basic linkage that Lewis (2008) highlights between bureaucratic appointments and policy

outcomes, and the fact that presidents derive different value from appointing career civil servants versus political allies.

In concrete terms, the executing unit held at least four advantages over the ministry. First, it boasted a core of well-trained technocrats rather than political appointees with expertise but little bureaucratic experience. Technocrats filled the positions in Ecuador's executing unit through a merit-based competition, whereas in Brazil's Ministry of Cities, all mid- and upper-level positions were political appointees. Second, the executing unit's short rather than long-term existence meant little to no personnel changes, limiting any bureaucratic drift, whereas the open-ended nature of the Brazilian ministry implies inevitable personnel changes. Third, Ecuadorian policy implementation benefitted from a stable political environment, while shifting political coalitions in Brazil caused the ministry's mission and goals to change over time. This point supports McConnell (2010b), who maintains that time horizons must be a fundamental consideration in designing agencies, appointing bureaucrats, and evaluating policy outcomes. An agency that seemingly underperforms in the short-term may merely be setting the stage for a more stable long-term outcome, as in Ecuador, while a high-performing but inchoate agency may prove undependable in the long-term.<sup>132</sup> Last, these cases of agency creation and the divergent outcomes also illustrate March and Olson (1983) and Wilson's (1989) belief that improving organizational culture (as in the executing unit) is often more effective in improving bureaucratic performance than more publicly visible reforms, such as agency reorganization under the guise of creation (as in the Brazilian ministry).

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<sup>132</sup> As Kaufman (1976) points out, all "new" agencies eventually become old ones. What happens to policy, then?

### 8.2.2 The Armed Forces: The Centrality of Jurisdiction

Similarly, the Brazilian and Venezuelan experiences from Chapter 6 support the research hypothesis that the political principal's motivations for bypassing the bureaucracy have a direct impact of the policy's implementation success—and that implementation success for the principal affects policy benefits for users. In Brazil, a state motivated by meeting deadlines (Soccer World Cup, Olympics) and confronted with an inefficient private sector set aside its ideological reservations to delegate an unprecedented quantity of public works projects to the Army's Department of Engineering (DEC). From the principal's perspective, the DEC has exceeded expectations, punctually implementing projects at a higher rate than other agents and in some cases, even coming in under budget. Meanwhile, spurred by an inefficient public sector and the president's military background, the Venezuelan government delegated a range of domestic policies to the army in 1999, including developing and carrying out a subsidized food policy. Implementation was not carried out as faithfully as the president envisioned, and amidst corruption scandals, he abruptly and prematurely ended the project in 2001. Failure to successfully carry out the program also resulted in policy failure.

The two cases also demonstrate support for alternative hypothesis from Chapter 4 that policy implementation by the military will be more successful as the policy becomes more congruent with the military's jurisdiction and training. The Brazilian DEC's implementation success owes not only to the government's motivation in increasing agency capacity, but also to a high level of technical congruence between the DEC's engineering training and the projects, mainly engineering-heavy infrastructure construction and mobilization. One byproduct of this successful implementation has been successful *policy*—benefitting citizens and the army just as much as the government. In Venezuela, the FANB's poor execution of Plan Bolívar 2000 was a

result of incongruence between its training and jurisdiction and the broader demands of the policy (e.g. planning and management of fiscal resources), resulting in improvisation by commanding officers in setting up distribution chains and popular markets. On the other hand these results do not offer support for the second alternative hypothesis, that policy implementation by the military will improve with greater civilian collaboration. Neither of the two armies often turned to civilians, and the DEC achieved higher implementation success without involving civilian groups in the policy execution.

Politicians should cautious how they use their militaries and be aware of unintended consequences. Maintaining civilian control of the armed forces, for example, remains a central concern for Latin American democracies (Hunter 1997b; Pion-Berlin and Arceneaux 2000; Trinkunas 2005; Desch 1999; Hunter 1994b; Pion-Berlin 2001). While the Brazilian case shows that civilian authorities can turn to the armed forces to improve implementation in a limited role without threatening the bounds of civilian control, the broader participation of the armed forces in Venezuela's civil-military pact have been detrimental to Venezuelan democracy (Coletta 2010; Trinkunas 2002; Jácome 2011). Beyond this, politicians should be careful dedicating military resources to carry out non-defense policy, since this action may detract from militaries' abilities to carry out their intended functions.

### **8.2.3 Outsourcing: The State's Catch-22**

*For unto every one that hath shall be given, and he shall have abundance: but from him that hath not shall be taken even that which he hath.*

Book of Matthew, 25:29, King James version

The experiences of foreign government outsourcing of the *Gran Misión Vivienda Venezuela* and Ecuadorian highway concessions demonstrate that outsourcing does not automatically guarantee an improvement in implementation efficiency. Like recent literature recognizes (e.g. Goldsmith et al. 2014), outsourcing is bound to be more successful under some circumstances—a competitive bidding process, and effective state oversight—and less so under others. The two cases provide evidence that, as predicted by the research hypothesis, a principal motivated by political or ideological concerns is likely to enjoy political or ideological benefits at the expense of implementation efficiency, simultaneously proving harmful for the success of the policy and benefits for voters, while a government motivated by efficiency is much more likely to achieve implementation and policy success.

What is more, the diverging implementation outcomes also support the alternative explanation that outsourced policy implementation will be more successful as state capacity increases. Indeed, government outsourcing does not eliminate the role of the state as overseer, manager, or controller of policy. The foreign firm implementation of the GMVV in Venezuela and highway concessions in Ecuador are both examples where the firms were enabled or limited by the state, either through their contract or in the *de facto* exercise of the responsibilities stipulated therein. This implies that, consistent with the movement of “post-NPM” reforms that stress horizontal coordination of government organizations as well as coordination between the government and other actors (Christensen and Lægreid 2007), the design, enforcement, and management of the agreement all depend on effective administrative organization. It also lends credence to Guy Peters’ (2001) argument that Weberian reforms ought to precede NPM in less-developed democracies.

The conclusion that professional bureaucracies should be better able to manage, assess, and discipline third-party performance than less competent ones also creates a catch-22 for many states. Those that cannot count on a weak administrative apparatus and therefore have incentives to outsource may be unable to effectively do so, since it depends on consequential, long-term planning and enforcement. Meanwhile, states with stronger public administrations that do not need to outsource for pure efficiency reasons are those in the best position to benefit from it. Similar to the agency design and military task implementation cases, these two case studies illustrate that in circumventing the bureaucracy, governments really only circumvent certain agencies; in the end, there is no quick and easy way for inefficient states to escape their debilities.

### **8.3 AGENCY CHOICE AND IMPLEMENTATION SUCCESS**

The comparative case studies in Chapters 5-7 show the role that agency capacity, agency ideology, and the cost of circumventing in conjunction with the scale of the policy have on politicians' delegation decisions. This is consistent with Chapter 2's theoretical model: while some decisions are motivated by gains in capacity, ideology, or cost (e.g. Ecuadorian President Durán-Ballén's decision to open roadway concessions in 1996 hit all of these targets), others endure losses along one dimension for gains along another (e.g. Leftist President Dilma Rousseff delegating an unprecedented number of engineering projects to the Brazilian Army for efficiency gains).

The chapters also show how the decision to delegate in a certain way can set the interests of the president and the interest of voters at odds, with efficiency-seeking politicians more likely

to achieve positive outcomes for voters, and ideologically motivated politicians more likely to find outcomes that benefit only them. As predicted in Chapter 4, differences in policy outcomes reflect the primary motivations for circumvention by the principal. As Table 8-1 shows, when agency capacity is the primary consideration in choosing an implementation agent, that bureau tends to outperform the corresponding jurisdictionally appropriate agent (e.g. Ecuador’s Ten-Year Plan for Education, Brazil’s Growth Acceleration Program, and Ecuador’s roadway plans). Conversely, when agency capacity is not the government’s sole priority, the circumvention agent performs just as unexceptionally as the corresponding jurisdictionally appropriate actor (e.g. Brazil’s urban policy), just as poorly (e.g. Venezuela’s food policy), or even *worse* (e.g. Venezuela’s housing construction).

**Table 8-1.** Comparison of circumvention motivations and policy success

<b>Mechanism</b>	<b>Policy</b>	<b>Circumvention Considerations</b>				<b>Success</b>
		<b>Capacity</b>	<b>Ideology</b>	<b>Cost</b>	<b>Importance</b>	
Creation	Ten-Year Plan	Yes	No	Mixed	High	Yes
Creation	Urban Policy	Partial	Yes	Higher	High	Mixed
Military	PAC	Yes	No	Lower	High	Yes
Military	Plan Bolívar 2000	Partial	Yes	Lower	High	No
Outsourcing	GMVV	No	Yes	Higher	High	No
Outsourcing	Plan Relámpago	Yes	No	Lower	High	Yes

The six cases examined in this book show that bureaucratic circumvention—and by extension, policy delegation in general—is most successful when the president’s delegation decision is motivated by efficiency. When politicians choose a circumvention agent—or any agent—based on its higher capacity, policy implementation is more likely to meet expectations. By contrast, when ideology is the primary motivation for circumvention in low capacity bureaucratic environments, implementation is unlikely to meet expectations and politicians are limited to reaping only political-ideological gains, not policy-based ones.



## **9.0 BUREAUCRATIC CIRCUMVENTION AND POLICY IMPLEMENTATION: CONCLUSIONS AND IMPLICATIONS**

The motivation for this book was twofold. First, how does low bureaucratic capacity affect politicians' decision-making and behavior? The scholarly literature shows that low organizational capacity causes inefficient policy outcomes, but does not explain how bureaucratic characteristics cause changes in politicians' decision calculus or conduct. Second, how do politicians in low capacity bureaucratic contexts successfully implement policy? Policymakers across the developing world have produced and implemented innovative, far-reaching, and oft-copied policies, despite administrative inefficiencies lampooned in books, movies, and on the street. So, how have these countries' politicians and bureaucrats managed to achieve policy success despite their disadvantages? The literature does not offer a convincing systematic theoretical explanation. Despite extensive scholarship that explores the institutional, ideological, and even social determinants of policies, there is a significant gap in the comparative politics literature between policymaking and final policy outcomes. When taken together, these questions illustrate how comparativists have largely ignored the relationship between politicians and the bureaucracy—the largest and most relevant institutional actor to ordinary citizens—and how administrative characteristics may influence both political decisions and policy success.

I argue that as organizational capacity decreases, politicians are increasingly unwilling to depend on their administrative apparatus, and instead delegate implementation outside those agencies. Specifically, I propose that politicians in low bureaucratic capacity environments often seek alternative modes of service delivery, such as new agency creation, delegation of policy

implementation to organizations with different jurisdictions, and outsourcing, to ensure more consistent implementation outcomes. Still, a search for improved capacity cannot be a politician's only motivation for this "bureaucratic circumvention". At its logical extreme, an efficiency-motivated political principal would delegate all policies exclusively to the most capable agencies—whether jurisdictionally appropriate or not—leaving the lowest capacity agencies devoid of policymaking or implementation authority. Instead, I argue factors such as ideological congruence between the political principal and agent, the cost of turning to an agent outside the public administration, and the importance of the policy play key roles in determining modes of delegation.

Furthermore, I contend that a political principal's motivation behind agency choice has a direct impact on implementation outcomes. When politicians are motivated by efficiency, their agent choice will reflect this, and the policy has a higher likelihood of being implemented well; when politicians are ideologically motivated, their choice will instead reflect this, and the policy will have a higher likelihood of being implemented poorly. In addition, the politician's calculus to prioritize efficiency or ideology is a function of the degree to which voters' and political allies' interests align: when their interests are in harmony, the incentive to choose the most capable bureaucratic agent is large; when the goals conflict, the incentive to choose the most capable agent decreases.

The broad aspiration of this book, like any ambitious scholarly work, is to at once explain an empirical puzzle, address a theoretical lacuna, and ideally leave a policy. In the rest of this chapter, I address why this research might resonate with academics, policymakers, or policy practitioners. In the next section, I synthesize the empirical findings from the study with respect to the individual research questions and hypotheses. In section two, I examine the theoretical

implications of the findings, especially as they relate to existing theories in Political Science and Public Policy. The third part examines some potential policy implications of the work, focusing both on politicians as well as bureaucrats. Wrapping things up, section four recognizes a few of the study's largest limitations and recommends possible avenues of future research, before concluding.

## **9.1 EMPIRICAL FINDINGS**

Evidence from Latin American executive decrees strongly supports the assertion that circumvention is a tool that politicians in low capacity bureaucracies use to implement policy. Not only that, but political actions like agency creation, use of the military in civilian affairs, and even outsourcing do not necessarily depend on a politician's ideology, but also on the quality of a country's bureaucracy. Further, controlled comparisons of policies in the region indicate that circumvention can indeed be more effectual than presidents relying on more traditional, jurisdictionally appropriate agencies. The data show that following expectations, a decrease in country-level measures of capacity, an increase in the ideological distance between a president and the policy's corresponding minister, and an increase in the import of the policy itself are all associated with a higher likelihood of circumvention by the president. Similarly, while circumvention cost does not influence the likelihood of outsourcing, it does exercise an effect a statistically significant effect on new agency creation and delegation to the military.

Chapters 5-8 show that third parties can indeed achieve more efficient implementation outcomes than their more traditional counterparts. As hypothesized, the most proficient policy outcomes result from a delegation decision-making calculus that favors efficiency over ideology.

Withal, the weight politicians place on one or the other of these factors is a direct result of the confluence of political aims and policy aims. When policy outcomes correspond to political ones, politicians are more likely to seek an efficient agent, like the cases of Brazilian public works or Ecuadorian roads. On the other hand, when political goals deviate from policy ones—as with Brazilian urban policy, Venezuelan military delegation of food policy, or Venezuelan foreign firm outsourcing—agent choice is based on a combination of ideology and efficiency, and the policy is likely to suffer a higher degree of implementation error.

Empirical deviations from the theoretical expectations offer perhaps even greater insight into the delegation and implementation process. These deviations suggest that the determinants and effects of bypassing the bureaucracy are significantly more nuanced than I initially propose. First, the capacity of the existing public administration exercises a differential impact on the circumvention strategy politicians choose—not a uniform one. Specifically, the less efficient a country's existing bureaucracy, the more likely the country's politicians will try to create a new agency, while the more efficient the administrative apparatus, the more likely leaders will be to outsource. Second, although the ideological distance between the president and the corresponding government ministry exerts a statistically significant effect on agency creation and outsourcing, it exercises no effect on presidents' proclivities to delegate to the military. This is shown not only in the regressions in Chapter 3, but demonstrated in the case study from Chapter 5 when Brazilian leftist presidents Lula and Dilma counterintuitively turned to the army engineering corps to construct a series of public works. Last, the statistical models show that predictors for many of the alternative hypotheses of the causes of circumvention yield significant effects in the hypothesized directions, meaning that existing explanations like per capita GDP, the number of years since a country leaves a dictatorship, and new policy area can explain

circumvention in general, delegation to the armed forces, and new agency creation, respectively. These alternative explanations thus work in conjunction with agency capacity, agency (and presidential) ideology, circumvention cost, and policy importance as predictors of policy bypassing the public administration.

## **9.2 THEORETICAL IMPLICATIONS**

The findings from this book also have theoretical ramifications for social scientists' understanding of the policy delegation process, policy implementation, and the links between politics and policy. The discoveries touch upon prominent knowledge and conventional wisdom not only in political science and public policy, but the fields of public administration, organizational sociology, and even economics.

First, a low existing bureaucratic capacity may counterintuitively improve certain policy outcomes by driving politicians to choose more efficient agents. The lower the existing bureaucracy's capacity, the more likely a politician is to bypass the public administration, and the greater ability she has to seek higher capacity agents. However, second, since a politician is able to choose the agent closest to her preferences, policy implementation may also become more politicized. The reason for this is that when an existing bureaucrat is low capacity, policy uncertainty grows and a politician will tend to refrain from delegating to that agent. By taking things into her own hands, the politician can engage in bureaucratic circumvention, and settle on the agent closest to her preferences. Third, and as I reiterate in the policy lessons below, policy success is never guaranteed. Bureaucratic circumvention is a high wire act in which the politician often faces a tradeoff between agency capacity and agency ideology, and is influenced

by the interests of voters as well as political allies.

Beyond these big picture these, one of the book's principal aspirations is to provide a framework to explain the puzzle of how policy can be successful under the sub-optimal institutional or political conditions. Many scholars and policy analysts often note the low bureaucratic capacity in many developing countries (e.g. Levy and Kpundeh 2004; Sotiropoulos 2004; Tummala 2005; Lora 2006; Scartascini et al. 2010; Centeno and Ferraro 2013), but there are fewer explanations of policy success. While inter-country variation in organization capacity may be one explanation for policy success, scholars should also consider that politicians have a number of tools at their disposal to better guarantee outcomes. Given the degree to which politicians use agency creation and outsourcing, it behooves scholars to take this delegation option into account as they construct stories of the policymaking and policy implementation process in the developing world.

Further, the results from this study imply that scholars must be cautious in the assumptions they make in understanding the policy delegation process. This theory of bureaucratic circumvention discards unrealistic assumptions that abound in the literature, such as public agencies that possess uniformly high organizational capacity or politicians whose policy delegation is constrained to a single bureaucratic agent (e.g. Fiorina 1986; Bawn 1995; Epstein and O'Halloran 1996, 1999; Huber and Shipan 2002; Volden 2002). In doing so, it creates a delegation process where politicians have a much broader range of choice than canonical models, while still recognizing the fundamental tension between achieving policy efficiency and policy control. Policies are not doomed to failure in places where the bureaucracy is generally inefficient, but locating a high capacity agency means that politicians must still consider the tradeoff between bureaucratic expertise and policy drift as they convert laws into policies.

Theoretical models of the policymaking process would benefit enormously by acknowledging and incorporating the broad range of administrative capacity different agencies in the same country possess.

Lastly, this research provides a concrete link between politics and policy. Too often, subfields within the social sciences are concerned with either the input side of the policymaking process (e.g. Political Science) or the output side (e.g. Public Policy). The book demonstrates that bureaucratic capacity not only plays a role in determining whether or not a politician seeks an alternative form of policy delivery—just as ideology, cost, and policy importance also play roles—but how circumvention actually leads to more or less effective policy execution. It is invaluable to consider both political and policy attributes. Effective policymaking depends on both politicians and bureaucrats, and not merely one or the other. For instance, many technical studies advocate different types of administrative reform or decentralization in an effort to improve policy delivery (e.g. Bresser-Pereira and Spink 1999; Tulchin and Garland 2000; Lora 2006), but fail to take into account the myriad political calculi that influence the policy context, delegation decision, and oversight.

### **9.3 POLICY IMPLICATIONS**

Beyond the empirical findings and the consequences for theory building, the results from this study are also relevant to the policy world. Quite simply, it recognizes that politicians possess strategies to cultivate policy success when bureaucratic capacity does not meet the Weberian ideal. Agency creation, outsourcing, and dependence on an extra-jurisdictional agent are tools that can all achieve varying degrees of implementation success or implementation failure,

although none of them is infallible. Interestingly, the case studies from this book demonstrate that the governments best positioned to benefit from any type of circumvention and maximize the possibility of policy success are those that already boast higher bureaucratic capacity. There are three other implications: 1) bureaucratic circumvention is not a panacea for broader administrative inefficiency; 2) well-implemented policy is more likely when the political principal benefits from policy efficiency, whether or not she circumvents; and 3) politicians must apply circumvention strategies selectively (and strategically) in order for them to be successful, and 4) circumvention may be detrimental to the bureaucracy at large.

First, bureaucratic circumvention is not a cure-all for administrative inefficiency. Bypassing the bureaucracy may provide a temporary solution, but ultimately, there are no shortcuts around improving the professionalism and probity of the public administration. As former Director of Budget in the Chilean Ministry of Finance Mario Marcel writes, “effective public institutions are not created out of a pure act of political goodwill, but by the accumulation of experience and capabilities over long periods” (Marcel 1999: 320). It is therefore important to differentiate mechanisms that politicians can use to guarantee a better likelihood of policy success from attempts to improve the bureaucracy itself. Bypassing red tape for a single public policy simply affects certain policies or policy domains, but it makes no designs on changing the public administration at large. True improvement comes from investment in bureaucratic reform. Further, as I suggest below, it is even possible that circumvention not only fails to remedy administrative shortcomings in the larger bureaucratic corpus, but that it may actually decrease its capacity by drawing away valuable policy experience, resources, and personnel.

Second, there is a clear and direct relationship between politics and policy outcomes: well-implemented policy is most likely when the political principal benefits more from policy



efficiency than by maximizing separate political gains. The implications are not wholly discouraging for countries with weak bureaucracies who want to get things done: Ecuador's Ten-Year Plan, its highway concessions policy, and the Brazilian DEC's portion of the PAC all represent creative and successful implementation solutions for governments motivated by achieving policy efficiency. The lesson, however, is that they are cases where presidents or presidents' parties made the highest political gains from completing the policy well. This implies that the more politics interferes with policy, the worse off policy is. In cases where politicians are pulled in competing directions and must satisfy some constituency (or worse, more than one constituency), it is more likely that they will delegate policy implementation to an agency that does not maximize policy returns. Improving policy delivery and policy returns, then, is not wholly reliant on the bureaucracy but on politicians as well. Citizens are most likely to benefit from effective service delivery when they can hold politicians accountable for the outcomes, and therefore make efficient policy outcomes in politicians' best interest.

Third, strategies of bureaucratic circumvention should be applied selectively, regardless of the specific mechanism. There is not one blanket strategy that inevitably "works" for both politicians and voters alike. Instead, policy characteristics, agency characteristics, and political context all dictate whether one mechanism is more appropriate than another. This is especially true with regards to outsourcing. As Cordella and Willcocks (2010) have argued, some public goods are not profitable and their supply suffers a lack of demand. Even in the presence of competition, relying exclusively on contracts for the provision of all profitable public goods is probably not possible. Dunleavy and Hood (1994), for example, suggest that public sector organizations must retain control over core competencies. The relative success of highway concessions in Ecuador and the relative failure of housing construction in Venezuela bear

witness to this. The privatization of profitable, high transit highways in Ecuador has worked, but similar privatization of *all* highways would likely fail to generate competition due to the lack of profitability of many roads. Therefore, contracts would either fail to be awarded, or awarded under far less advantageous circumstances to the state, undercutting the chances of success. This is true, of course, for contracts over all public goods. The GMVV foreign contracting process itself suffers from a lack of demand, since *there is no open bidding for foreign firms*. In other words, by awarding exclusive construction contracts based on foreign policy concerns, the government is denting those foreign groups' commitment to effective implementation.

Finally, circumvention creates a social cost by duplicating government structures that may result in a circumvention trap. An ever-growing bureaucracy does not promise greater efficiency or higher capacity in *existing* agencies, and may in fact detract from the quality of those bureaus. If this is true, then bypassing jurisdictionally appropriate agencies—in part due to concerns about those agencies' capacities—may result in an adverse effect on those same agencies. In this endogenous cycle, politicians do not trust the bureaucracy, and thus delegate more important policy outside the relevant agencies. Meanwhile, the relevant agencies are not given the opportunity to exercise their function with the most important policies, and retain their status as low capacity or suffer further capacity loss. This affects government responsiveness and performance across policy domains, meaning that strong implementation for a single policy may actually mean poorer implementation for other policies. Further, when circumvention strategies are available to presidents, there are few incentives for reforming poorly performing or low capacity bureaucratic agencies. To the contrary, presidents are perversely encouraged to use the existing bureaucracy as a fertile field for political patronage and cronyism (thus further

weakening it), while increasingly turning to the more efficient technocratic abilities of circumvention.

In sum, bureaucratic circumvention may be able to maximize both policy and political outcomes, but there is no link between this strategy and improving the public administration as a whole. Governments who enjoy relatively capable public administrations are more likely to implement policy well than those places where public administration is weak. In terms of maximizing policy outcomes, voters are likely to enjoy effective service delivery when the political principal benefits from policy efficiency. Lastly, politicians must be selective and strategic in when (and how) they apply circumvention strategies if they are to guarantee effective policy outcomes.

## **9.4 LIMITATIONS, QUESTIONS, AND RECOMMENDATIONS FOR FUTURE RESEARCH**

Despite covering a lot of theoretic and empiric ground, there are still a bevy of questions and topics that deserve attention. Some revolve around limitations. These are the product of theoretical assumptions or empirical decisions, or due to the difficulty of incorporating the plethora of ideas and scholarship from a range of fields. Other questions, however, emerge from the implications of this work, especially relating to the generalizability of its findings, and unintended consequences that might result. In either case, there are a number of questions that merit additional exploration and scholarship.

Like all social science research, this study must make certain modeling assumptions in order to construct a manageable theory. First, I assume the political principal is a single actor—

and a president, at that, rather than a congress. I believe this is entirely defensible in many places in Latin America, where a president is capable of exercising a high degree of power over both the public administration and policymaking. However, it is possible that this does not map as well onto political contexts with more balanced separation of powers systems, or even where the legislature is the dominant policymaker. Second, the theoretical model simplifies the policymaking process significantly, assuming that a political principal merely decrees policy that represents her interest. The reality, of course, is much more complex, as policies most often emerge after negotiation among many different political, judicial, or even social actors. Nonetheless, these simplifications lead to theoretical propositions that should largely hold true even if, say, competing principals replace the single principal, or if the policymaking process is made to more accurately depict reality. Future work can expand upon this.

There are also empirical shortcomings in the study. Like the theoretical assumptions, these are also necessary evils that are the result of operationalizing a number of “thick” concepts. For instance, given the paucity of agency-level capacity data for Latin American public agencies, all empirical models use state level indicators—even though within-country variation may even be larger than cross-country variation in similar ministries (Gingerich 2013). This has important theoretical implications for the current study. Applying previous findings about intra-country variation and inter-country similarities in agency capacity to the expectations developed here, where level of organizational capacity is correlated with politicians’ proclivities to circumvent, it follows that certain types of agencies should be more likely to be circumvented than others, *regardless of the country*. In other words, the theoretical suggestion is that across countries, politicians should circumvent the bureaucracy more often for certain agencies and policy domains (e.g. infrastructure) than others (e.g. finance).

Other empirical weaknesses show fewer possibilities for theoretical insight. For instance, I proxy the preference convergence/divergence between a president and a government ministry as the distance between the president's party and the minister's party, all while recognizing that the party label is not a perfect proxy for the minister's ideology, nor is the minister's ideology a perfect proxy for the agency's ideological leanings. Similarly, I measure circumvention cost through a series of fiscal indicators that may not be entirely accurate gauges of the "cost" a political principal endures by creating a new agency, turning to the military or outsourcing. Foreign direct investment in particular may not be the best representation of the government's ability to outsource to the private sector, especially since most outsourcing is national rather than international. These indicators are first approximations, and enterprising researchers could retest the hypotheses using different ones.

There are also theories, and indeed, entire fields, that this book does not manage to assimilate. Administrative decentralization and bureaucratic reform and reorganization are other strategies to improve policy outcomes that have spawned their own fields of study. Public administration scholars and technical analysts of the developing world, for example, often ask how policymakers can improve the bureaucratic apparatus (e.g. Geddes 1994; Leyton 1994; Pereira and Spink 1999; Huber and McCarty 2004; Levy and Kpundeh 2004; Echebarría and Cortázar 2007; Lustosa da Costa 2008)? Incorporating these elements are simply outside the scope of this project, but could be added by enterprising researchers.

This research also raises a number of questions that merit future study, especially relating to the generalizability of its findings, the effect that this delegation process may have on the rest of the bureaucracy, and unintended consequences that might result. To begin, is the concept of bureaucratic circumvention generalizable? Does it exist as a strategy outside of Latin America

and the developing world? Do capacity, ideology, cost, and policy importance play a role in pushing politicians towards these implementation agents outside of the region? Theoretically, the concept of bureaucratic circumvention and the political calculus behind it are broadly applicable across the full range political and administrative systems. The evidence here suggests that agency creation is probably more likely to occur in the low bureaucratic capacity environments of the developing world, whereas politicians in the developed world and/or places with more professionalized bureaucracies should prefer outsourcing.

These limitations and questions should provide ample fodder for future scholars as they continue to unpack the relationship between policymaking and policy implementation in both the developing and developed worlds.

## **9.5 CONCLUSION**

How does the bureaucracy affect political decision-making and impact policy outcomes? Throughout this book, I argue that bureaucracy-specific qualities such as capacity and political attributes—especially partisan affiliation and ideology—determine how willing politicians are to delegate policy to their public administration and how they go about choosing an implementation agent outside that bureaucracy. Both the logic of the political decision-making process and the choice itself profoundly affect the quality of the policy and the likelihood of implementation success. Governments with low capacity bureaucracies may find implementation and policy success via creating and molding a new administrative agency, outsourcing to a third party, or even delegating implementation authority to an agency whose purview differs significantly from the policy at hand. However, these mechanisms are no guarantee of success, especially if

politicians' political goals diverge from the policy goals. At the end of the day, this book finds that there are no shortcuts to improve policy implementation and service delivery to voters; governments must invest wisely in training their bureaucratic corps, seek meritocratic recruitment, and avoid politicizing the implementation process lest political goals interfere with policy ones. A professionalized and capable public administration benefits voters, bureaucrats, and politicians alike.

## APPENDIX A

### DERIVATION AND PROOF OF DELEGATION GAME

Unlike games in which a legislator must choose between delegating and not delegating (e.g. Epstein and O'Halloran 1994; Bawn 1995), this model follows Huber and Shipan's (2002) "parliamentary model" of delegation where a politician unilaterally establishes legislation and delegates policymaking authority.<sup>133</sup> The intention of the model is to explain delegation from a single principal to one of multiple agents.<sup>134</sup> The game is played by a politician  $P$ , whose ideal point is  $x_p = 0$ , a bureaucrat  $B$ , with ideal point  $x_B > x_p = 0$ , and a third party agent  $R$ , with ideal point  $x_R > x_p = 0$ , all in a unidimensional policy space.

The game, shown in extensive form in Figure A.1, begins with the president promulgating a statute  $x \in [\underline{x}, \bar{x}]$ . The policy's importance is an exogenous parameter  $\lambda \geq 1$  that defines how important successful policy implementation is to the principal, but not to the agents. After choosing the statute, the president then delegates policy implementation to an existing

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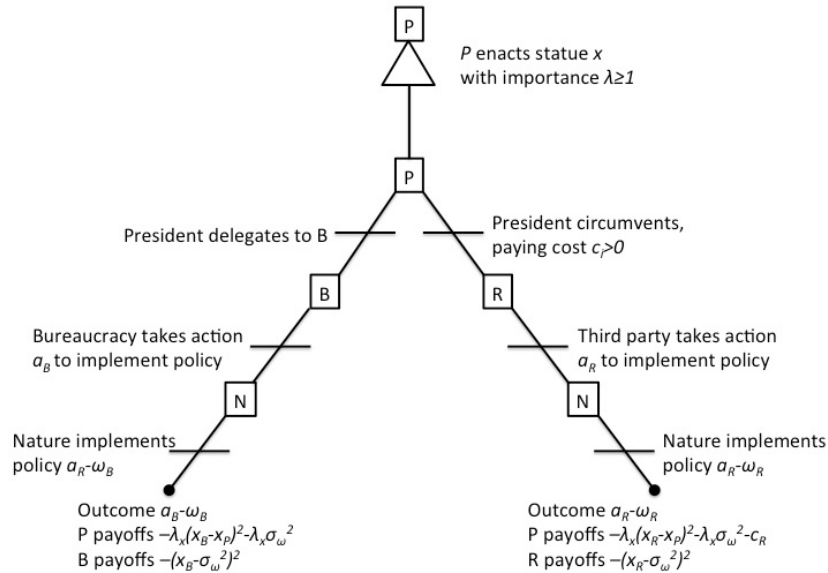
<sup>133</sup> Ting (2011) provides an excellent model of policy outcomes along two dimensions (spatial preferences and capacity), but this is predicated on capacity being endogenous to the game. Here, I follow Geddes (1994), Rauch and Evans (1999), and Rauch (2001) in considering agency capacity to be largely driven by exogenous factors, making the unidimensional model more appropriate.

<sup>134</sup> As a result, I do not include the commonly used "policy shock" term that is included in most models as unknown to the principal, but observed and accounted for by the agent(s). Under common assumptions, this is the variable upon which the principal's decision to delegate or not delegate initially depends.



bureaucratic agent  $B$  or a third party agent  $R$ . If the president circumvents the bureaucracy, she incurs an exogenous cost  $c_i > 0$ , where subscript  $i$  refers to each alternative agency.<sup>135</sup>

After the president makes her delegation decision, the agent ( $B$  or  $R$ ) observes  $x$  and executes action  $a_i$ . Like Huber and McCarty (2004), I assume that agencies vary in their implementation capacity. Nature implements policy  $a_i - \omega_i$  where  $\omega_i$  is an implementation error for agent  $i$  with mean 0 and  $\omega_i \in [-\Omega, \Omega]$ . The associated probability density function is  $f(\omega_i) = \frac{\Omega - |\omega_i|}{\Omega^2}$  with variance  $\sigma_{\omega_i}^2 = \frac{\Omega^2}{6}$ .<sup>136</sup> Since  $\omega_i$  refers to the implementation error, high capacity bureaucracies have a small magnitude  $\Omega$  resulting in a higher likelihood of implementation success, and low capacity bureaucracies have a high magnitude  $\Omega$  resulting in a lower likelihood of policy success. The expected policy outcome is  $\tilde{a} = a - \omega_i$ .



**Figure A-1.** Extensive form representation of delegation game

<sup>135</sup> This will differ according to circumvention strategy. The ability to control policy exists across existing agencies and all circumvention strategies and could be included in the expected utility for each of the elements in the set of circumvention strategies.

<sup>136</sup> An alternative approach might assume a constant probability of  $\omega \sim U[-\Omega, \Omega]$ , resulting in the uniform density function defined as  $f(\omega) = \frac{1}{2\Omega}$ . However, here I maintain the non-uniform probability density function approach.

The policy space is unidimensional, and actors possess single-peaked, symmetric preferences. Following common practice (and setting aside concerns raised by Bendor and Meirowitz (2004)), I assume that actors are risk-averse. As a result, their utility is represented through a quadratic loss function  $u_i(x) = -(x - x_i)^2$  that is concave down around their ideal point. The president's preference curve is also shaped by the importance of the policy  $\lambda_x \geq 1$ , a coefficient that reinforces or mitigates the effect of policy loss. An increase in  $\lambda_x$  indicates a more important policy that will result in a steeper loss function, making implementation error costlier.

The two charts in Figure A.2 depict the probability density function  $f(\omega)$  for an existing agent and a third party agent under two circumstances: 1) different ideal points and equal capacity, and 2) similar ideal points and differing capacity. In the first chart, both agents have the same capacity (or incapacity). In the second chart, however, I assume that each agency shares an ideal point but  $R$  possesses higher capacity than  $B$ . Since implementation error is drawn randomly from the given probability distribution with variance  $\sigma_{\omega_i}^2$ , it is possible that  $a_B$  will actually lie closer to  $x_P$  than  $a_N$ . Simultaneously, there is an equal probability that  $a_B$  is farther than  $a_N$ , making the president's delegation decision dependent on her type (risk-averse, risk-neutral, risk-acceptant).

In order to choose a statute, the president must anticipate each agent's optimal action. This action is set forth in the following proposition.

**Proposition 1.** If  $EU_i(a) = -(a_i - x_i)^2 - \sigma_{\omega_i}^2$ , then the agent's optimal intended action is  $a_i^* = x_i$ .

**Proof.** Given that  $P$  delegates, both  $B$  and  $R$  have complete discretion to choose any action  $a$ .  $P$  does not move after  $B$  or  $R$ , so no learning is involved.  $B$  and  $R$ 's optimal implementation strategy is derived from the expected utility function

$$- \int_{-\Omega}^{\Omega} (a_i - \omega_i - x_i)^2 f(\omega) d\omega$$

Further, the mean implementation error term  $\omega_i$  can be dropped since, as defined above, its value is 0. As a result, the expected utility can be re-written as:

$$EU_i(a) = -(a_i - x_i)^2 - \sigma_{\omega_i}^2$$

Then, the agent's optimal action solves the first order condition (FOC) of the expected utility  $x_i - a_i^* = 0$ , which leads to the intuitive ideal action  $a_i^* = x_i$ .

The logic behind Proposition 1 is straightforward. Since the agent is unable to determine how the random implementation shock will skew the policy, he always prefers to implement on his ideal point. Second, and importantly, without the possibility of the politician punishing agents for implementation transgressions, agents have no incentive to modify their implementation action towards the president's ideal point  $x_p$ , and  $x_i$  is always the preferred action.

Further, unlike Epstein and O'Halloran (1994), Bawn (1994), Volden (2002) and others, this model is not concerned with discretion and does not include the politician's policy

uncertainty as a parameter observed by the bureaucrat and incorporated into his best response function (normally denoted by  $E$ ). In contrast to the role of  $\varepsilon$ , here the bureaucrat cannot anticipate the *actual* implementation error, and thus the bureaucrat or new agency's best responses are not able to adjust for this error. In other words, the agent is still unable to anticipate exactly how the random implementation shock will skew the policy. However, he is able to estimate the mean error of the variance and make policy adjustments accordingly.

### Politician's Optimal Delegation Decision

The next step is the politician's optimal delegation decision. Given the uncertainty regarding the final outcome, a president must make her decision based on expected results from each of the potential agents. Since the best action that  $P$  can induce from  $i$  when  $\bar{\omega}_i = 0$  is  $a_i^* = x_i$ ,  $P$ 's expected utility from delegating to any  $i$  is:

$$EU_P(i) = - \int_{-\Omega}^{\Omega} [\lambda_x(a_i^* - \omega_i - x_P)^2 - c_i] f(\omega) d\omega$$

$$(1) = -\lambda_x(x_i - x_P)^2 - \lambda_x\sigma_{\omega_i}^2 - c_i$$

$P$  considers the expected utility in (1) for both  $B$  and  $R$ , to determine what her optimal delegation decision is. This equilibrium is expressed in Proposition 2, below.

**Proposition 2.** If  $x_P = 0$  and  $\bar{\omega}_i = 0$ , the politician will prefer  $R$  to  $B$  when  $(x_R)^2 + \sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma_{\omega_B}^2$ .

**Proof.** Following the expected utility in (1),  $EU_P(B) = -\lambda_x(x_B - x_P)^2 - \lambda_x\sigma_{\omega_B}^2 - c_B$  and  $EU_P(R) = -\lambda_x(x_R - x_P)^2 - \lambda_x\sigma_{\omega_R}^2 - c_R$ . However,  $c_B=0$  since delegating to  $B$  incurs no

exogenous cost,  $EU_P(B)$  reduces to  $-\lambda_x(x_B - x_P)^2 - \lambda_x\sigma_{\omega_B}^2$ . Given these expected utilities,  $P$  will choose to delegate to  $R$  when  $EU_P(R) \geq EU_P(B)$ :

$$= -\lambda_x(x_R - x_P)^2 - \lambda_x\sigma_{\omega_R}^2 - c_R \geq -\lambda_x(x_B - x_P)^2 - \lambda_x\sigma_{\omega_B}^2 - c_B$$

And since  $x_P = 0$  as defined above, this further reduces to

$$= -\lambda_x(x_R)^2 - \lambda_x\sigma_{\omega_R}^2 - c_R \geq -\lambda_x(x_B)^2 - \lambda_x\sigma_{\omega_B}^2$$

$$(2) = (x_R)^2 + \sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma_{\omega_B}^2$$

Inequality (2) above captures the politician's logic in deciding between the existing bureaucracy and a third party. This politician must consider the distance between her ideal point and that of each agent, loss from implementation as a function of policy importance, and in the case of the third party, the cost associated with choosing that action over the importance of the policy. But what does this mean for each constituent element?

The impact of agent ideology on the president's delegation decision depends on which agent is closer to the president. This is at the center of the following proposition.

**Proposition 3.** The politician will circumvent the bureaucracy under the following relationships of agents' ideologies:

$$(i) \text{ If } x_R < x_B, \text{ then } (x_R)^2 - (x_B)^2 \leq \sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 - \frac{c_R}{\lambda_x}$$

$$(ii) \text{ If } x_R = x_B, \text{ then } \sigma_{\omega_R}^2 < \sigma_{\omega_B}^2$$

$$(iii) \text{ If } x_R > x_B, \text{ then } \sigma_{\omega_R}^2 < \sigma_{\omega_B}^2$$

**Proof.**

$$(i) \text{ Given that } x_P = 0, \text{ inequality (2) } (x_R)^2 + \sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma_{\omega_B}^2 \text{ simplifies to } (x_R)^2 - (x_B)^2 \leq \sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 - \frac{c_R}{\lambda_x}.$$

(ii) Given  $x_R = x_B$  and the condition defined above that  $x_i > 0$ , then inequality (2)  $(x_R)^2 + \sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma_{\omega_B}^2$  simplifies to  $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 \geq \frac{c_R}{\lambda_x}$ . And since  $\lambda_x \geq 1$  and  $c_i > 0$ ,  $\frac{c_R}{\lambda_x} \in (0, \infty]$ , then  $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 \geq \frac{c_R}{\lambda_x}$ . As such,  $\sigma_{\omega_B}^2 > \sigma_{\omega_R}^2$  is *always* true for presidents to delegate to  $R$  when  $x_R = x_B$ .

(iii) Inequality (2) states that  $(x_R)^2 + \sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma_{\omega_B}^2$ . Given  $x_R > x_B$  and  $x_i > 0$ ,  $(x_R)^2 - (x_B)^2$  must be positive, and since  $\lambda_x \geq 1$  and  $c_i > 0$ ,  $\frac{c_R}{\lambda_x}$  must also be positive. Therefore, like in Proposition 3(ii),  $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 > 0$ , which simplifies to  $\sigma_{\omega_B}^2 > \sigma_{\omega_R}^2$ . This condition must be true for the president to choose  $R$  whenever  $x_R > x_B$ .

These three cases show that an increase in  $x_R$  relative to  $x_B$  (or a decrease in  $x_R$  relative to  $x_B$ ) increase the politician's incentives to circumvent. Informally, this supports the intuition that the closer an agent is to the politician, the more likely the president will delegate to that agent, while the farther the agent's ideal point, the less likely the president is to delegate policy to him. It also supports the idea that as the third party's ideology grows more distant, that agent's capacity must grow for a politician to prefer circumvention.

Yet Proposition 3(i) also shows the condition under which a third party agent may be preferred even when it is more ideologically distant from the president than the bureaucrat. Referring back to inequality (2)  $(x_R)^2 - (x_B)^2 \leq \sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 - \frac{c_R}{\lambda_x}$ , as  $x_R$  and  $x_B$  approach each other, then regardless of  $\lambda_x$  and  $c_R$ , it remains true that  $\sigma_{\omega_R}^2$  must be smaller than  $\sigma_{\omega_B}^2$ .<sup>137</sup> However, as the value of  $x_R$  shrinks relative to  $x_B$ , there is an inflection point  $(x_R)^2 - (x_B)^2 \leq \sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 - \frac{c_R}{\lambda_x}$  where  $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2$  no longer needs to be positive! In other words, if  $x_R$  is sufficiently smaller than  $x_B$ —that is, the third party is sufficiently closer to the president than the

existing bureaucracy— than the potential implementation error  $\sigma_{\omega_R}^2$  can actually be *larger* than  $\sigma_{\omega_B}^2$ , and the new agent will still be preferred. This implies that an agent who is loyal to the president but completely inefficient may be preferred by the president to an alternative agent who is more efficient but more ideologically distant.

This same potential tradeoff applies to agency capacity.

**Proposition 4.** The politician will circumvent the bureaucracy when  $R$  and  $B$ 's capacities are related as such:

(i) If  $\sigma_{\omega_R}^2 < \sigma_{\omega_B}^2$ , then  $\sigma_{\omega_R}^2 - \sigma_{\omega_B}^2 \leq (x_B)^2 - (x_R)^2 - \frac{c_R}{\lambda_x}$

(ii) If  $\sigma_{\omega_R}^2 = \sigma_{\omega_B}^2$ , then  $x_R < x_B$

(iii) If  $\sigma_{\omega_R}^2 > \sigma_{\omega_B}^2$ , then  $x_R < x_B$

**Proof.**

(i) Inequality (2)  $(x_R)^2 + \sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma_{\omega_B}^2$  can be arranged as  $\sigma_{\omega_R}^2 - \sigma_{\omega_B}^2 \leq (x_B)^2 - (x_R)^2 - \frac{c_R}{\lambda_x}$ . Since  $\sigma_{\omega_R}^2 < \sigma_{\omega_B}^2$ , this inequality cannot be further simplified.

(ii) Given  $\sigma_{\omega_R}^2 = \sigma_{\omega_B}^2$ , then inequality (2)  $(x_R)^2 + \sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma_{\omega_B}^2$  simplifies to  $(x_R)^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2$ . And since  $\lambda_x \geq 1$  and  $c_i > 0$ ,  $\frac{c_R}{\lambda_x}$  must be positive. As such,  $x_R$  must always be smaller than  $x_B$  when  $\sigma_{\omega_R}^2 = \sigma_{\omega_B}^2$ .

(iii) Inequality (2)  $(x_R)^2 + \sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma_{\omega_B}^2$  can be rearranged as  $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 - \frac{c_R}{\lambda_x} > (x_R)^2 - (x_B)^2$ . Given that  $\sigma_{\omega_R}^2 > \sigma_{\omega_B}^2$ ,  $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2$  must be negative, and since  $\lambda_x \geq 1$  and  $c_i > 0$ ,  $\frac{c_R}{\lambda_x}$  must be positive. Therefore when  $\sigma_{\omega_R}^2 > \sigma_{\omega_B}^2$ ,  $(x_R)^2 - (x_B)^2$  must be smaller than 0, and  $x_R < x_B$ .

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<sup>137</sup> The worst-case scenario for  $R$  receiving a policy in Proposition 3(i) is that  $(x_R)^2 - (x_B)^2$  is minimized near 0, in which case  $(x_R)^2 - (x_B)^2 \leq \sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 - \frac{c_R}{\lambda_x}$  becomes  $\sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} < \sigma_{\omega_B}^2$ . That is, only when  $x_R$  and  $x_B$  become

These three cases show that an decrease in  $\sigma_{\omega_R}^2$  relative to  $\sigma_{\omega_B}^2$  (or an increase in  $\sigma_{\omega_B}^2$  relative to  $\sigma_{\omega_R}^2$ ) increase the politician's incentives to circumvent. In other words, the lower the capacity of the existing bureaucracy, the more likely the president is to go around it, and the higher the capacity of the new agent, the more likely the president is to use it. This means that independent of other factors such as ideology, cost, and policy importance, low existing agency capacity is not the only factor that may cause a politician to circumvent; the third party agent must offer higher capacity.

Yet, similar to Proposition 3(i), this is not necessarily always the case. Proposition 4(i) shows a relationship of agent ideology in which a more *distant* agent is preferred to a closer one. As  $\sigma_{\omega_R}^2$  and  $\sigma_{\omega_B}^2$  approach each other, then regardless of  $\lambda_x$  and  $c_R$ , it remains true that  $x_R$  must be smaller than  $x_B$ . Given scenario (i)'s condition that  $\sigma_{\omega_R}^2 < \sigma_{\omega_B}^2$ , then  $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2$  is always positive, and  $(x_R)^2 - (x_B)^2$  in inequality (2)  $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 \geq (x_R)^2 - (x_B)^2 + \frac{c_R}{\lambda_x}$  does not necessarily have to be negative! If  $\sigma_{\omega_R}^2$  is sufficiently smaller than  $\sigma_{\omega_B}^2$ ,  $x_R$  can actually be larger than  $x_B$  and the third party agent will still be preferred. That is to say, when a third party agent possesses (or is thought to possess) very high capacity in relation to the existing bureaucracy, or the existing bureaucracy has incredibly low capacity, a president may turn to the third party *even when the existing agent's ideal point is closer*.

Circumvention cost and policy importance, however, do not share this type of tradeoff. The expectations for these two variables are straightforward.

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essentially indistinguishable,  $\sigma_{\omega_R}^2$  must be smaller than  $\sigma_{\omega_B}^2$ , since  $\lambda_x \geq 1$  and  $c_i > 0$ , making  $\frac{c_R}{\lambda_x}$  positive.



**Proposition 5:** The politician will circumvent the bureaucracy when  $c_R \leq \lambda_x[(x_R)^2 - (x_B)^2 + \sigma_{\omega_R}^2 - \sigma_{\omega_B}^2]$

**Proof.** From equation (1)  $-\lambda_x(x_R)^2 - \lambda_x\sigma_{\omega_R}^2 - c_R \geq -\lambda_x(x_B)^2 - \lambda_x\sigma_{\omega_B}^2$ ,  

$$c_R \leq -\lambda_x(x_R)^2 + \lambda_x(x_B)^2 - \lambda_x\sigma_{\omega_R}^2 + \lambda_x\sigma_{\omega_B}^2$$

$$= c_R \leq \lambda_x((x_B)^2 - (x_R)^2 + \sigma_{\omega_B}^2 - \sigma_{\omega_R}^2)$$

Proposition 5 produces a general, intuitive condition that a decrease in circumvention cost causes an increase in circumvention. Additionally, as  $c_R$  grows, there must be a concomitant increase in  $\lambda_x$ ,  $x_R$ , or  $\sigma_{\omega_R}^2$ , or a decrease in  $x_B$  or  $\sigma_{\omega_B}^2$  for the president to prefer circumvention. That is, as it becomes more costly for a politician to circumvent, she will only do so as the policy importance grows, the new agency's ideal point grows closer or its capacity is high, or the existing bureaucracy is ideologically distant or reflects a high degree of incapacity.

**Proposition 6:** The politician will circumvent the bureaucracy when  $\lambda_x \geq \frac{c_R}{(x_R)^2 - (x_B)^2 + \sigma_{\omega_R}^2 - \sigma_{\omega_B}^2}$ .

**Proof.** From equation (1)  $-\lambda_x(x_R)^2 - \lambda_x\sigma_{\omega_R}^2 - c_R \geq -\lambda_x(x_B)^2 - \lambda_x\sigma_{\omega_B}^2$ ,  

$$c_R \leq -\lambda_x(x_R)^2 + \lambda_x(x_B)^2 - \lambda_x\sigma_{\omega_R}^2 + \lambda_x\sigma_{\omega_B}^2$$

$$= c_R \leq \lambda_x((x_B)^2 - (x_R)^2 + \sigma_{\omega_B}^2 - \sigma_{\omega_R}^2)$$

$$= \lambda_x \geq \frac{c_R}{(x_B)^2 - (x_R)^2 + \sigma_{\omega_B}^2 - \sigma_{\omega_R}^2}$$

Proposition 6 indicates that as policy importance grows, politicians will be more likely to circumvent. A decrease in this value, however, must be met by a decrease in the circumvention cost, an improvement in the new agent's qualities, or deterioration in the existing bureaucrat's qualities.

## **APPENDIX B**

### **CODEBOOK FOR EXECUTIVE DECREES**

**country**

Name of country

**ccode**

Three digit World Bank country code

**year**

Year decree issued

**decree**

Decree number

**id**

Unique decree ID composed of two letter country code, two number year code, and decree number beginning with 0001 (i.e. AG-02-0112, AG-02-0113, etc.)

**date**

Day, month, and year decree was issued (Format set to region, so in U.S. format is Month/Day/Year as 01/24/1982 and in Latin America it is Day/Month/Year as 24/01/1982)

**type**

Principal category or nature of the decree

1: Administrative

2: Policy

3: Symbolic

**admin**

The action being taken (1)

0: Not an administrative decree

Amnesty

Appointment (Appointment of individual to a post)  
 Approval (Approval of an action or policy proposed by another actor)  
 Budget (Budget matters that are administrative in nature, i.e. extending credits to a ministry, and not related to carrying out a policy)  
 Declaration (State of emergency or other non-symbolic declaration)  
 Elimination (Elimination of a bureaucratic unit or agency)  
 Exoneration (Exoneration of an individual, entity, or group of individuals or entities from a legal norm, law, or decree)  
 Expropriation (Expropriation or Nationalization of property or an enterprise)  
 Position (Creation of an administrative position; different from agency creation)  
 Postponement (Postponement of the application of a decree, norm, or law)  
 Naturalization (Granting citizenship to a foreign national)  
 Postal (Issuing new sets of stamps, changing prices on stamps, etc.)  
 Ratification (Signing or approval of a treaty or international agreement)  
 Reprint (Reprint, reissue, or modification of an existing law, norm, or decree)  
 Reform (Reform to an existing law, norm, or decree)  
 Removal (Removal of a government bureaucrat from his or her position without naming a successor; when successor is named this becomes "Appointment")  
 Renewal (Renewing a public concession, such as a television or radio license; renewing a state of emergency)  
 Reorganization (Reorganization of bureaucratic body)  
 Retirement (Accepting retirement)  
 Revocation (Revocation of an existing norm)  
 Regulation (Norm regulating the function of a government body or entity)  
 Sanction (Disciplinary action)  
 99: Other

### **policy**

The action being taken (2)  
 0: Not a policy decree  
 1: Delegation (When policy is delegated to existing bureaucratic agent)  
 2: Circumvention (If policy is delegated to a newly created agency, the armed forces, a private firm, or a non-profit)  
 3: Policy decree with no delegation or circumvention

### **symbolic**

The action being taken (3)  
 0: Not a symbolic decree  
 1: Honor (Medals/awards for distinguished individuals)  
 2: Commemoration (Celebration or declaration of national holiday, special day, year)  
 3: Observance (Official observances for noted deceased)  
 99: Other

### **domain**

The substantive policy domain(s) highlighted by the content of the decree  
 0: None (for example, all symbolic decrees)

### 1: Defense/National Security

- States of Exception
- Restoring domestic order, city riots
- Decrees concerning military personnel, military pay, the draft, Military Reserve Forces (note: orders concerning veterans are coded under labor)
- Decrees affecting materials, weapons, bases and military reservations, lands transferred to the military
- Decrees that expressly note threats to national security and/or foreign policy
- Actions taken in times of war such as designating combat zones and providing health care for military personnel

### 2: Social Welfare (General social welfare decrees)

21: All decrees concerning education

22: All decrees concerning health care

23: Decrees concerning food production, distribution, and price controls (note: may coincide with “Agriculture” as well)

24: All decrees concerning minority affairs (indigenous, afro-descendent, etc.)

25: Social Security

26: Other

- Decrees concerning drug policy (Note: some drug policy may better apply under “Defense”)
- All decrees concerning the disabled
- Decrees concerning some private business matters: employee safety, retirement, insurance, minority business

### 3: Economy/Finance

- Changes in the deficit or budget
- Credit extended to government agencies or public firms
- Tax eligibility
- Tax exemptions
- Norms relating to banking

### 4: Business/Labor

- Resolution of labor disputes
- Setting employee salaries
- Employment status (retirement, raises, promotions, holidays, firings) of certain groups, firms, individuals
- Decrees concerning military and police veterans and retirement
- Consumer safety

### 5: Agriculture/Rural Development

- Federal agriculture programs: growth, harvest and trade of certain products
- Agrarian reforms and land expropriation
- Rural development
- Animal husbandry

### 6: Natural Resources/Environment/Energy

61: Decrees concerning the environment: for example, pollution, recycling, power/energy efficiency, and ride-sharing programs

- Protection of certain areas: for example, wetlands, forest reserves

62: Natural resources/Energy

- All decrees related to mining and resource extraction
- All decrees related to petroleum production

7: Bureaucracy

- Bureaucratic organization, reform, or reorganization (note: different from agency creation or elimination)
- Decrees concerning public administration
- Public contracts
- All appointments

8: Foreign Trade

- Decrees that define terms of trade with individual nations
- Trade tariffs, sanctions, quotas, or embargoes
- Trade committees, boards, and organizations
- Customs policy

9: Foreign Relations/Foreign Aid

- Selecting and defining powers of ambassadors/consular
- Financial relations with foreign countries over such matters as loans, stocks, bonds
- Immigration quotas; passport disbursements
- Decrees that refer to “foreign assistance” or provide aid to individual countries or areas
- Administration of aid (often military), development programs, information agencies

10: Infrastructure and transportation: Decrees concerned with infrastructure: highways, potable water, buildings, and information technology

11: Industry and urban development (Industry, and development and housing in urban areas)

111: Property rights, especially in urban areas

112: Science and Technology (Issues related to the development of national science and technology, including telecommunications materials and planning)

12: Culture, sports, and tourism

- Cultural patrimony, tourism, historical buildings or monuments
- Sport facilities or programs

13: Justice/Human rights

- Anything related to the administration of justice and the law
- Issues dealing with legal matters
- Human rights and civil rights
- Prisons and the penal system

14: Electoral

- Any decree related to elections, plebiscites, or popular consults
- Census-related issues

99: Other

**circumv**

Circumvention strategy

0: No circumvention strategy used

1: Agency creation (Delegation to a bureaucratic body created or established to carry out that policy; applies to all bodies except commissions)

2: Armed forces (Delegation to the Armed Forces, Ministry of Defense, or other military unit)

- 3: Outsourcing, private sector (Concession, Contracting, Public-Private Partnership, etc. This includes “mixed enterprises”, or “*empresas mixtas*”)
- 4: Outsourcing, foreign government, NGO, international organization
- 5: Combination of circumvention strategies

**circumv2**

Agency type if new agency created (i.e. if circumv=1)

- 0: No circumvention strategy used
- 1: commission, committee, council, working group, etc.
- 2: ministry, secretariat, state corporation, etc.

**agent**

Principal bureaucratic agent charged with carrying out policy (i.e. Ministry or Secretary of Finance)

**others**

Other bureaucratic agents also charged with carrying out policy; if multiple actors, separate with a semi-colon

**temp**

Temporal scope of the policy

- 0: Immediate (Policy is carried out with the issue of the decree)
- 1: Short-term (Policy is to be carried out or completed within coming months or years)
- 2: Long-term (Policy is to be carried out over the course of many years or generations, or an indeterminate amount of time)
- 99: Other (Temporal scope is unclear)

**geo**

Geographical scope of the policy

- 0: None (Policy does not apply to a geographical area)
- 1: Targeted (Policy is targeted to a specific subnational geographical unit, such as a state, department, province, municipality, city, park, protected area, or piece of infrastructure)
- 2: Broad (Policy applies broadly to most or all the country)

**length**

Length of decree in pages, if applicable

**title**

Title of decree

## APPENDIX C

### SOURCES OF EXECUTIVE DECREES

**Table C-1.** List of Sources for Executive Decrees

<b>Country</b>	<b>Source</b>	<b>Instrument</b>	<b>Time period</b>
<b>Bolivia</b>	Bolivian Information Agency <a href="http://www3.abi.bo/">http://www3.abi.bo/</a>	<i>Decreto Supremo</i>	2003-2011
<b>Brazil</b>	Brazilian Planalto, <a href="http://www4.planalto.gov.br/legislacao/legislacao-1/decretos">www4.planalto.gov.br/legislacao/legislacao-1/decretos</a>	<i>Decreto; Não Numerado; Medida Provisória</i>	2000-2012
<b>Chile</b>	Library of the Chilean National Congress, <a href="http://www.leychile.cl/Consulta/">www.leychile.cl/Consulta/</a>	<i>Decreto, Decreto Exento</i>	2000-2005
<b>Ecuador</b>	Ecuadorian Information System for Governability, <a href="http://www.sigob.gob.ec/">www.sigob.gob.ec/</a>	<i>Decreto Presidencial</i>	2007-2013
<b>Guatemala</b>	General Secretary of the Guatemalan Presidency, <a href="http://www.sgp.gob.gt/Acuerdos.htm">http://www.sgp.gob.gt/Acuerdos.htm</a>	<i>Acuerdo Gubernamental</i>	2000-2011
<b>Nicaragua</b>	Justicia Nicaragua, <a href="http://nicaragua.justia.com/nacionales/decretos-ejecutivos/">http://nicaragua.justia.com/nacionales/decretos-ejecutivos/</a>	<i>Decreto Ejecutivo</i>	2000-2010
<b>Panama</b>	Panamanian Official Gazette, <a href="https://www.gacetaoficial.gob.pa">https://www.gacetaoficial.gob.pa</a>	<i>Decreto, Decreto de Gabinete, Decreto Ejecutivo, Decreto de Ley</i>	2000-2010
<b>Paraguay</b>	Presidency of the Republic of Paraguay, <a href="http://www.presidencia.gov.py/decretos/">http://www.presidencia.gov.py/decretos/</a>	<i>Decreto</i>	2009-2013
<b>Uruguay</b>	Presidency of the Oriental Republic of Uruguay, <a href="http://archivo.presidencia.gub.uy/">http://archivo.presidencia.gub.uy/</a>	<i>Decreto Ejecutivo</i>	2000-2010
<b>Venezuela</b>	Supreme Court of Justice of Venezuela, <a href="http://www.tsj.gov.ve/gaceta/">http://www.tsj.gov.ve/gaceta/</a>	<i>Decreto Ejecutivo; Decreto de Ley Habilitante</i>	2000-2012

## APPENDIX D

### CABINET PARTIES' IDEOLOGY

**Table D-1.** All Political Parties in Presidential Cabinets, with Ideological Ideal Point from 1 (Left) to 5 (Right)

Country	Acronym	Party	Ideology
Bolivia	MAS	Movimiento al Socialismo	1
Bolivia	MSM	Movimiento Sin Miedo	-
Bolivia	MBL	Movimiento Bolivia Libre	-
Bolivia	MIR	Movimiento de Izquierda Revolucionaria	2
Bolivia	MNR	Movimiento Nacionalista Revolucionario	4
Bolivia	CONDEPA	Conciencia de Patria	-
Brazil	PT	Partido dos Trabalhadores	1
Brazil	PFL	Partido da Frente Liberal	5
Brazil	PMDB	Partido do Movimento Democrático Brasileiro	3
Brazil	PSDB	Partido da Social Democracia Brasileira	2
Brazil	PPB/PP	Partido Progressista Brasileiro/Partido Progressista	4
Brazil	PL	Partido Liberal	5
Brazil	PTB	Partido Trabalhista Brasileiro	4
Brazil	PSB	Partido Socialista Brasileiro	1
Brazil	PDT	Partido Democrático Trabalhista	2
Brazil	PPS	Partido Popular Socialista	1
Brazil	PCdoB	Partido Comunista do Brasil	1
Brazil	PR	Partido da República	5*
Brazil	PRONA	Partido de Reedificação da Ordem Nacional	5
Brazil	PRB	Partido Republicano Brasileiro	4*
Brazil	PV	Partido Verde	1*
Chile	PDC	Partido Demócrata Cristiano	3
Chile	PPD	Partido por la Democracia	2
Chile	PRSD	Partido Radical Social Demócrata	2
Chile	PS	Partido Socialista de Chile	2
Ecuador	PAIS	Alianza Patria Altiva i Soberana	1.5*
Ecuador	PRE	Partido Roldosista Ecuatoriano	3*
Ecuador	PS-FA	Partido Socialista-Frente Amplio	1



Guatemala	UNE	Unidad Nacional de la Esperanza	2
Guatemala	GANNA	Gran Alianza Nacional (PP, MR, PSN)	5
Guatemala	FRG	Frente Republicano Guatemalteco	5
Guatemala	EG	Encuentro por Guatemala	2*
Guatemala	PAN	Partido de Avanzada Nacional	4
Nicaragua	FSLN	Frente Sandinista de Liberación Nacional	1
Nicaragua	PCN	Partido Conservador Nicaragüense	4
Nicaragua	PLC	Partido Liberal Constitucionalista	5
Nicaragua	PSC	Partido Social Cristiano	2
Nicaragua	MDN	Movimiento Democrático Nicaragüense	5*
Nicaragua	APRE	Alianza por la República	5*
Panama	PRD	Partido Revolucionario Democrático	2
Panama	MPE	Movimiento Papa Egoró	2
Panama	PPA	Partido Arnulfista/Panameñista	4
Panama	MOLIRENA	Movimiento Liberal Republicano Nacionalista	4
Panama	CD	Cambio Democrático	4
Panama	MORENA	Movimiento de Renovación Nacional	4
Panama	PUP	Partido Unión Patriótica	4*
Paraguay	ANR	Asociación Nacional Republicana	4
Paraguay	PLRA	Partido Liberal Radical Auténtico	3
Paraguay	Tekojoja	Partido Popular Tekojoja	1*
Paraguay	PPS	Partido País Solidario	3*
Paraguay	P-MAS	Partido del Movimiento al Socialismo	1*
Paraguay	PDP	Partido Democrático Progresista	2*
Paraguay	UNACE	Unión Nacional de Ciudadanos Éticos	4*
Uruguay	PC	Partido Colorado	3
Uruguay	PN	Partido Nacional	4
Uruguay	FA	Frente Amplio	1
Venezuela	MVR	Movimiento V República	2
Venezuela	PSUV	Partido Socialista Unido de Venezuela	2
Venezuela	PPT	Patria Para Todos	1
Venezuela	PCV	Partido Comunista Venezolano (PCV)	1
Venezuela	MAS	Movimiento al Socialismo	2

Notes: All ideology scores taken from Lodola and Quierolo (2011), except Brasil and Bolivia (Coppedge 2010); Uruguayan party factions are assigned the ideologies of their party; Asterisk (\*) denotes ideology coded by author

## APPENDIX E

### MULTINOMIAL LOGISTIC (MNL) REGRESSION MODELS

**Table E-1.** Baseline MNL for Predictors of Four Circumvention Outcomes

	<b>Model 3.11.1 (Baseline)</b>			
	<b>New Agency coef/se</b>	<b>Military coef/se</b>	<b>Private coef/se</b>	<b>Non-Profit coef/se</b>
Bureaucratic eff.	-0.030*** (-0.004)	-0.006 (-0.015)	0.083*** (-0.006)	0.069*** (-0.013)
Ideological distance	0.171*** (-0.043)	-0.004 (-0.130)	0.495*** (-0.035)	0.435*** (-0.063)
Policy importance	0.592*** (-0.018)	0.604*** (-0.040)	0.700*** (-0.017)	0.386*** (-0.029)
Government revenue (log)	0.205*** (-0.051)	-0.889*** (-0.126)	0.203* (-0.100)	0.919*** (-0.085)
Military expenditures (log)	-0.077*** (-0.015)	1.494*** (-0.257)	0.054 (-0.041)	-0.479*** (-0.026)
FDI inflow (log)	0.007 (-0.038)	-0.019 (-0.103)	-0.026 (-0.070)	-0.774*** (-0.072)
Development assistance (log)	-0.013 (-0.039)	-0.023 (-0.105)	0.111* (-0.043)	0.243*** (-0.073)
Per capita GDP	0.000 (0.000)	-0.001*** (0.000)	-0.000*** (0.000)	-0.001*** (0.000)
<i>t</i> dictatorship	0.000 (-0.004)	-0.061* (-0.026)	0.016** (-0.005)	0.111*** (-0.023)
Ex-business president	-0.470*** (-0.127)	-1.426 (-0.893)	-1.014*** (-0.252)	1.422*** (-0.162)
New issue domain	0.447* (-0.227)	0.737 (-0.471)	-1.507* (-0.599)	-14.416*** (-0.098)
Presidential ideology	0.336*** (-0.037)	-0.030*** (-0.118)	0.004*** (-0.040)	-0.221*** (-0.059)
Constant	-7.181*** (0.642)	-12.177*** (1.483)	-15.902*** (1.013)	-8.307*** (1.471)

N	42022
Adjusted R2	0.173
AIC	30716.28
BIC	31165.87
Log-Likelihood	-15,306.14

note: \*\*\* p<01, \*\* p<0.01, \* p<0.05, , † p<0.10

**Table E-2.** MNL for Predictors of Four Circumvention Outcomes, Regulatory Quality

<b>3.11.2 (Regulatory quality)</b>				
	<b>New Agency coef/se</b>	<b>Military coef/se</b>	<b>Private coef/se</b>	<b>Non-Profit coef/se</b>
Regulatory quality	-0.035*** (-0.003)	-0.033** (-0.011)	0.097*** (-0.006)	0.021* (-0.010)
Ideological distance	0.191*** (-0.042)	0.010 (-0.130)	0.478*** (-0.036)	0.390*** (-0.061)
Policy importance	0.593*** (-0.018)	0.604*** (-0.040)	0.709*** (-0.018)	0.388*** (-0.028)
Government revenue (log)	0.217*** (-0.047)	-0.723*** (-0.130)	0.211* (-0.101)	0.906*** (-0.089)
Military expenditures (log)	-0.102*** (-0.015)	1.192*** (-0.232)	0.089* (-0.043)	-0.496*** (-0.030)
FDI inflow (log)	0.082* (-0.039)	0.154 (-0.109)	-0.129 (-0.071)	-0.715*** (-0.065)
Development assistance (log)	-0.048 (-0.042)	-0.048 (-0.103)	0.077 (-0.040)	0.458*** (-0.066)
Per capita GDP	0.000 (0.000)	-0.001*** (0.000)	-0.000*** (0.000)	-0.001*** (0.000)
<i>t</i> dictatorship	0.004 (-0.004)	-0.037 (-0.021)	0.046*** (-0.005)	0.091*** (-0.016)
Ex-business president	-0.492*** (-0.129)	-1.936* (-0.886)	-1.476*** (-0.224)	1.034*** (-0.143)
New issue domain	0.540* (-0.227)	0.803 (-0.481)	-1.612** (-0.594)	-14.530*** (-0.093)
Presidential ideology	0.417*** (-0.036)	0.192*** (-0.119)	-0.141** (-0.044)	-0.232*** (-0.055)
Constant	-7.630*** (0.672)	-12.873*** (1.708)	-14.983*** (0.965)	-11.234*** (1.737)
N	42022			
Adjusted R2	0.180			
AIC	30454.39			
BIC	30903.98			

**Table E-3.** MNL for Predictors of Four Circumvention Outcomes, Dropping Electoral Proximity

	<b>3.11.3 (No electoral proximity for policy importance)</b>			
	<b>New Agency</b>	<b>Military</b>	<b>Private</b>	<b>Non-Profit</b>
	<b>coef/se</b>	<b>coef/se</b>	<b>coef/se</b>	<b>coef/se</b>
Bureaucratic eff.	-0.027*** (-0.003)	-0.011 (-0.013)	0.081*** (-0.006)	0.065*** (-0.012)
Ideological distance	0.126** (-0.043)	-0.057 (-0.133)	0.468*** (-0.036)	0.388*** (-0.062)
Policy importance (no elect. proximity)	0.863*** (-0.020)	0.783*** (-0.043)	0.840*** (-0.018)	0.533*** (-0.032)
Government revenue (log)	0.250*** (-0.051)	-0.860*** (-0.119)	0.217* (-0.098)	0.936*** (-0.082)
Military expenditures (log)	-0.100*** (-0.015)	1.426*** (-0.219)	0.039 (-0.039)	-0.473*** (-0.026)
FDI inflow (log)	0.022 (-0.038)	0.092 (-0.102)	-0.069 (-0.071)	-0.742*** (-0.071)
Development assistance (log)	-0.003 (-0.039)	-0.090 (-0.097)	0.241*** (-0.045)	0.187* (-0.074)
Per capita GDP	0.000 (0.000)	-0.001*** (0.000)	-0.000*** (0.000)	-0.001*** (0.000)
<i>t</i> dictatorship	-0.001 (-0.004)	-0.054* (-0.022)	0.026*** (-0.004)	0.108*** (-0.021)
Ex-business president	-0.593*** (-0.127)	-1.594 (-0.859)	-1.024*** (-0.250)	1.340*** (-0.166)
New issue domain	0.595* (-0.242)	0.745 (-0.480)	-1.372* (-0.607)	-14.850*** (-0.098)
Presidential ideology	-7.930*** (0.647)	-11.825*** (1.441)	-17.529*** (1.048)	-7.918*** (1.427)
Constant	-0.221*** (7.941)	-0.221*** (8.941)	-0.221*** (9.941)	-0.221*** (10.941)
N	42022			
Adjusted R2	0.197			
AIC	29809.04			
BIC	30258.63			
Log-Likelihood	-14,852.52			

**Table E-4.** MNL for Predictors of Four Circumvention Outcomes, Linear Circumvention Cost

	<b>3.11.4 (linear values of circumvention costs)</b>			
	<b>New Agency coef/se</b>	<b>Military coef/se</b>	<b>Private coef/se</b>	<b>Non-Profit coef/se</b>
Bureaucratic eff.	-0.037*** (-0.003)	-0.057*** (-0.009)	0.092*** (-0.005)	0.032** (-0.010)
Ideological distance	0.194*** (-0.044)	0.037 (-0.139)	0.471*** (-0.034)	0.421*** (-0.066)
Policy importance	0.583*** (-0.018)	0.593*** (-0.042)	0.726*** (-0.018)	0.343*** (-0.027)
Government revenue	-0.004* (-0.002)	-0.042*** (-0.003)	0.003* (-0.001)	0.037 (-0.022)
Military expenditures	0.033 (-0.028)	0.641*** (-0.064)	-0.074** (-0.025)	-1.747*** (-0.337)
FDI inflow	0.019* (-0.007)	0.015 (-0.019)	0.044*** (-0.006)	0.312*** (-0.094)
Development assistance	0.000 (0.000)	0.001* (0.000)	0.001** (0.000)	0.000** (0.000)
Per capita GDP	0.000*** (0.000)	0.000 (0.000)	-0.000*** (0.000)	-0.001*** (0.000)
<i>t</i> dictatorship	-0.005 (-0.004)	0.005 (-0.009)	-0.017** (-0.007)	0.047*** (-0.013)
Ex-business president	-0.238* (-0.109)	-2.308** (-0.725)	-1.263*** (-0.243)	0.332* (-0.155)
New issue domain	0.447* (-0.228)	0.686 (-0.460)	-1.437* (-0.594)	-1.795 (-1.004)
Presidential ideology	-4.045*** (0.147)	-4.077*** (0.359)	-8.400*** (0.220)	-5.061*** (0.448)
Constant	-0.221*** (11.941)	-0.221*** (12.941)	-0.221*** (13.941)	-0.221*** (14.941)
N	43585			
Adjusted R2	0.170			
AIC	32052.95			
BIC	32504.44			
Log-Likelihood	-15,974.48			

**Table E-5.** MNL for Predictors of Four Circumvention Outcomes, Only Costly Agencies

<b>3.11.5 (Agency creation limited to costly agencies)</b>				
	<b>New Agency</b>	<b>Military</b>	<b>Private</b>	<b>Non-Profit</b>
	<b>coef/se</b>	<b>coef/se</b>	<b>coef/se</b>	<b>coef/se</b>
Bureaucratic eff.	-0.030*** (-0.004)	-0.006 (-0.015)	0.083*** (-0.006)	0.069*** (-0.013)
Ideological distance	0.171*** (-0.043)	-0.004 (-0.130)	0.495*** (-0.035)	0.435*** (-0.063)
Policy importance	0.592*** (-0.018)	0.604*** (-0.040)	0.700*** (-0.017)	0.386*** (-0.029)
Government revenue (log)	0.205*** (-0.051)	-0.889*** (-0.126)	0.203* (-0.100)	0.919*** (-0.085)
Military expenditures (log)	-0.077*** (-0.015)	1.494*** (-0.257)	0.054 (-0.041)	-0.479*** (-0.026)
FDI inflow (log)	0.007 (-0.038)	-0.019 (-0.103)	-0.026 (-0.070)	-0.774*** (-0.072)
Development assistance (log)	-0.013 (-0.039)	-0.023 (-0.105)	0.111* (-0.043)	0.243*** (-0.073)
Per capita GDP	0.000 (0.000)	-0.001*** (0.000)	-0.000*** (0.000)	-0.001*** (0.000)
<i>t</i> dictatorship	0.000 (-0.004)	-0.061* (-0.026)	0.016** (-0.005)	0.111*** (-0.023)
Ex-business president	-0.470*** (-0.127)	-1.426 (-0.893)	-1.014*** (-0.252)	1.422*** (-0.162)
New issue domain	0.447* (-0.227)	0.737 (-0.471)	-1.507* (-0.599)	-14.416*** (-0.098)
Presidential ideology	-7.181*** (0.642)	-12.177*** (1.483)	-15.902*** (1.013)	-8.307*** (1.471)
Constant	-0.221*** (15.941)	-0.221*** (16.941)	-0.221*** (17.941)	-0.221*** (18.941)
N	42022			
Adjusted R2	0.173			
AIC	30716.28			
BIC	31165.87			
Log-Likelihood	-15,306.14			

**Table E-6.** MNL for Predictors of Four Circumvention Outcomes, Policy Decrees Only

<b>3.11.6 (Sub-sample of “policy” decrees)</b>				
	<b>New Agency</b>	<b>Military</b>	<b>Private</b>	<b>Non-Profit</b>
	<b>coef/se</b>	<b>coef/se</b>	<b>coef/se</b>	<b>coef/se</b>
Bureaucratic eff.	-0.042*** (0.004)	-0.028* (0.014)	0.060*** (0.006)	0.045*** (0.013)
Ideological distance	0.170*** (0.043)	-0.037 (0.124)	0.523*** (0.041)	0.358*** (0.060)
Policy importance	0.176*** (0.023)	0.199*** (0.044)	0.506*** (0.022)	-0.080* (0.036)
Government revenue (log)	0.416*** (0.057)	-0.647*** (0.134)	0.460*** (0.102)	1.170*** (0.086)
Military expenditures (log)	-0.120*** (0.017)	1.299*** (0.220)	-0.026 (0.035)	-0.527*** (0.028)
FDI inflow (log)	0.051 (0.043)	0.112 (0.099)	-0.037 (0.076)	-0.757*** (0.076)
Development assistance (log)	-0.222*** (0.042)	-0.239* (0.104)	0.000 (0.048)	0.062 (0.080)
Per capita GDP	-0.000 (0.000)	-0.001*** (0.000)	-0.000*** (0.000)	-0.001*** (0.000)
<i>t</i> dictatorship	-0.003 (0.005)	-0.050* (0.025)	0.047*** (0.005)	0.103*** (0.023)
Ex-business president	-0.701*** (0.128)	-1.932* (0.881)	-1.610*** (0.245)	1.130*** (0.176)
New issue domain	0.438 (0.252)	0.542 (0.490)	-1.369* (0.598)	-13.863*** (0.247)
Presidential ideology	-5.138*** (0.713)	-9.698*** (1.600)	-16.491*** (1.095)	-6.780*** (1.531)
Constant	-0.221*** (19.941)	-0.221*** (20.941)	-0.221*** (21.941)	-0.221*** (22.941)
N	14338			
Adjusted R2	0.153			
AIC	22375.61			
BIC	22769.29			
Log-Likelihood	-11,135.81			

**Table E-7.** MNL for Predictors of Four Circumvention Outcomes, Country Dummies

	<b>3.11.7 (Country dummies)</b>			
	<b>New Agency</b>	<b>Military</b>	<b>Private</b>	<b>Non-Profit</b>
	<b>coef/se</b>	<b>coef/se</b>	<b>coef/se</b>	<b>coef/se</b>
Bureaucratic eff.	0.087*** (0.017)	0.062* (0.028)	-0.090*** (0.022)	0.110*** (0.031)
Ideological distance	0.208*** (0.040)	0.123 (0.122)	0.466*** (0.037)	0.933*** (0.101)
Policy importance	0.589*** (0.018)	0.606*** (0.038)	0.741*** (0.020)	0.389*** (0.031)
Government revenue (log)	-0.220 (0.224)	0.276 (0.508)	0.131 (0.357)	0.498** (0.193)
Military expenditures (log)	-0.078 (0.239)	-1.775* (0.818)	1.261*** (0.360)	-1.398*** (0.372)
FDI inflow (log)	-0.158*** (0.044)	-0.025 (0.130)	-0.163* (0.080)	-0.281** (0.093)
Development assistance (log)	-0.520*** (0.081)	-0.718** (0.264)	0.055 (0.065)	0.371* (0.179)
Per capita GDP	0.000* (0.000)	0.000 (0.000)	-0.001*** (0.000)	-0.001*** (0.000)
<i>t</i> dictatorship	-0.007 (0.005)	-0.001 (0.015)	0.039 (0.044)	0.046** (0.017)
Ex-business president	-0.149 (0.212)	-0.757 (1.516)	1.658*** (0.474)	0.754*** (0.189)
New issue domain	0.691** (0.237)	1.059* (0.487)	-1.653** (0.595)	-18.319*** (0.103)
Presidential ideology	11.770*** (3.120)	35.856*** (9.436)	-32.529*** (4.571)	8.454 (6.345)
<b>Country dummies (Venezuela=0)</b>				
Bolivia	-0.110 (0.350)	-0.942 (1.226)	4.246 (2.217)	-2.074 (1.116)
Brazil	-0.075 (0.468)	3.512** (1.283)	4.185** (1.466)	-17.548*** (0.753)
Chile	-6.419*** (0.808)	-22.157*** (1.465)	11.682*** (1.379)	-3.365* (1.447)
Ecuador	-0.401 (0.486)	2.926 (1.545)	3.561 (2.376)	0.206 (0.633)
Guatemala	-0.336 (0.358)	-5.079** (1.767)	2.076 (2.262)	-2.055* (0.991)
Nicaragua	0.320 (0.434)	-5.808** (2.222)	2.910 (2.441)	-5.799*** (1.370)
Panama	-3.392	-37.312***	18.599***	-11.134**



	(2.020)	(7.240)	(3.341)	(3.693)
Paraguay	-1.360***	-4.317***	4.725*	-2.096*
	(0.294)	(1.052)	(2.101)	(0.848)
Uruguay	-4.666***	-6.046***	9.043***	-3.987***
	(0.525)	(1.183)	(1.731)	(1.204)
Constant	-0.221***	-0.221***	-0.221***	-0.221***
	(23.941)	(24.941)	(25.941)	(26.941)
<hr/>				
N		42022		
Adjusted R2		0.201		
AIC		29743.4		
BIC		30504.25		
Log-Likelihood		-14,783.70		
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## APPENDIX F

### PAC 2 COOPERATION AGREEMENTS WITH THE DEC

**Table F-1.** PAC 2 Cooperation Agreements with the DEC (2011-2014)

Project	State	Embl.	Complete
<b>Roadways/Bridges</b>			
BR-101/PE - Doubling Substretch PE/PB-Igarassu	PE	✓	Yes
BR-101/RN Substretch Ponta Negra-Arêz, Doubling and Suitability - Lot 1	RN	✓	Yes
BR-101/PE - Doubling Substretch Palmares-PE/AL Border	PE	✓	In progress
BR-135/PI- Paving Substretch - Bertolínea-Eliseu Martins	PI		Yes
BR-319/AM - Stretch 1 - Paving Substretch Km 383-Km 656	AM		In progress
BR-163/PA/MT - Stretch 1 - Paving Rurópolis-Santarém	PA	✓	In progress
BR-101/AL Substretch PE/AL Border-São Miguel dos Campos	AL		In progress
BR-101/SC - Itajaí Port Expressway	SC		No
BR-319/RO - Madeira River Bridge	AM, RO		In progress
BR-163/PA/MT - Stretch 3 - Paving MT/PA Border-Guarantã do Norte	MT, PA		Yes
BR-163/PA - Stretch 2 - Paving MT/PA Border-Rurópolis	PA	✓	In progress
BR-163/PA/MT - Stretch 3 - Paving MT/PA Border- Guarantã do Norte/MT, Trav. Urb. de Guarantã	MT	✓	Yes
BR-101/NE - Stretch Doubling - PB/PE Border-PE/AL Border	PE	✓	In progress
BR-101/NE - Stretch SE - Doubling AL/SE Border-SE/BA Border	SE		In progress
BR-319/AM - Stretch 2 - Paving Substretch Km 656-Km 679	AM		In progress
BR-319/AM - Stretch 1 - Paving Substretch Km 215-Km 250	AM		In progress
BR-319/AM - Stretch 1 - Paving Substretch Km 250-Km 383, Igapó-Açu Bridge (km 260)	AM		In progress
BR-163/PA/MT - Stretch 1 - Substretch Km 893-Km 873	PA	✓	Yes
BR-163/PA/MT - Stretch 1 - Substretch Km 873-Km 789	PA	✓	In progress
BR-418/BA - Construção Caravelas-BR-101/BA	BA		No
BR-242/BA - Barreiras Roundabout	BA		Yes
BR-163/PA - Stretch 2 - Paving Divisa MT/PA-Rurópolis, Miritituba Access - 3 lots	PA	✓	Yes
BR-163/PA - Stretch 2 - Paving Divisa MT/PA-Rurópolis, Miritituba Access - Other lots	PA	✓	In progress
BR-101/PB - Doubling Substretch Lucena-PB/PE Border (New and Existing Road)	PB	✓	Yes
BR-101/PB - Doubling Substretch Lucena-PB/PE Border	PB	✓	In progress

(Marginal Roads)		
BR-319/AM - Stretch 1 - Paving Substretch km 198-Km 215, Access to Careiro-Castanho Bridges	AM	Yes
BR-101/SE - Doubling AL/SE Border-SE/BA Border- Lot 1	SE	In progress
BR-101/SE - Doubling AL/SE Border-SE/BA Border- Lot 2.1	SE	In progress
BR-101/SE - Doubling AL/SE Border-SE/BA Border- Lot 2.2	SE	In progress
BR-101/SE - Doubling AL/SE Border-SE/BA Border- Lot 3	SE	No
BR-101/SE - Doubling AL/SE Border-SE/BA Border- Lot 4	SE	Yes
BR-101/SE - Doubling AL/SE Border-SE/BA Border- Lot 5	SE	In progress
<b>Airports</b>		
São Gonçalo do Amarante Airport - Runway, Infrastructure, and Emergency Area (2nd stage)	RN	Yes
Guarulhos Airport - Runway Expansion and Renovation	SP	Yes
Guarulhos Airport - Terraplaning for Terminal 3	SP	Yes
Vitória Airport - Operational Module Implementation	ES	✓ Yes
Goiânia Airport - Operational Module Implementation	GO	✓ Yes
São Gonçalo do Amarante Airport - Runway System, Infrastructure, and Emergency Area (1st stage)	RN	Yes
Porto Alegre Airport - Runway and Taxi System Expansion	RS	No
São Luís Airport - Passenger Terminal Expansion	MA	Yes
Rio Branco Airport - TPS	AC	Yes
<b>Ports</b>		
São Francisco do Sul Port - Dock Recovery 201	SC	Yes
São Francisco do Sul Port - Dock Reinforcement 101	SC	Yes
<b>Sanitation</b>		
Water in indigenous areas - São Gabriel da Cachoeira (1)	AM	Yes
Water in indigenous areas - São Gabriel da Cachoeira (2)	AM	Yes

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Sources: "Obras do PAC, 9º balanço" (2013), DEC

## APPENDIX G

### HIGHWAY CONCESSIONS IN ECUADOR

**Table G-1.** Highway Concessions in Ecuador (July 2013)

Stretch	Road	Length (km)	Province(s)	Entity
Bolívar - Rumichaca	E35	65.59	Carchi	Panavial, S.A.
Ibarra - Bolívar	E35	65.88	Carchi- Imbabura	Panavial, S.A.
Cajas - Ibarra	E35	43.99	Imbabura	Panavial, S.A.
Cajas -Cayambe - Guayllabamba	E35	45.1	Pichincha	Panavial, S.A.
Cajas - Tabacundo - Guayllabamba	E28B	32.69	Pichincha	Panavial, S.A.
Calderón - Guayllabamba	E28B	18.2	Pichincha	Panavial, S.A.
Alóag – Puente Jambelí	E35	12.7	Pichincha	Panavial, S.A.
Puente Jambelí – Yambo	E35	67.4	Cotopaxi	Panavial, S.A.
Yambo – Riobamba	E35	73.96	Tungurahua- Chimborazo	Panavial, S.A.
Alóag - Santo Domingo	E20	101.19	Pichincha- Santo Domingo	H.C.P. Pichincha/ H&H
San Antonio de Pichincha - Nanegalito	E28	63.7	Pichincha- Santo Domingo	H.C.P. Pichincha
Intervalles	E35- E20	14	Pichincha	H.C.P. Pichincha
Autopista Gral. Rumiñahui	E35	12	Pichincha	H.C.P. Pichincha
Durán - El Triunfo - Bucay	E49A	92.5	Guayas	Concegua, S.A.
Durán - Boliche	E40	25.4	Guayas	Concegua, S.A.
Km. 26 - Puerto Inca - Naranjal	E26	55	Guayas	Concegua, S.A.
Km. 26 - Milagro	E25	14	Guayas	Concegua, S.A.
Milagro - Naranjito - Bucay	E488	61.2	Guayas	Concegua, S.A.
La Aurora - Samborondón	E25	15.4	Guayas	Conorte, S.A.
Durán - Juján	E49- E25	45.5	Guayas	Conorte, S.A.
Puente Alterno Norte		21	Guayas	Conorte, S.A.
Km. 35 - La Cadena	E482	48.3	Guayas	Conorte, S.A.

Guayaquil - El Empalme	E48	143	Guayas	Conorte, S.A.
Km 25.7 - Milagro	E25	8	Guayas	Conorte, S.A.
La Aurora - La T Maravillas - Salitre – Daule			Guayas	Conorte, S.A.
Portoviejo - Montecristi - Manta	E30	33.87	Manabí	Manabí Vial E.P.
Total		1179.6		

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