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The Political Determinants of Resource Allocation in Mexican Municipalities
The Fund for Municipal Social Infrastructure

Thesis submitted for the degree of Doctor of Philosophy

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Submitted in April 2010

I hereby declare that this thesis has not been, and will not be, submitted in whole or part to another university for the award of any other degree.

Signature _____

University of Sussex
DPhil (Development Studies)

The Political Determinants of Resource Allocation in Mexican Municipalities
The Fund for Municipal Social Infrastructure

Summary

This research explores the political factors that affect the allocation of antipoverty funds in Mexican municipalities. Specifically, it analyses whether the adoption of FAISM, a decentralised fiscal fund intended to reduce poverty, did, in fact, help provide better services for the poor or if it was captured by political influence. In this sense, my work addresses a classic question of when and how political institutions can effectively improve the allocation of antipoverty funds.

In the last decade, an ambitious decentralisation process was promoted in Mexico as a way to strengthen local governance and hence improve basic service provision. The idea was to limit politician's influence on resource allocation and return decision making to the people. By looking at more than 57,000 FAISM projects carried out in 122 municipalities of Estado de Mexico between 1998 and 2006 my work argues that political influence could not be circumvented and clientelism remained as a common political practice to allocate antipoverty funds.

My findings demonstrate that the three major political parties relied on FAISM to obtain political benefits through the allocation of private goods. Regarding the effects of democratic institutions, my work demonstrates that greater party competition increases the probability that FAISM was used for public benefit. Similarly, there is a propensity towards greater spending on clientelism during elections. Although these factors influence the allocation of municipal funds, my work does not find concluding evidence to test the impact of fund allocation and poverty reduction.

My dissertation makes three important contributions to the literature. Substantively, it qualifies the premise that clientelistic linkages between voters and politicians prevail and shows the conditions under which local politicians strategically allocate antipoverty funds for political gain. A second, methodological, contribution is the use of a more refined measure of social spending at the municipal level by looking at the split between public and private goods. Finally, this dissertation seeks to inform the longstanding debate about the ways in which democratic politics can contribute to effective poverty reduction.

Acknowledgements

This work would have not been possible without the advice and support of many people. First of all, I am especially thankful to Andrés Mejía Acosta, my dissertation supervisor. I am grateful for his patience and encouragement over the last four years. In the toughest moments Andrés was there providing unconditional support, motivation and countless hours of his time. Secondly, I want to thank Aaron Schneider and Mick Moore who supervised me during the early stages of my work. Their guidance provided a good basis for the present thesis.

I gratefully acknowledge the financial support provided by CONACYT and the Gobierno del Estado de México. At IDS, thanks to the DRC for the Future State for funding my attendance to the course on Multivariate Analysis Techniques in Social Sciences at the Essex Summer School in Social Science Data Analysis and Collection in July 2007.

This thesis has benefitted from comments and help from many others. I am thankful to all the members of the Governance Team for their useful feedback and continuous encouragement. In particular Peter Houtzager, Anu Joshi, David Leonard, Robin Luckham, Anna Schmidt and Fiona Wilson whose input provided my work with key insights and constructive comments. I owe special thanks to former Fellow Mark Robinson whose advice gave me important guidance during my first steps into the writing process. I am indebted to Jairo Isaza and Héctor Moreno who provided useful statistical advice when it was most needed. I also want to thank Ricardo Sabates who kindly agreed to read and comment earlier versions of one of the empirical chapters of this dissertation.

In IDS, I am deeply grateful to Linda Waldman and Peter Taylor for their support and advice that help me to go on despite the difficulties. I am also grateful to Angela Dowman for her important help throughout my stay at IDS. I warmly thank all the members of the BLDS, in particular, Ian Budden, Helen Rehin and Stephanie Watson whose invaluable support and trust allowed me to complete this dissertation.

My time in Brighton has been great very much due to the friends with whom I have had the chance to share it. I especially thank Susana Fierro, Ashish Umre, Mariana Trejo, Héctor Rojas, Genner Llanes, Cynthia Marin, Ana Mendoza, Juan Loera, Francisco González, Carolina García, Javier Warman, Carolina Vargas, Nidia León, Alfredo Ortiz, Libni Ortiz, María Alvarez, Iván Saldaña, Rocio Alvarez, Mauricio Zuma Medeiros and Celia Zuma. I also thank the friendship and continuous encouragement of my DPhil colleagues and their families. I warmly thank Sulu and Santhosh Mathew, Larissa Jones, Kattie Lussier, Anthony Nrogonano, Narayana Gatti, Tobias Denskus, Sunita Abraham-Talks, Rehab Osman, Javier Arellano, Noemi De la Fuente, Ronald Adamtey, Alex Shankland and Louise Tillin.

I want to thank my family in Mexico for always believing in me. Specifically, I am grateful to my sisters Ana Luisa and Erika, as well as Felix, Ana Isabel and Gaby.

Thanks to Ale, Carlos, Andrés, Paty, Carlos Augusto, Maryfer, Antonio and Santiago. I also want to thank my in-laws Antonio and Bertha Pérez Blanco for their patience and encouragement during my studies. I am especially grateful to *tía* Arte, who generously accepted to spend a whole summer with us in Brighton.

There is no adequate way of thanking my parents, Julián Salazar and Ma. del Carmen Domínguez. Without their constant support and love, I would have not completed this dissertation.

Above all, I thank my wife Karla. Her endless patience while waiting for me to leave IDS, her words of encouragement and love, have been a great source of strength through all these challenging years. I want to dedicate this thesis to Karla and our two wonderful children Andrea and Mateo.

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CHAPTER ONE

INTRODUCTION

Social policy in Mexico has experienced important changes in the last three decades. As a result of the adoption of a new market-oriented development model, the state has significantly reduced its participation in the economic life of the country and has focused on redistribution policies that aim at reducing poverty and to providing basic services to the poorest sectors of the population. Despite these transformations, large segments of the population still live in conditions that prevent them from enjoying a better quality of life through the fulfillment of their basic needs. Although Mexico is considered a country with a medium Human Development Index (HDI) value, very close to that of high-development countries, there remain remarkable differences between regions (De la Torre 2005). Moreover, Mexico has a higher level of income inequality relative to the rest of Latin America.

One suggested explanation for the current high levels of poverty and inequality in Mexico is that the Mexican political system has shown and continues to show the prevalence of clientelistic relationships between politicians and citizens. The exchange of goods and services for votes has negative effects on economic development and undermines the construction of citizenship, though it continues to be the norm in the allocation of public funds (Dresser 2008). According to Ugalde (2010), the transition to democracy in Mexico brought about free and transparent elections but it did not alter the clientelistic nature of the political system. Mexicans enjoy periodic, free and transparent elections but the selective allocation of public funds for political gain persist.

There is a great deal of literature that has documented how social policy in Mexico during the 1990s was influenced by political factors (Dresser 1994, Molinar & Weldom 1994, Fox 1995). Most studies have accounted for variations in the allocation of antipoverty funds across states, but little is known regarding the final

destination of these resources at the municipal level. Given that local governments in Mexico have been one of the institutions that have been most affected by democratisation and decentralisation, there is a strong need to explore the effects of local political institutions on the allocation of antipoverty funds.

This research explores the political factors that affect the allocation of antipoverty funds in Mexican municipalities. Specifically, it analyses whether the adoption of the Fund for Municipal Social Infrastructure (FAISM), a decentralised fiscal fund intended to reduce poverty, did, in fact, help provide better services for the poor or if it was captured for political gain. In this sense, my work addresses a classic question of when and how political institutions can effectively improve the allocation of antipoverty funds.

In the last decade, an ambitious decentralisation process was promoted in Mexico as a way to strengthen local governance and hence improve basic service provision. Decentralisation of public funds transformed the expenditure responsibilities over public spending. With the new transfer of resources, governors and municipal authorities started to 'control 63 cents of each peso collected from fiscal revenues' (Pardinas 2005: 1). Under this new scheme of public spending, where local authorities are important actors in the allocation of public funds, the study of the effects of political institutions on the actual use of resources has gained great importance in the study of Mexican politics.

Lack of access to reliable data on municipal spending has constituted a major obstacle in evaluating the performance of this level of government in Mexico. The collection of data for this project is a first attempt to examine the actual use of public funds by municipal authorities. My field visit to Mexico in 2006 provided a unique opportunity to acquire a detailed account of the final destination of public funds that aim to improve basic social infrastructure in poor communities. Access to data on more than 57, 000 FAISM projects carried out in 122 municipalities of one Mexican state, Estado de Mexico, between 1998 and 2006 allowed me to examine pro-poor spending at the local level in detail. It also allowed me to explore the possible links between political institutions and the allocation of public funds in

a context that has been recently affected by increasing levels of political competition.

My work argues that political influence could not be circumvented and clientelism remained as a common political practice to allocate antipoverty funds at the local level. The findings of this dissertation demonstrate that the three major political parties competing at the local level in the municipalities of Estado de Mexico relied on FAISM to obtain political benefits through the allocation of private goods. It seems that the political manipulation of public funds that characterised previous social programs run by the federal government has been translated to the municipal level. Today, at least in the case of FAISM, it is not the central government which allocates public funds with political motivations; it is the municipal authorities, the lowest level of government in the Mexican federal system, who are targeting public resources for electoral ends.

Regarding the effects of democratic institutions, my work demonstrates that greater party competition increases the probability that FAISM was used for public benefit. Democratic elections and, particularly, contested electoral battles create incentives for the programmatic use of public funds where municipal level allocations of public goods are more prevalent than of private excludable goods (clientelism). Similarly, there is a propensity towards greater spending on clientelism during elections. Local governments tend to use FAISM funds to finance public works that are more visible or that could be finished before an election. Although these factors influence the allocation of municipal funds, my work does not find concluding evidence on the impact of fund allocation and poverty reduction.

This dissertation makes three important contributions to literature in the field. Substantively, it qualifies the premise that clientelistic linkages between voters and politicians prevail and shows the conditions under which local politicians strategically allocate antipoverty funds for political gain. Prospects that clientelism would be eradicated with the arrival of alternation of power have proved wrong. Clientelism is resilient and has adapted to the new conditions of democratic politics in Mexican municipalities. A second, methodological, contribution is the use of a

more refined measure of social spending at the municipal level by looking at the split between public and private goods in order to classify policy benefits that could be programmatic or particularistic and that could have different effects on poverty alleviation. Finally, this dissertation seeks to inform the longstanding debate about the ways in which democratic politics can contribute to effective poverty reduction. Despite the prevalence of clientelism as a common political practice among local political actors, there is some room to believe that pluralistic politics could, in fact, create incentives for the allocation of funds with more programmatic criteria and not according to discretionary decisions by local authorities.

This chapter begins by discussing the linkages between democratisation and decentralisation in the process of resource allocation. Next, it addresses the need to study political institutions in order to understand why some local governments are more effective in delivering goods and services to their population than others. The next section offers a brief account of the reasons for studying the politics of antipoverty spending through an examination of the FAISM. And finally, the last part describes the contribution of this dissertation, the case selection and research methodology and provides an overview of the dissertation.

1.1 The linkage between democratisation and decentralisation in the process of resource allocation

In many Latin American countries during the 1980s, the third wave of democratisation provided opportunities to challenge the inefficiencies caused by centralisation leading to a trend of decentralisation in many countries in the region. Increasing political competition created pressures to devolve greater autonomy to subnational levels of government. At the same time, the shift towards stabilisation and structural adjustment policies –as a response to the deep economic crises that hit many countries in the region– created incentives for governments to delegate institutional capacities and administrative responsibilities to lower levels of government.

Democratisation transformed the political dynamics at the subnational level. Dramatic shifts occurred in the configuration of the political map due to the increasing competition in local elections which reshaped the relationship between central and lower levels of government. Subnational political actors elected through more democratic and transparent elections became aware of the importance of winning financial and political autonomy from the central government (Beer 2004).

In federal systems, these significant shifts brought new challenges and opportunities to the institutional arrangements. The political and economic transformations experienced in federal countries represented important forces in favor of decentralisation, in some cases bringing new opportunities to make the federal arrangements work better (Willis, Garman & Haggard, 1999). As Gibson points out (2004: 10), once the process of decentralisation was initiated, 'the political structures of federalism provided obvious built-in alternatives to the national government, as well as constitutional mechanisms to enhance the empowerment of subnational actors.' A few cases in Latin America show how the activation of the institutions of federalism 'led to a vindication of the periphery vis-à-vis the centre' (Díaz-Cayeros 2003: 2). Decentralisation of political and fiscal resources to subnational units of government through previously dormant constitutional powers drove a new redistribution of power within the different political actors in the federal countries of the region (Gibson 2004).

In this way, the democratisation and decentralisation processes enhanced the influence that political interactions between subnational and national political actors had in the institutional arrangements, power dynamics and the redistribution of power within federal systems. At the local level, these changes also transformed the ways in which local governments function, and the ways in which they distributed public resources for service delivery in particular.

In practice, so long as local governments are receiving significant resources to fulfill the needs of their population, it is important to focus on the ways in which they carry out government policy and particularly on the ways in which resources are allocated once they reach the hands of increasingly powerful local political

authorities. In short, we must examine the effects of resource allocation in terms of improvements to the living conditions of the population.

The study of political incentives for resource allocation is relevant because of how likely it is that public spending will be used for political gain. Thus, in order to understand the possible political uses of public spending it is important to have a better understanding of the political incentives that politicians face when allocating public funds.

1.2 Political institutions, decentralised resource allocation and service provision

How can political institutions alter politicians' incentives to allocate public funds at the local level? To what extent do these allocations impact local government performance in ways that can improve the living conditions of the poorest sectors of the population?

These questions are particularly important today as we have recently witnessed how subnational governments in both developed and developing countries have become important actors in delivering services to the population.

Advocates of decentralisation argue that it promotes better resource allocation because local authorities have more information about local conditions and are foster innovation. In addition, decentralisation is considered to elicit greater financial contributions from local and state governments. The argument that decentralisation promotes allocative efficiency assumes that 'the devolution of functions occurs within an institutional environment that provides political, administrative, and financial authority to local governments, along with effective channels of local accountability and central oversight' (World Bank, 2001).

As we saw in the previous section, both, democratisation and decentralisation were expected to bring important benefits to the population. In particular, there were great expectations that governments closer to the people and politicians elected

through democratic and transparent elections would improve government performance at the community level.

While this statement might be true in some cases, in reality the political context at the local level entails a number of factors that could affect the prospects of decentralisation for democracy and development. In particular, countries that have a strong tradition of patronage and clientelistic practices face more challenges for the efficient allocation of public funds.

Thus, while there are a number of reasons to support decentralisation as a way of enhancing 'subnational autonomy by allowing local actors to allocate resources according to their own priorities' (Edmonds 1998: 1), in practice the evidence has shown that decentralisation has produced unforeseen and sometimes unwanted outcomes. In many cases, the transfer of resources and responsibilities to lower levels of government has been associated with an increased potential of capture of resources, functions and benefits by local political elites, thereby undermining accountability and participation and exacerbating the problems of service provision, particularly for the poor (Crook 2003).

Given the undesired results that decentralisation reforms have had in practice, there is increasing awareness in the literature that political institutions are critical to understanding why some local governments are more effective in delivering goods and services to their citizens than others (Kauneckis & Andersson 2006). More specifically, as it is not clear that the decentralisation of policy making has improved policy outcomes, the study of resource allocation processes at the local level has become a key issue in recent debates. It is with this in mind that recent studies have focused on analysing how the local political environment can change the incentives that motivate politicians to allocate public funds among the population. Recently, attention has been paid to the ways in which local political leaders (politicians) allocate public funds and the consequences that those allocations have in terms of improving provision of basic services.

Some studies have noted that, in certain countries, 'the principal problem has not been a lack of economic resources' (Mizrahi 2004: 50). In recent years,

governments in both developed and developing countries have implemented various programs to transfer significant quantities of financial resources in order to promote development and combat poverty. But if this is so, what explains the poor results of decentralisation in improving service provision and alleviating poverty?

In order to answer this question, Edmonds argues that decentralisation theories can easily oversimplify 'the relationship between policy change and political change' (Edmonds 1998:1). This author underscores how decentralisation theory 'does not take into account the political context' as a way to understand how the desired benefits of decentralisation do not materialise (Edmonds 1998:1).

Thus, it is important to explore the linkages between political variables, decentralised policy making, and implementation. More specifically, it is necessary to examine the determinants of resource allocation as a way to better understand: a) what are the incentives that politicians have to allocate decentralised public funds, and b) to what extent such allocation, influenced by political factors, might improve service provision at the very local level.

The following section offers a brief account of the reasons for studying the politics of antipoverty spending through an examination of the Fund for Municipal Social Infrastructure (FAISM) and the framework and main findings of this research.

1.3 Studying antipoverty spending and political gain in Mexico

The use of antipoverty funds for political gain has been a constant concern in both developed and developing countries. However, this concern seems to be more significant in emerging democracies where economic development is precarious and high levels of poverty and inequality prevail. In these countries, social programs constitute a significant part of the governments' development strategy. For this reason they normally imply a broad and widespread use of public funds that could be used with political motivations.

In Mexico, the most recent changes to the social development strategy brought about by democratisation and decentralisation have strengthened the institutional design of social programs. Important innovations in policy design such as the inclusion of formulas for distribution of antipoverty funds, the estimation of an official poverty measurement and evaluation and monitoring of federal social programs have taken place in order to close 'previous information gaps about distribution of resources that may have permitted the rampant political use of the federal budget by the federal executive in the past' (Pérez 2007: 2). While these changes have allowed limited political influence on the distribution of federal program resources to the municipal level (Pérez 2007), it remains to be explored if the new institutional mechanisms of resource allocation have indeed eliminated the potential use of antipoverty resources for political gain by municipal authorities.

A number of scholars have noted that, in general, the transition to democracy in Mexico and the gradual process of decentralisation experienced in the past three decades has not entailed the disappearance of the political and clientelistic use of social programs (Méndez 2007). Méndez argues that in the case of Mexico, the clientelistic relationships were monopolised by one political party, the PRI, which remained in power for more than 70 years. The transition to democracy represented a diversification of political choices and alternation of political power at all levels of government, but it did not imply the full withdrawal of clientelistic practices. According to this author, these clientelistic practices not only persist but have permeated the whole political spectrum. Apparently resource allocation has moved away from the traditional "monopolized clientelism" to "multiparty clientelism" (Méndez 2007).

The long tradition of patronage and clientelistic exchanges between politicians and citizens in Mexico could mean that the devolution of resources and responsibilities to lower levels of government might not translate into more democratic forms of governance nor more efficient service provision.

As significant amounts of resources have been transferred in recent years to municipal governments to improve the basic social infrastructure of poor

communities, studies have analysed the effectiveness of these federal transfers in reaching the poor. The empirical evidence shows how the distribution of antipoverty funds might not necessarily be reaching the poorest sectors of the population. Rather, it would seem as though decentralised antipoverty funds are allocated to the communities with large populations within a municipality without taking into account their infrastructure limitations (Hernández & Jarillo 2006).

The recent focus on the study of subnational governments raises the question of how this level of government under conditions of political autonomy and resources availability can actually respond to the needs of the population. As it has been argued before, studying the effects of political institutions on resource allocation is critical to gaining a clearer image of the challenges that decentralised antipoverty spending entails for development.

In this sense, the objective of this dissertation is to provide a detailed account of the political institutions that shape the incentives of the local actors who participate in the distribution of antipoverty funds, and how resource allocation, influenced by political factors, affects basic service provision.

Through an examination of the most important decentralised fiscal fund to municipal governments whose express purpose is to provide social infrastructure to the poorest sectors of the population, the Fund for Municipal Social Infrastructure (FAISM), this dissertation explores the extent to which political institutions mediate the incentives that politicians have to allocate antipoverty funds. A second aspect examined in this dissertation is the extent to which these allocations, influenced by political motivations, have an impact on improvements of basic service provision.

This dissertation offers a theoretical framework for the study of the effects of politics on antipoverty resource allocation. The framework seeks to explore what choices politician's make in allocating resources. It distinguishes between two types of resources: public and private goods. This distinction is important to characterise how municipal authorities in Mexico distribute resources among the

population. It also allows for the classification of thousands of projects that were financed with FAISM resources in a nine year period in 122 Mexican municipalities.

In exploring the ways in which FAISM resources are distributed, this research has found that, despite the recent reforms to the social development strategy of the country, and as a result of democratisation and decentralisation, a significant part of this fund is allocated to private goods. In other words, clientelism persists as a political interaction between citizens and politicians and all political parties make use of this practice with vote seeking expectations. However, not all is bad news. As will be detailed in chapter four where this dissertation explores the political determinants of resource allocations, the existence of strong competition between political parties at the municipal level undermines the allocation of FAISM resources for private ends. Moreover, in agreement with previous studies on clientelism, this dissertation has found that private good provision is less prevalent in those municipalities with higher levels of economic development. An additional finding is related to the electoral calendar of local politicians. In this case, this research has found that private good provision tends to increase when local elections are scheduled.

In exploring whether FAISM allocations, influenced by political factors, have had an impact on basic service provision, the statistical analysis in chapter five suggests that public goods allocations through FAISM have enabled local governments to improve access to basic services to the population. Although the findings in that chapter are far from conclusive it can be argued, apart from the beneficial effects of FAISM allocations, that meaningful elections seem to have beneficial effects in the provision of some basic services.

1.4 Scholarly contributions

First, this dissertation provides a better understanding of clientelism, how it works and the factors that impact upon it. Through an examination of social spending in Mexican municipalities this dissertation has finds that clientelism is mediated by the

political conditions and interactions between citizens and politicians within the local context. Pluralistic politics tend to have a positive effect on the allocation of antipoverty funds because the presence of more political parties tends to incentivise politicians to invest with public goods –programmatic spending– rather than with private goods –clientelism–.

This dissertation also offers an exploration of the persistence of clientelistic interactions between citizens and politicians and confirms the fact that clientelism prevails even in contexts of increasingly democratic politics. The findings of this dissertation suggest that clientelistic practices have permeated the whole political spectrum, as clientelism is perceived, by some political actors, as an effective tool for achieving political success.

It also contributes to the study on the effects of democracy on poverty reduction. One of the big development questions is to understand if/whether democratic politics can contribute to effective poverty reduction, and if so, what are the formal and informal mechanisms through which this takes place. In the process of resource allocation, this dissertation has found that, despite the prevalence of clientelistic practices, in contexts of pluralistic politics local governments tend to allocate public goods in ways that can improve the provision of basic services to the population.

Finally, for students of local government, this dissertation offers an account of how social spending decisions are made at this level of government and what factors might influence the choices that local politicians make in the distribution of antipoverty funds.

1.5 Case selection and methods

Case selection

Mexico is an ideal case study subject to examine the effects of politics on patterns of resource allocation within a middle income country that has a long tradition of

patronage and clientelistic exchanges between its citizens and politicians. Also, democratisation and decentralisation have recently had a major impact on the institutional arrangement of Mexico's federal system, and therefore on the social development strategy.

For the last ten years, Mexican politics have been characterised by plurality and increasing levels of political competition 'for the integration of powers and the representation of authorities in the three levels of government: federal, state and municipal' (Santín del Río 2004: 59). Democratisation has transformed the political dynamics at the local level. In the last decade, municipal elections have become increasingly contested battles between political parties and handing power over to the opposition (party alternation) has become the rule. As Grindle (2007: 63) notes:

'Indeed, municipal elections became hotly contested races among parties and partisans; increasingly, the venerable party of Mexico's revolution, the PRI, lost these electoral battles. Where it did not lose, the old hegemonic party had to work harder to win. And, with time, parties challenging the PRI began to face significant electoral opposition once they proved their capacity to win municipal office. Indeed, by the mid-2000s, turning power over the opposition was the spectre behind every local election, one that haunted all parties, not just the PRI'.

Decentralisation of fiscal resources to subnational units of government represented a step forward in the strengthening of municipal authorities. With more resources at their disposal, local governments had, for the first time in contemporary Mexican history, more chances to become effective participants within the national federal structure. In sum, increasing pluralism, greater electoral transparency, partisan alternation, and the willingness of the centre to transfer powers and responsibilities to lower levels of government have all created incentives for activation of the traditionally abandoned local governments. These changes have allowed local governments to have a much more active role in the provision of services to the population.

This investigation was designed to focus on the degree and ways in which public resources transferred under *FAISM* are used by municipal authorities, and in particular, the ways in which their uses are influenced by political motivations. For the purposes of this study it was important to choose a state that could reflect the

local Mexican reality as characterised by great socio-economic and political diversity among municipalities. Access to detailed social spending data by municipal governments was also an important issue since this type of information is, in most Mexican municipalities, unavailable.

Estado de Mexico was selected for the purposes of this dissertation, as this state and its municipalities represent an approximation of the Mexican reality, where political competition has increased significantly in the past two decades and strong inequalities prevail at the municipal level. The variations found across the municipalities of Estado de Mexico provide a unique opportunity to compare different municipalities in terms of size, level of development and political competition. The study of Estado de Mexico also offers the opportunity to explore the extent to which local officials use FAISM for political gain in the most populated and, thus, politically important state of the country. In addition, apart from having a personal connection with the state, since the creation of FAISM, the Municipalities of Estado de Mexico have been among the very few in the country that have systematically reported the final destinations of FAISM allocations. Due to the difficulty of collecting information at the municipal level, antipoverty resource allocations by municipal authorities have been woefully under-studied. The data collected for this investigation makes a contribution to studies of municipal governments in Mexico as the data offers a detailed account of the ways in which municipal authorities allocate those public funds whose objective is to improve basic infrastructure in poor communities.

On the political side, Estado de Mexico shows the current political context at the local level as characterised by the coexistence of different patterns of electoral competition. In the past decade, the electoral environment in many municipalities of this Mexican state has moved from complete one-party domination by the Partido Revolucionario Institucional (PRI) to competitive multiparty politics, where opposition parties have been both able and allowed to win elections for municipal offices¹.

¹ It is important to note that at the state level, the one party rule of the PRI continues unabated.

During the 1990 to 2006 period, 89 percent of the municipalities in Estado de Mexico were ruled by more than one political party. In only 14 municipalities was the PRI able to retain power. During this period, the days of PRI control over the vast majority of municipalities were gone. Notwithstanding the PRI was able to hold continuous power at the state level, in 82 municipalities, opposition political parties were able to defeat the PRI on at least one occasion.

**Table 1. Number of political parties in power
Estado de Mexico 1990-2006**

No. of Political parties	No. of Municipalities	Percentage
1	14	11.48
2	82	67.21
3	22	18.03
4	4	3.28
Total	122	100

As mentioned before, apart from the important changes experienced in recent years in the political configuration of this Mexican state, the poverty levels and socio-economic composition of Estado de Mexico and its municipalities make it possible to empirically examine the effects of politics on the implementation of antipoverty spending in municipalities with different populations, levels of development and access to public services.

Estado de Mexico is the most populous state in the country and an important economic centre. Estado de Mexico has an extension of 22, 500 square meters which represent 1.1 percent of the territory of Mexico. As a result of the socio-economic characteristics of the state and its vicinity with the Federal District, Estado de Mexico has experienced rapid demographic growth. For the past four decades, Estado de Mexico has been an important receptor of population flows from other states such as Distrito Federal, Puebla and Oaxaca. Thus, today more than 14 million Mexicans live in this territory demanding goods and services from the state representing almost 14 percent of the total population of the country. The population of the state is concentrated in 20 percent of the land, particularly in two

large valleys: one, “Valle Cuatitlan – Texcoco”, has approximately 10 million inhabitants that, together with the Distrito Federal (Federal District), represent one of the largest metropolitan areas in the world. The second large valley, known as “Valle Toluca – Lerma”, has a population of approximately 1.5 million inhabitants and includes the municipality of Toluca which is the state capital and an important industrial centre.

In economic terms, Estado de Mexico is the second largest economy in the country and the eighth largest in Latin America and it represents, approximately, 10 per cent of Mexico’s GDP. The Estado de Mexico manufacturing sector is the most important in the country.

In terms of development, according to data from the Consejo Nacional de Evaluación de la Política Social (CONEVAL), the Mexican Office in charge of the evaluation of social policy and poverty measurement in the country, Estado de Mexico shows similar levels of poverty to those of the country as a whole. CONEVAL divides poverty into three levels: food poverty (lack of income to cover basic food necessities); skills poverty (lack of income to cover basic food, health and education needs), and patrimonial poverty (inadequate income for covering health, food, education, clothing, housing and public transportation expenses). While food poverty in the country affects 18.7 million inhabitants, almost 18 percent of the population, in Estado de Mexico, 1.9 million inhabitants, or 14 percent of the population, do not have sufficient income to cover basic food necessities. Skills poverty in Mexico affects more than 29 million people, which represents 24 percent of the population of the country, while in Estado de Mexico it affects 3.1 million people or 22.4% of the population. A similar pattern is seen in the third level of poverty. In terms of patrimonial poverty, we find that 47 percent of Mexico’s population and 49 percent of Estado de Mexico’s population live in this condition.

The municipalities of Estado de Mexico show important contrasts that facilitate a comparative exploration among 122² municipalities with different populations, degrees of marginalisation³ and access to public services.

Among the municipalities of Estado de Mexico included in this study, 42 are considered rural and 80 urban⁴. Ecatepec and Nezahualcoyotl are the two most populated urban centres within the state and the first and third most populated of the country, with 1, 688 258 and 1, 140 528 inhabitants, respectively. At the same time, Estado de Mexico also includes municipalities with less than 5, 000 inhabitants, such as Texcalyacac, Zacazonapan, Papalotla and Oztoloapan.

Development levels also vary across the municipalities studied in this dissertation. According to data from the Consejo Nacional de Población (CONAPO), 30 municipalities have high or very high deprivation levels in Estado de Mexico, which means that approximately 24 percent of the municipalities in this state have poor basic service provision, relatively high illiteracy rates and low levels of employment. The rest of the municipalities, including urban centres such as Huixquilucan and Metepec, which are considered to be among the most developed municipalities in the country, have medium to high levels of development. While there are municipalities in Estado de Mexico with levels of development comparable to the average of that of OECD countries, there are also some municipalities at the other end of the spectrum with levels of development similar to those in Sub-Saharan Africa.

Methods

Antipoverty programs in Mexico have been subject to numerous studies in the past years. However, the majority of studies or analyses of the country's social strategy have been focused on the national level. Despite the fact that the antipoverty

² Given the time period studied in this research, it was possible to collect information from 122 municipalities of Estado de Mexico, however, today Estado de Mexico has 125 municipalities.

³ The marginalisation index identifies the municipalities with lower economic and social development. This index considers four dimensions: education, housing, population and employment, and identifies five degrees of marginalisation: very low, low, medium, high and very high.

⁴ Municipalities with more than 50 percent of the population living in localities of more than 2,500 inhabitants are considered urban centres.

strategies implemented in Mexico since the late 1980s 'have been primarily aimed at improving the provision of goods and services' (Diaz-Cayeros et al. forthcoming) at the local level, there have been limited efforts to examine the actual use of public funds by the lowest level of government.

The difficulties of carrying out these analyses are, to a great extent, explained by the absence or lack of information on social spending at this level of government. As Rocha (2005: 355) notes, 'one of the issues that makes a rigorous quantitative assessment of FAISM funds particularly difficult is a fundamental lack of reliable and comparable data across municipalities.' The lack of transparency in Mexico at the municipal level has made it practically impossible to evaluate the policies implemented by municipal authorities (Pardinas & Granados 2010).

The data obtained during my field visit to Estado de Mexico in the summer of 2006 provides a unique opportunity to examine municipal spending in Mexico and, in particular, to carry out a formal and systematic evaluation of FAISM. According to officials from the federal Ministry of Social Development, Estado de Mexico is one of the few Mexican states that have systematically collected data on FAISM spending since 1998. Through monthly reports regarding the use of FAISM resources, the Ministry of Finance of Estado de Mexico has been able to concentrate all the programs and projects financed with these funds since the creation of FAISM in 1998 by the municipalities.

The database on FAISM used for this research project was provided by the Directorate of Planning and Public Expenditure of the government of Estado de Mexico. The database includes all the information provided to the Ministry of Finance of Estado de Mexico by the municipal governments about FAISM projects and programs carried out during the period 1998 to 2006. The database contains information about more than 57, 000 projects. The information detailed in the database includes: the type of public work, location, cost, number of beneficiaries, beginning and completion of the works, programme, etc.

The availability of data on municipal spending for basic social infrastructure during a period of almost ten years in one Mexican state offered the possibility to test, on

a systematic and quantitative basis, some premises regarding the use of public funds that aim to fight poverty and inequality through the provision of basic services to the poorest communities. It allowed a comparative analysis of a large number of cases over a period of almost ten years ‘that make it possible to distinguish hypotheses regarding variables that in small n studies tend to be highly correlated (for example, level of development and patterns of multiparty competition) and thus difficult to assess simultaneously’ (Diaz-Cayeros et al. forthcoming).

As mentioned before, one of the concerns of this dissertation is to investigate the extent to which the allocation of FAISM funds by municipal authorities is affected by electoral considerations and to explore the extent to which clientelistic practices prevail despite the most recent efforts to depoliticised antipoverty programs. Focusing on municipalities as units of analysis enables us to measure improvements in public service provision as a consequence of public spending. A comparative analysis across municipalities facilitates an exploration of how local political conditions have an impact on the actual use of pro-poor spending.

It is important to mention that, as Rocha (2005) argues, an exploration of individual cases of the use of FAISM could show some tendencies that may be generalisable. It could also help to identify in greater detail the dynamics of the process of pro-poor policy interventions and to shed light on the perception of citizens with regards to the provision of public services by municipal authorities. However, given the data on municipal social spending over a period of ten years, focusing on aggregate indicators provides the opportunity to analyse actual spending patterns (through public or private goods provision) in contexts with different levels of development and variations in political configuration. As Diaz-Cayeros et al. (forthcoming: 71) note, ‘comparing municipalities characterised by different political and socioeconomic profiles, not just individual differences between survey respondents, allows us to infer how local conditions, as reflected in factors such as the number of parties, the partisan identity of the local government or the competitiveness of municipal electoral races, enable or disable practices of clientelism’.

In this sense, in order to address the question of the effects of politics on antipoverty funds this dissertation used panel data analysis to assess the degree to which political institutions influenced the use of FAISM by the municipalities. The statistical analysis shows how political considerations have impacted on the allocation of FAISM resources for political gain among 122 municipalities (cross sectional elements) over a nine year period (time series). The data used for this study includes over 57,000 projects carried out between 1998 and 2006. The data set also includes socio-demographic information from the 122 municipalities, and electoral information from the last four municipal elections and the last two gubernatorial elections. It also includes different indices that measure the degree and level of political fragmentation.

I used regression analysis to explore the second goal of this dissertation whether these allocations, influenced by political factors, have had an impact on basic service provision. The data used for the statistical analysis includes FAISM allocations on three basic services: water, sewerage and electricity as reported by 122 municipalities in Estado de Mexico between 2000 and 2005. Measures of electoral competition, party ideology, political participation and state capacity are used for the analysis.

1.6 Dissertation overview

Chapter two explains how the transition towards democratic politics and the decentralisation of powers and responsibilities to subnational governments in Mexico have transformed the antipoverty strategy of the country. It includes a brief account of the democratisation and decentralisation processes in Mexico in order to gain a better understanding of how great an impact these two broad political processes have had on the institutional functioning of the federal system, and hence they have created incentives for the transformation of social policy. It describes the most popular antipoverty program implemented during the mid-1980s and 1990s, *Solidaridad*, and how this program opened the door for the

deepening of the decentralisation of social spending to the municipal level through the creation of the Fund for Municipal Social Infrastructure (FAISM). Following that, FAISM is explored by looking at its main characteristics and limitations, and by focusing on the potential political use of this fund.

Chapter three provides a theoretical framework to analyse the effects of politics on antipoverty resource allocations. It starts with a discussion on clientelism, its effects on democracy and development, and its prevalence as a type of interaction between citizens and politicians. Following that, it discusses the distinction between private goods –clientelism– and public goods, their main characteristics and their possible effects on policy outcomes. It then explores how political institutions are linked to resource allocation and how this interaction influences government performance. Based on the distinction between private and public goods, the chapter develops a framework for studying antipoverty spending that proposes to look at the incentives politicians have to make choices regarding the allocation of public funds. The framework allows for the disaggregation of municipal social spending data and hence helps to disentangle the links between political institutions and resource allocation in Mexico.

Chapter four explores the links between politics and resource allocation. Through and exploration of the allocation of FAISM resources in 122 municipalities of the most populated Mexican state over a period of nine years, the chapter examines the extent to which decentralised antipoverty funds are allocated with political motivations. Using a *Panel Corrected Standard Errors (PCSE) Model* the chapter tests the effects of three sets of variables–political competition, electoral cycles, and partisanship– on the allocation of antipoverty funds. It is argued in that chapter that despite recent changes to the social development strategy of the country to depoliticise antipoverty resource allocation, the distribution of goods and services continues to be influenced by the political motivations of elected officials and their political allies.

Once the case has been made for the links between politics and antipoverty resource allocation, chapter five addresses the degree to which political institutions

and their influence on resource allocation affects improvements on basic service provision. The chapter offers a comparative analysis of FAISM public goods allocations. Particular attention is paid to the degree to which service provision is influenced by the new conditions of democratic politics and decentralisation of fiscal funds for basic service provision. Regression analysis is used to explain changes in the percentage of the population that has access to three basic services: potable water, sewerage and electricity. Finally, the chapter attempts to explain how state capacity, electoral politics and participation affect public service provision. Chapter six concludes by summarising the most important findings of this dissertation.

CHAPTER TWO

THE POLITICS OF ANTIPOVERTY POLICIES IN MEXICO

2.1 Introduction

This chapter aims to explore how pressures brought about by increasing levels of political competition (democratisation) and a gradual transfer of powers and responsibilities to lower levels of government (decentralisation), within a context of neoliberal reform, have shaped the restructuring of the antipoverty strategy of the federal government in Mexico.

Mexico is a federal republic composed of thirty-one states –each divided into municipalities– plus a Federal District. Yet, for decades Mexico was characterised by a high degree of political and economic centralism. This centralism ‘encouraged by the peculiar dynamics of a one-party regime and the absence of an effective democratic arrangement, subordinated [subnational governments] to a secondary position in terms of governance and in terms of their influence on national policies’ (Aguilar & Cullen 1997: 1). Since the 1980s though, Mexico has embarked on various economic and political reforms that have had a significant impact on the antipoverty strategy of the country.

The 1980s was a decade of profound transformation in Mexico. Economically, the country faced a deep economic crisis. This sparked the beginning of the implementation of austerity and adjustment programmes. Politically, the lack of state’s capacity to respond to the demands of the citizens increased opposition to the regime. Political liberalisation was thus accelerated, prompting a move away from political centralism toward a more open, pluralistic and democratic form of government. Included in these changes, the federal government initiated a process of transfer of power, responsibilities and resources to the state and municipal levels.

Faced with economic crisis, pressures for political liberalisation and greater demands for better public services from its citizens, the Mexican government had no option but to adopt decentralisation in an attempt to reduce financial pressures on the federal government, confront the increasing opposition to the regime, and increase the efficiency of public service provision. Under this context, *Solidaridad* program was created during the presidency of Carlos Salinas de Gortari. This program became the basis of the government's social development strategy. Although that the program aimed to combat poverty through transferring funds directly to municipalities based on proposals from community organisations and municipal governments, in practice *Solidaridad* was highly centralised and the president exerted a major influence over the allocation of resources.

During the 1990s, increasing political and economic liberalisation and strong criticism of *Solidaridad* for its political manipulation from the centre pushed the federal government to restructure the social development strategy of the country. Within this context the decentralisation process deepened, allowing for a stronger participation from lower levels of government in the provision of public services. Education and healthcare services were largely transferred to state governments and with the creation of FAISM in the late 1990s, municipal governments became effective providers of basic public services.

In many ways, social policy in Mexico has been an instrument to guarantee governability rather than a mechanism to improve the living conditions of the population (Pardo 2009). This chapter argues that during the last two decades, social policy has been adjusted to the criteria and priorities of each presidential term in order to respond to the emerging challenges brought about by increasing levels of political competition and the increasing demands, from lower levels of government for more powers and resources to deliver services to the population. This chapter shows how, on the one hand, during the 1988-1994 period social policy was used as a political tool to legitimise the political regime and to guarantee political control from the centre. On the other hand, since 1997, when the centralistic structure of the federal system started to show signs of exhaustion, the

federal government has established a new social development strategy that allows for more active participation from lower levels of government in the delivery of basic public services.

Despite the most recent efforts to provide lower levels of government a more active role in the implementation of the social policy, Mexico's long tradition of patronage and clientelistic exchanges between politicians and citizens, might have undermined the prospects that the devolution of resources and responsibilities entail for basic service provision. It is the aim of this dissertation to evaluate the extent to which the most recent political changes brought about by decentralisation and democratisation have impacted the implementation of social policy at the very local level.

The chapter is divided as follows: the following sections provide an overview of democratisation and decentralisation in Mexico; then, I succinctly review the most recent social development strategies implemented since the late 1980s by the federal government by focusing on the factors that triggered their implementation, how they worked and what they achieved; this will be followed by a brief discussion on the political manipulation of decentralised antipoverty spending; finally, the last section concludes.

2.2 The transition to democracy in Mexico

Mexico's transition to democracy has been a long process of change and continuity (Elizondo & Nacif 2002). On the one hand, the political institutions established in the 1920s, particularly the Institutional Revolutionary Party (PRI), showed an unusual capacity to survive for 70 years; on the other hand, the regime was flexible enough to reform and change in response to the interests of the political elite and to the diverse and increasing forms of social and political opposition. As Schedler (2001: 6) suggests, 'the Mexican transition went through the unusual experience of *a regime change without a change of government*. A "*silent revolution*" transformed

its electoral infrastructure, its party system, its legislative politics, and its federal system under the deceptive surface of constitutional and government continuity’.

The Mexican regime experienced a slow but incremental transition without the high levels of uncertainty and instability that have characterised processes of democratic rupture⁵ (Whitehead 1994: 124).

According to Ortega (2000: 82), during ‘the 1950s and 1960s Mexico experienced rapid economic growth and thus an increase in the size of the middle class, bringing new social actors to the fore to confront the Mexican state’. By the late 1960s, a major student mobilisation took place. The ‘state’s response to the student movement raised broader questions about the legitimacy and the fallibility of the state and incumbents’ (Craig 1990: 271). For a number of scholars, the student movement of 1968 is considered the watershed that marked the beginning of the evolution of a more democratic regime. In this sense, the origins of more recent political changes in Mexico’s political life can be traced to this year.

The state’s repression of the movement prompted several groups to take up arms, thus characterising the 1970s as a decade of urban and rural warfare. The state’s response to these movements accelerated the political liberalisation⁶ of the regime and opened windows of opportunity for political engagement.

In 1973 and 1977, the government negotiated a series of electoral reforms seeking to integrate these new forms of political and social opposition into the political system. The 1977 political reforms of President Lopez Portillo increased the number and diversity of political parties, altered the rules governing elections, augmented opposition parties’ representation in the federal Chamber of Deputies as well as in state and local governments and expanded opposition parties’ access

⁵ The Mexican experience, in contrast to some South American countries -where the transition from authoritarianism to democracy implied the disappearance of the former authoritarian regime and its replacement by new leaders and by a new democratic order- mirrors the experiences of some states during the 1990s in Mexico, and how the defeat of the PRI in the *2 de julio* presidential election have not produced a collapsed of the entire system (Elizondo and Nacif 2002: 1).

⁶ Political liberalisation is characterised by a series of reforms which involve greater respect for individual and collective rights, greater freedom of association and expression and the institution of constitutional changes such as the replacement of a single-party system with a multi- party systems and the introduction of regular, free and fair elections for political succession.

to mass communications (Middlebrook 1986: 123). This was the first significant political reform in the regime's history (Olvera 2000a).

The politics of this political liberalisation were carried out in the context of a prolonged economic crisis where the policies to deal with the crisis ended a period of nationalistic and protectionist economic policies. A shift towards a market-oriented economy marked the beginning of a new era. In the beginning of the 1980s, Mexico was the world's first and foremost debtor nation; at that time the country faced what came to be called the "Debt Crisis". The country owed private and public foreign creditors US\$80 billion and even the interest payments could not be met. Inflation was running at an annualised rate of 100 percent, unemployment was rising, the real minimum wage had undergone drastic reductions, and the deterioration in public sector finance had severely curtailed the government's ability to manage the crisis (Ramirez 1989: 98). This led to significant government unpopularity.

Within this economic context elections started to evolve into a real mechanism of competition among political forces. The economic crisis 'unleashed the underlying social pressures for greater political participation, spurred a major increase in the level of politisation and galvanised society against the state' (Chand 2000: 26). For the business community and middle class it was a turning point; instead of seeking to resolve their differences with the government through traditional channels, they opted for direct involvement in opposition politics, mainly through the PAN, the right-wing party.

As a consequence of the economic crisis, despite the 1977 political reforms that were designed and determined by the government in response to the relative rise of social and political opposition to the regime (particularly the leftist forces) it was not the left, but the right-wing opposition led by PAN that first capitalised on the reforms (Ortega 2000: 82-83). Opposition parties registered important gains in federal and local elections around the country and the PRI faced rising challenges

to maintain its traditional electoral support. By the mid-1980s, the PAN was an important contender in some local elections⁷.

In 1986 there was massive public protest against irregularities in several elections in the north of Mexico⁸. Particularly in the border state of Chihuahua, electoral irregularities lead to a major protest movement. 'Business organisations, the Catholic Church, civic associations, housewives, urban marginals, workers, intellectuals, and opposition political parties of varying persuasions joined hands to condemn the electoral process as fraudulent and to fight for its annulment' (Chand 2000: 38).

Under this context of the mobilization of civil society within the country, the government negotiated a package of new political reforms with the opposition. The reforms had two principal purposes. On the one hand, they introduced the principle of proportional representation into Mexican federal and state legislatures, opening the possibility for opposition political parties to have some political role in every state via legislative representation. On the other hand, due to the increasingly competitive profile of the PAN in some state elections, it introduced the so-called "*governability clause*"⁹ which would guarantee the PRI majoritarian control of the Chamber of Deputies (Lujambio 1998).

Although these reforms prevented a major change in the composition of the Chamber of Deputies, it successfully changed the incentive structures within the PRI and weakened its political discipline. Defectors from the PRI found fertile ground for some electoral representation in opposition parties. In addition, the reforms increased the independence of the left-wing parties which were regarded as very tame (Philip 2002:138).

⁷ At this time, the PAN won some local elections particularly in urban cities in the states of Baja California, Coahuila, Chihuahua, Nuevo León, Jalisco, Durango, Puebla, San Luis Potosí, Yucatán and Estado de México.

⁸ Due to the significant political gains of the right wing party (PAN) in the beginning of the 1980s, the government was afraid that a victory of this opposition party would have a domino effect on other states. Thus, the government's strategy during the 1986 elections was to stop this trend.

⁹ The "governability clause" established that if no party obtained more than 50%+1 of the effective votes, and if it was unable to achieve at least 251 out of 300 plurality seats, then enough proportional representation seats would be allotted to the largest party (Lujambio 1998: 173).

As a result, although the reforms were not intended to be significant, greater autonomy of left-wing parties and the reduction of political discipline within the PRI enabled the formation of an alliance between dissidents within the PRI and the left-wing opposition.

The consolidation of the coalition also caught the attention of a number of social and civic organisations. Traditionally, these organisations rejected to participation in electoral politics. However, Cárdenas' candidacy opened a particular political conjuncture for their direct participation in the electoral arena. Others believed that the coalition 'was in some sense a response to popular mobilisation' (Foweraker 1990: 54). Therefore, the 1988 presidential election set an historical political precedent: the political encounter between the parties and organised Mexican civil society.

Although the PRI remained in power, the 1988 election marked the beginning of a new era in the political system. As Olvera (2000b: 7) states:

'A party system on a national scale was created, in which the National Action Party (PAN) was placed as a democratic right-wing party. The PRD (1989) absorbed the populist currents of the PRI, the majority of the organised leftist party groups and numerous social movements' leaders, especially those of popular urban movements, peasant organisations and students' movements. The civil society represented by the nongovernmental organisations chose not to join this process, keeping their political and organisational autonomy'.

From this moment, and with an expanded representation in Mexican politics, parties started to matter. Furthermore, with the new composition of the Congress political forces were able to promote broader political reforms. At the same time, several civil society organisations spread across the country with the aim of promoting democracy, fair elections and human rights. In short, the democratisation of Mexico was underway.

The 1990s in Mexico were characterised by three main factors. First, this period confirmed the shift towards a market-oriented economy and marked the beginning of a process of economic liberalisation. Second, the political liberalisation initiated

in the 1970s as a result of the efforts of organised civil society and political parties was accelerated. Third, the decade was 'marked by an explosion of activity by a wide variety of civic associations dedicated to the promotion of democracy, clean elections, and human rights' (Chand 2000: 205). At the same time, social movements emerged in response to the increasing inequalities created by the neoliberal policies. These factors accelerated the democratisation process in Mexico.

The 1988 presidential election marked a new crisis for the Mexican political system and for the PRI. Under this context, President Salinas' administration faced new challenges. The newly elected government¹⁰ was under internal pressure and outside scrutiny. On the one hand, with stronger social and political forces and a party system in the process of consolidation, the regime faced great pressures for democratisation. On the other hand, with the need to attract foreign investment in order to further economic liberalisation and sign a free trade agreement with the United States and Canada, the government was desperate to show that Mexico was a country undergoing a process of economic and political liberalisation.

At this time, wide sectors of Mexican society found an opportunity to accelerate change in the political system. As a result of social and political struggles, the 1990s saw a profound reform of the Mexican state, incrementally abolishing authoritarian forms of power through decentralisation, reforming economic structures, and instituting political reform.

As Prud'home (1998: 147) argues, the 'problems of legitimacy, combined with the new configuration of power among political parties and the necessities for governance, led to an intense process of electoral reform during the Salinas administration: no less than three major electoral reforms were enacted between 1989 and 1994'. The electoral reforms resulted from the struggle among political parties to build trust among them and with the clear objective of enhancing the autonomy and impartiality of electoral institutions within Mexico. This process of institutional change marked a new era in electoral politics. In 1989, the PAN won

¹⁰ The 1988 presidential election results were contested by all opposition parties, and important mobilisations took place to protest against election fraud.

its first governorship, which was followed by several other gubernatorial victories in the early 1990s.

Two major events took place in 1994 that challenged the stability of the regime. On New Year's Day, the Ejército Zapatista de Liberación Nacional (EZLN) staged an uprising in the Southern State of Chiapas in response to the discrimination, marginalisation and violence against the indigenous people. In March, Luis Donaldo Colosio the PRI nominee for the Presidency was murdered. Both events sent shockwaves through the financial markets and the political system.

At the same time, as these negative events took place 'local and national civic associations formed a prodemocracy coalition, Alianza Cívica, which mobilised more than 18 thousand electoral monitors in the 1994 election to combat fraud' (Tulchin and Selee 2002: 10).

Finally, in December 1994 Mexico suffered a new financial crisis that showed clearly the weaknesses of the economy. For a number of scholars, by the end of 1994, conditions were given for the collapse of the Mexican economy due to the implementation of structural adjustment reforms. As Veltmeyer, et al. (1997: 161) argues, 'the vulnerability of Mexico's economy was built on the policies and structure engendered by neoliberals'.

Once again, the government faced a period of high instability. This time, pressures from the opposition political parties, Alianza Cívica, the EZLN, and other forces in society led to the creation of the Instituto Federal Electoral (IFE). This new electoral institution proved to be a key element in establishing free and fair elections. Thus, in the 1997 congressional elections, the PRI lost its absolute majority in the Deputies Chamber. For the first time in electoral history in Mexico, the PAN consolidated its position as the second electoral force and the PRD won the first electoral race in Mexico City. These events were a pre-cursor to the 2000 election, when the PRI lost the presidential election for the first time since its foundation.

During the 1990s important social forces emerged and political parties entered a period of consolidation, gaining more political representation throughout the

country. Thus, with strong social and political forces pressing for change in the context of political and economic uncertainty, the regime experienced major institutional transformation. The process of political liberalisation during this period radically transformed the political system. By the 2000 presidential election, political institutions and the economy had experienced years of intense transformation that would allow regime change without rupture (Mayer-Serra & Nacif 2002).

2.3 Decentralisation in Mexico

As mentioned before, Mexico has been a centralised country. Despite the federal structure established in the Constitution and other secondary legislation¹¹ that emphasises the autonomy of municipalities as entities of government, Mexico has been characterised as a highly centralised system both politically and economically such that subnational governments have been structurally limited from participating in the general advantages of federal regimes¹² (Aguilar and Cullen 1997).

For decades, this centralism has meant that each level of government was substantially weaker and less autonomous than the levels above. Municipalities, the lowest level of government, have been the most dependent and least politically and financially autonomous. As Cornelius (1988: 206) notes, for years ‘the federal government has controlled about 85 percent of public revenues, the state governments have controlled less than 12 percent, and the municipios scarcely 3 percent’. In fiscal terms, compared to other federal governments around the world, Mexico has been characterised by a relatively high degree of expenditure centralisation and by limited revenue-raising powers of subnational governments (Gamboa 1999; Amieva-Huerta 1997). The centralisation of financial resources was a crucial in the strategy to maintain the ‘stability’ of the political regime.

¹¹ Constitutionally, Mexico is a democratic, representative, federal territorial structure, consisting of 31 free and sovereign states and a federal district united under a federation.

¹² Authentic federal systems are normally recognised by their flexibility. Federal systems allow subnational governments to set their own internal rules and institutions, to respond to the particular needs of their citizens, and to adapt to new external conditions, as long as the federal pact is respected (Aguilar and Cullen 1997).

For a number of scholars, the reasons for the contradiction between federalism on paper and *de facto* centralism have been, on the one hand, the deep historical roots of the Spanish colonial and even pre-colonial periods (Cornelius, 1988: 16) and, on the other hand, the constitutional powers of the president and the features of the party system (the dominance of the ruling party, the strong party discipline and the *metaconstitutional* powers of the president, for instance) (Willis, Garman & Haggard, 1999: 42). The political system was recognised for its capacity to maintain social stability but also for the impressive concentration of power in the executive branch.

For nearly 80 years, the PRI dominated the Mexican political system at virtually all levels of government. According to Nickson (1995: 200), the PRI ‘came to monopolise the political life of the country. The PRI pursued a rapid state-led industrialisation strategy that was implemented by a highly centralised administrative system (...)’ whose officials were accountable to higher levels of government: legislators, federal officials, ministers and the president, but not to the citizens¹³. Under this system the President was empowered to undermine the institutional separation of powers that permits a three branch system of checks and balances to function on paper. The political system in Mexico allowed the President to have ‘enormous power to implement policy changes’ (Nacif, 2002, p. 1); Mexican Presidents were able to modify the Constitution just by sending an initiative to the Congress. In addition, the President had the power to designate his successor, the governors of the 31 states, the members of the bicameral Congress, and the most important members of the Supreme Court¹⁴. Thus, Mexico was characterised by a strong presidency and a very weak party system, though with a very strong single party organisation.

However, as mentioned in the previous section, the prolonged transition to democracy entailed a fundamental change in the institutional functioning of the party system. As a result of this transformation, the party system was strengthened

¹³ For example, as Cornelius (1988) describes, municipal presidents were handpicked by higher-ups within the PRI-government apparatus. Once the candidate was selected the local PRI committees were informed and then had to announce that so-and-so had been chosen to be the party’s nominee in that municipality.

¹⁴ At the state level, the pattern is repeated. Governors designated by the president select the candidates for municipal presidencies and for the members of local Congresses.

and the presidency weakened. The role of the executive became much more limited as the three party system made it harder for the PRI to enjoy absolute majorities in the Congress or among state governors (Philip 2002: 131).

In sum, the third wave of democratisation in Latin America, as well as the strong economic difficulties faced in the beginning of the 1980s and the economic reforms carried out in response to them, accelerated the transformation of many institutional structures and processes in Mexico. One important component of this transformation has been decentralisation -the transfer of some decision-making powers and responsibilities from central government agencies to subnational units. During the 1980s and 1990s, the country increasingly transferred resources, responsibilities and decision-making powers to lower levels of government. By the mid 1990s, revenue-sharing increased, government agencies became more decentralised, and state and municipalities gained a few fiscal powers. As part of these changes, an important transformation in social policy took place that created new incentives for the allocation of public funds for the provision of public services at the municipal level.

2.4 Antipoverty policies in Mexico

Mexico has undergone significant 'changes in the policy and politics of its federal antipoverty programs' during the last three decades (Yarahuán 2007). These changes occurred in the context of growing democratisation and decentralisation with important implications in terms of policy design and implementation.

During the 1980s, it was broadly believed that 'a major obstacle to the effective performance of public bureaucracies in most developing countries is the excessive concentration of decision-making and authority within central government' (Turner & Hulme 1997: 151). Since then, decentralisation policies have been implemented to devolve public decision-making from the centre to local areas with the aim to improve the efficiency, distribution, and quality of public services.

The reasons for this trend are many. Yet, as Litvack, Ahmad & Bird (1998: 4) suggest, decentralisation has been the result of a broader process of political and economic reform: '[p]olitical changes worldwide have given voice to local demands and the need to bring economic and political systems closer to local communities. (...) In addition, technological changes and global integration of factor markets have changed the size of government needed to manage economic systems'.

In many Latin American countries during the 1980s and 1990s, democratisation and increasing political competition created pressures to devolve greater autonomy to subnational levels of government. Gradual political liberalisation provided opportunities to challenge the inefficiencies caused by centralisation. At the same time, the fiscal crisis and economic liberalisation created incentives for governments to delegate institutional capacities and administrative responsibilities to lower levels of government (Willis, Garman & Haggard, 1999: 16). Additionally, '[s]tagnant economies and inefficient central bureaucracies led researchers to reconsider centralisation as a solution to the problems of developing countries, and multilateral institutions began to include decentralisation in many of their programmes¹⁵ (Schneider 2003: 5).

In Mexico, pressures for democratisation, economic crisis and the implementation of market-oriented economic reforms implied the transforms of the social development strategy of the country through the decentralisation of antipoverty spending. The debt crisis of the early 1980s, the introduction of structural adjustment policies, and the lack of capacity and resources from the regime to channel and/or manage growing opposition to the ruling party, put decentralisation at the centre of the social and political agenda. As Cornelius (2000: 121) suggests, the causes of the breaking down of centralised presidential control 'were the growing competitiveness of elections at the local level and a national economic crisis that forced the federal government to make major changes in the way in which public services were provided'.

¹⁵ According to Nickson (1995: 24), by the 1980s international development agencies 'suddenly rediscovered the value of subnational governments'. Yet these agencies 'emphasised the benefits of decentralisation in terms of fiscal cleansing rather than citizen participation'.

Thus, over the last two decades, decentralised antipoverty spending has been one of the major components of the government's development strategy. By the end of the 1980s it 'had become a primary element in the political discourse' (Rodríguez 1993: 136). Into the 1990s the trend towards decentralisation of antipoverty spending continued and was strengthened by an active transfer of funds directly to lower levels of government to improve the social infrastructure needs of the poorest communities. Although funds were initially allocated under strict supervision and according to the 'political needs' of the centre, by the mid 1990s (under President Zedillo's administration) there was an increasing tolerance for political pluralism at all levels of government¹⁶ (municipalities, local congresses and the federal congress). The transfer of funds started to be more transparent, representing an important deepening of the decentralisation of antipoverty spending.

The following section focuses on the analysis of the most recent antipoverty strategies introduced by the Mexican government since the end of the 1980s. It shows how, until the mid 1990s, social policy was used as a mechanism to strengthen the political stability of the regime and how it was linked to the political priorities of the presidential term (Pardo 2009: 141). Yet, in the years to follow, the political and economic conditions of the country would accelerate the transformation of the social policy of the country. In the late 1990s social policy would be largely decentralised giving local governments a more active role in allocating antipoverty funds that aim to improve access to basic services to the poorest sectors of the population.

¹⁶ Evidence of this progress includes the election of the nation's first opposition majority Congress in 1997, the recognition of nearly a dozen opposition governors, hundreds of opposition mayors, and thousands of opposition legislators and city council members.

2.4.1 The *Solidaridad* Program

According to Gonzalez (1994: 63), 'the 1980s marked the end of one stage in Mexico's modern history. In the course of the decade, an economic model and a style of doing politics ended, and many of the social actors that arose and evolved under the organizational structure of the old model were marginalized'. Over this decade, as a result of the implementation of neoliberal reforms and economic restructuring, the traditional political coalitions that maintained the stability of the regimen during the period of import substitution industrialization (ISI) began to erode. As Dresser points out, the traditional system of resource allocation that 'created a broad-based "populist-distributive" coalition¹⁷ of organised interests' during the years of the "Mexican miracle" started to be replaced 'with efficient market-led capitalism' (Dresser 1994: 145). From this moment onwards, 'social policymakers tried to manage a transition away from traditional patronage and generalised subsidies while strengthening the more targeted social programs that held up what was left of Mexico's social safety nets' (Fox 1994a: 182).

Mexico's reforms and economic restructuring 'were among the most far-reaching in [Latin America] and were consequently among the most painful' (Haldelman 1997: 134). The new strategy, which aimed to lower inflation and reduce fiscal deficits, implied significant social costs for the population. Between 1982 and 1988 most economic activities collapsed and income per capita and salaries declined by approximately 50% (Pardo 2009: 164). Moreover, during the most critical years of the economic crisis of the 1980s, the Mexican government cancelled the social programs created by previous governments. The reasons for this drastic change were to rationalise public spending and reduce the size of the state. The same reasons were given in order to return resources and responsibilities to those departments that had been in charge of them in the past and to demand more cooperation from local governments (Pardo 2009: 162). During this decade, social

¹⁷ According to Dresser (1994: 145), this coalition was formed fundamentally by 'private enterprise protected from international competition, the organised working class, and the intelligentsia'.

development spending experienced one of the deepest declines in contemporary Mexico. This decline, which remained stagnant for most of the 1980s, imposed enormous economic pressure on the population generally, but the effects were especially acute for the poor.

Politically, the implementation of this strategy meant that, by the end of the decade, 'the traditional alliance of interests and loyalties (...) [had begun] to crumble' (Dresser 1994: 146), thus challenging the stability and continuity of the political regime that the PRI had dominated for decades. The social costs of these changes led to increasing opposition from different sectors of society. New civil society organisations developed rapidly in opposition to the new economic model; labor unions and social movements shifted to supporting increasingly important left-wing parties in response to the government's abandonment of a state dominated economic model. At the same time, by the mid 1980s the ruling party was under unprecedented electoral pressure from the PAN, in many northern states where the economic crises and the nationalization of the banks had 'had a disproportionate impact' (Ard 2003: 106) that produced 'a massive swing of the business sector away from the PRI and to the PAN' (Rodriguez & Ward 1994: 13).

These political challenges were more visible during the 1988 presidential election when 'the prospect of continued austerity and neoliberal restructuring caused a major split within the PRI and led to the most serious crisis of political support in the PRI's sixty year history' (Bruhn 1996: 154). Thus, in 1987 a group of PRIístas from the Corriente Democrática, led by Cuauhtémoc Cárdenas and in clear opposition to the economic model adopted by the government and to the non-democratic practices of the ruling party, split from the PRI and a leftist, former PRI-satellite party nominated him for the presidency. For many Mexicans, the 1988 presidential election was seen as an opportunity to promote changes and to voice their disapproval over the economic measures of the federal government. Increasing popular support for the Cárdenas candidacy opened the door to the emergence of a coalition of leftist parties (Frente Democrático Nacional) that came close to putting an end to the PRI's federal electoral supremacy.

As a result, in 1988 'President Carlos Salinas took office declaring the end of the one-party system. He promised a new relationship between state and society' (Fox 1994b: 165). Given the deep political crisis during the time in which Salinas took office in December 1988 it was difficult to consider that further economic reform would be possible without the support of an alliance with important sectors of society (Perez: 2007: 6). As Dresser (1994: 146) notes, 'the 1988 election revealed that the top-down change without the support of organized constituencies could probably not be sustained.' In particular, the PRI's notorious electoral decline in urban centres revealed how the party 'had failed to build solid clientelistic networks with the growing masses of the urban poor' (Díaz-Cayeros; et al, forthcoming: 42).

In this sense, the newly elected president embraced social policy as a core component of the country's development strategy. The strong opposition to the government's neoliberal agenda particularly from the leftist candidate Cuauhtémoc Cardenas, put pressure on the newly elected president to incorporate into his government strategy 'not only policies to renew economic growth and lower inflation, but also [*Solidaridad*], an innovative social spending program designed to win back popular support for the government in a context of neoliberal policies' (Bruhn 1996: 152). The creation of this program represented 'a turning point in the Mexican government's social policy' (Contreras & Bennett 1994: 281). As Pardo (2009:135) argues, facing the increasing problem of poverty and marginalisation with compensatory policies was the result of the growing pressure produced by the aggravation of the crisis since the 1980s, when austerity measures and structural adjustment programmes were implemented. In that moment, social policy was seen as a range of measures oriented to compensate for the negative effects of macroeconomic adjustment in certain sectors of the population. It was seen as a mechanism to compensate for the deterioration of employment, salaries and the reduction of social spending.

During this *sexenio* social policy experienced one of the most notable changes in modern history and was used to guarantee the legitimacy and governability of the political regimen (Dresser 1994). Under the economic and political circumstances

described above, for the new government, it was clear that social expenditures in the previous years were not working and that a new approach to social development was needed. In this sense, the social policy-makers of the new government put forward a new model of antipoverty resource allocation that aimed to benefit the population living in poor urban and rural communities.

Officially, *Solidaridad*, as the program was known, had the stated objective to combat poverty. It aimed to improve the conditions of poor people, to promote regional development, and to promote and strengthen the participation of social organisations and local governments by increasing social spending and channelling it to the local level. An important characteristic of the new strategy was that it incorporated citizen participation as a central element in decision making and implementation, and was expected to 'give people a sense of belonging' (Lustig 1994: 79). *Solidaridad* would call upon communities to organise for their own benefit. As one former top-level official during the Salinas administration noted:

'[*Solidaridad*] serves suprafamilial social groups: neighborhood social organizations, cultural, consumer and civic organizations; local political organizations. Together these comprise a network that makes it possible to channel demands, represents interests, frame problems, and implement projects. Supported by this network, individuals can advance their social demands without recurring to the upper levels of the federal administration. This transformation removes the obstacles imposed by centralism and also provides the appropriate dimension for resolving regional and local problems' (Gonzalez 1994: 73).

During the implementation of the program 'more than 340 thousand committees were formed at the local level with the active participation of nearly 2 million people in 433 municipalities' (Perez 2007: 7). The committees became the link between the local communities and the federal government. Through these committees local demands were discussed and resources allocated to implement projects for social infrastructure. The program covered 'a wide variety of projects designed to improve the income-generating capacity of the rural and urban poor and their access to public services' (Lustig 1994: 79).

Some policy analysts considered that *Solidaridad* 'introduced a new thrust to the overall decentralisation program, especially through its municipal program, Fondos Municipales de *Solidaridad*, which provided grants for social welfare and agricultural and basic infrastructure projects' (Nickson 1995: 201).

Yet, under this program, 'generous resources' were transferred to the municipal level but with 'negative outcomes for the poor' (Crook & Sverrisson 2001: 45). According to Rocha (2005: 347), *Solidaridad* 'lacked any kind of pre-established and systematic formula to identify beneficiaries, and funds frequently seemed to be dispersed on a selective basis, allocating resources not to the communities that needed them most but rather to communities where the opposition, especially the PRD, threatened the hegemony of the PRI.' Moreover, there were serious doubts 'whether the most vocal and organized communities or groups within communities [were] also the poorest' (Lustig 1994: 94). The successful recipients of *Solidaridad* were not necessarily those with the greatest needs of the population (Kaufman & Trejo 1997). In general, the outcomes of *Solidaridad* were 'poor in spite of significant central funding allocations: equity, spatial equity and Human Development (HD) [were] undermined by political patronage considerations and "basketball court" syndrome'¹⁸ (Crook & Sverrisson 2001: 49).

In addition to the poor results, this short-lived program was broadly criticized for being a political instrument to legitimise the new government and to recuperate what electoral support the PRI had lost in the previous federal election. A number of scholars (Fox 1995; Cornelius 2000; Rodríguez 1993) have argued that, *Solidaridad* was politically motivated and was used as an instrument to restore presidential legitimacy¹⁹ and to enhance presidential power for electoral ends²⁰. For Fox (1994b: 179), '[*Solidaridad*'s] electoral targeting (...) helped to buffer the political impact of the government's controversial macroeconomic program,

¹⁸ For the Federal government, building unnecessary infrastructure was better than nothing (Crook & Sverrisson 2001).

¹⁹ As mentioned before, the 1988 presidential election is the most questioned in Mexican modern history. A major postelectoral conflict weakened the new elected presidency. Thus, since the beginning, the new government tried to legitimise the questioned electoral victory by various means.

²⁰ According to Rodríguez (1993: 141), 'the states that received the most support in 1991 were Yucatán, México, Oaxaca, Jalisco and Puebla (SEDESOL, 1993: 167); of these, and of the country as a whole, México and Jalisco are particularly wealthy'.

weakening the opposition in the short run in some areas', but did not achieve the stated goal of alleviating poverty.

In practice, *Solidaridad* promoted the figure of the President and offered a response to the challenges of PRI hegemony, especially in electorally important and vulnerable states. Molinar and Weldon found some evidence that supports this claim; in their analysis of the political determinants of resource allocation under *Solidaridad*, these authors found that '[*Solidaridad* was] not only electorally driven, but that it [was] also electorally effective' (1994: 139). In particular, *Solidaridad* was used to stop the left from gaining more political spaces. As Dresser argues (1994: 155), 'reversing the 1988 electoral victories of the PRD appeared to be a significant part of [*Solidaridad*'s] political agenda'.

Solidaridad funds were also used to favor the political allies of the president. As Bailey notes, 'in many cases specific projects and even program concepts were identified in presidential tours or election campaigns of administration favorites. In the case of Nuevo Leon (...) the prime beneficiary of [*Solidaridad*] was Socrates Rizzo, mayor of Monterrey (1986-91) and subsequently elected governor for the term 1991-1997' (1994: 112). Molinar and Weldon (1994: 140) also found that there is some evidence to believe that 'PRIísta gubernatorial candidates benefit from increased [*Solidaridad*] expenditures'.

In other states, the central government granted state authorities –particularly the governors– more autonomy to use *Solidaridad* funds. In these cases, 'some hard-line governors (...) succumbed to the temptation to use their discretionary power over a greatly enlarged pot of federal funds to reward political allies and local economic interests bound to the PRI's state-level machines' (Cornelius 2000: 120). In the state of Chiapas, one of the largest beneficiaries of *Solidarity*, the transfer of funds from the federal government failed to prevent the uprising of the Zapatista rebellion in January 1994. It seems that the state governor used these funds for political purposes, ignoring the marginalised groups that supported the Zapatista movement.

Some policy analysts have pointed out that one of *Solidaridad's* important features –a feature that differentiated it from former antipoverty strategies– was its ‘explicit emphasis on strengthening the municipality, in an effort to decentralise responsibility for service delivery’ (Fox 1994a: 186). Although during the implementation of this social policy some degree of decentralisation occurred, there were important limitations that undermined the role local governments played in providing social infrastructure to their communities. Although the federal government spent vast resources at the municipal level, this did not mean that municipal authorities were actually deciding how to allocate such funds. There is some evidence to suggest that, for instance, many opposition municipal governments received significant amounts of resources that had already been allocated to particular projects and/or individuals without any consultation with municipal authorities (Fox 1994a: 187). In the light of this view, as Shirk (1999: 5) suggests, ‘*Solidarity* (...) served to reinforce the centre’s power through deconcentration, because it deliberately bypassed state and local governments (...) by extending the federal government’s linkages all the way to the community level.’

Despite this political bias, revenue-sharing and the transfer of resources to lower levels of government increased considerably and government agencies were decentralised. Thus as Cornelius (2000: 119) argues, ‘*Solidarity*, which started out as a quintessentially centralising, presidential program ended up being a major vehicle for decentralisation, especially the kind that transfers power to the state level.’

These trends broadened the political opening and shaped new relationships between the federal government, the states and the municipalities. Thus, although one major objective of the programme was ‘to stem the erosion of control of the centre’ (Rodriguez 1993: 142), some decentralisation occurred and would continue in the following years.

2.4.2 FAISM and the decentralisation of antipoverty spending to the municipal level

Despite the poor performance of *Solidaridad* in terms of improving the living conditions of the poor population of the country, 'its political use as a neo-clientelistic tool to generate support for the PRI seemed to have paid off' (Rocha 2005: 348). Not only was the PRI able to recover much of the electoral territory it had lost to the PRD in 1988 during the 1991 mid-term elections, but its presidential candidate, Ernesto Zedillo, was also able to win the election for the 1994-2000 presidential term.

While the PRI was able to retain power at the national level, President Zedillo inherited a country facing political chaos, the worst economic crisis of Mexico's modern history and increasing pressure from the opposition and from within his own political party for the devolution of resources and responsibilities to lower levels of government. All these factors represented an important challenge to the President's political authority.

In the mid 1990s, the presidency that traditionally enjoyed enormous power within the political system started to experience the melt down of the centralised political structure through the dispersion of power among different actors and across institutions of the federal arrangement. As Kaufman and Trejo point out (1997: 717):

'Challenges to Mexico's authoritarian system had been mounting for decades, but until 1994 the powerful presidents who dominated the regime had successfully deflected these challenges with political and economic reforms managed 'from above'. However, presidential authority declined substantially during and after the transfer of office from Carlos Salinas (1988-1994) to his successor, Ernesto Zedillo (1994-2000). This declined (...) opened the way for more complex forms of centre-periphery bargaining, in which regional power contenders (...) gained substantial leverage'.

During his administration, President Zedillo had little choice but to carry out a *de facto* redistribution of political and fiscal power during his term and to deepen

democratisation (Shirk 1999; Cornelius 2000). Facing a negative political and economic environment, President Zedillo was obliged to make some significant political concessions to opposition parties and to devolve more resources and autonomy to subnational governments.

The increasing tolerance for political liberalisation that was accelerated during the 1990s allowed the election of the first opposition-dominated Chamber of Deputies in 1997. This meant a divided government at the federal level to complement the increasing pluralism evident at the state and local level (Wallis, 2001: 307). For the first time, the President had to negotiate with opposition political parties to implement policy changes. The long-time demands of the opposition political parties to expand subnational autonomy started to be truly discussed. Therefore, since 1997 the opposition-dominated Chamber has led to serious efforts for devolution by approving a constitutional reform to promote municipal autonomy²¹. Moreover, the opposition-dominated Congress insisted on much larger transfers of funds from the federal to the state and municipal treasuries.

Additionally, the increasing number of opposition governments at the state and local level in the 1990s led to increasing pressure on the centre as governors²² and mayors began to appeal for greater and more equitable resource distribution and administrative autonomy. In the years following, 'state governors [would be] the political actors who [were] strengthened most by recent changes in the federal revenue-sharing formula²³' (Cornelius 2000: 118).

These new political and economic conditions and the criticism to *Solidaridad*, brought about a major restructuring of the social policy of the federal government through decentralisation.

²¹ Article 115 of the Constitution was reformed in order to raise the municipality to the level of "government".

²² It is important to mention that in some states (Puebla, Yucatan and Tabasco for example) the governors used the "New Federalism" discourse to challenge the federal government and the electoral institutions. They argued that the federal government, as well as the federal electoral institutions should respect the autonomy of the states and not interfere in their local affairs.

²³ In 1997 a new Fiscal Coordination Law was promulgated. It introduced into the budget Item (Ramo) 33, composed of conditional transfers to states and municipalities. The new system established seven funds, the most important of which being health and education.

The social policy of President Zedillo highlighted two objectives: to improve the provision and quality of social services, and to provide specific attention to populations suffering greater economic and social disadvantages²⁴ (Yascine 1999: 52). In order to achieve the first objective, President Zedillo promoted decentralisation as a key element of his administration. Under the “New Federalism” program revenue-sharing mechanisms from the federal government, the capacity to raise revenue through taxation, and the control of regional and social development were all increased for the states. In addition, administrative functions for all levels of government were clarified, and, most important, education, health care and basic public goods provision were largely transferred to the state and municipal governments (Shirk 1999: 6; Cornelius 2000: 122).

The changes in the social policy meant the dismantling of *Solidaridad* and the implementation of ‘a new, much curtailed federal poverty alleviation programme called *Progres*a, and the creation of *Ramo* 33, or Budget Item 33 Contributions, which decentralised most of the welfare funds previously assigned to [*Solidaridad*] and other federal programmes’ (Rocha 2005: 348). These changes meant the deepening of the decentralisation strategy that previous governments had undertaken for several years.

Since 1998, state and municipal governments have provided the main goods and services in Mexico. These goods and services are financed with resources that come from the central government through conditional decentralised transfers included in Item 33 of the federal budget. This Item entails seven programs, including FAISM, which is the most recent and important reform that has strengthened basic municipal service provision for the poor. FAISM was created in the national budget in order to transfer more resources to the municipalities so that they can finance social infrastructure projects.

The basic argument for the creation of FAISM in December 1997 was that the resources traditionally allocated under item 26 of the federal budget which in

²⁴ The anti-poverty policy stressed the need to benefit individuals and to promote the formation of human capital. In 1997 PROGRESA (Program for Education, Health and Nutrition) was created to achieve these objectives.

previous federal administrations had included the total amount of resources assigned to *Solidaridad* programs, should be transferred to states and municipalities for direct allocation and implementation. As a result of the strong criticisms and the lack of results of *Solidaridad* to benefit the poor, and in response to the claims that the program had been driven by political objectives of the federal government, the new federal administration created the FAISM as a mechanism of distribution and allocation that, in principle, would, at least in principle, be less vulnerable to political manipulation.

Since its inception FAISM has been the main source of fiscal transfers to municipalities. The fund was designed to provide funds for local projects selected by the municipalities. Through this fund the federal government allocates resources to the municipalities, which in turn assign them to a set of social projects promoting basic social infrastructure. According to the Fiscal Coordination Law (FCL) these funds should be targeted at the poorest communities in each municipality to carry out physical infrastructure projects such as: potable water, sewers, drainage, urbanisation, electrification in rural areas, basic education and health infrastructure, roads, housing improvements and other productive rural infrastructure²⁵. In the vocabulary used in the literature on federal transfers, the funds of the FAISM are conditional transfers earmarked for specific sectors in which municipalities have autonomy to pick which particular projects will be funded.

In this sense, the federal government assigns resources to each state, and the state governments assign resources to each municipality. In both cases, resource allocation is determined by explicit public formulas that are written in the FCL. The formulas consider two criteria: 1) an Index of Global Poverty and 2) an equity criterion.

Once the states allocate the FAISM across their municipalities, the FCL requires that each municipality should decide, in concert with the local population, how they are going to spend these resources on the specific projects allowed by the FCL. In particular, the FCL establishes that the municipalities should:

²⁵ It is also stated that municipalities may use up to 2% of the resources to finance their institutional programs (i.e. training of personnel, acquiring new managerial techniques, etc.)

- a) Inform the population about the amount of resources received under FAISM, the projects to be carry out, their cost, location, objectives and beneficiaries;
- b) promote the participation of the communities that will benefit from the project;
- c) inform the population, at the end of every fiscal year, about the results achieved;
- d) and, provide information about the use of the FAISM resources to the Ministry of Social Development.

Historically, FAISM resources have exceeded the total budget of the Federal Ministry of Social Development. However, although there are no clear evaluations of the uses of these resources at the state or municipal levels, there is some evidence showing that, in at least a few cases, the resources were channeled to activities that could not be considered as social infrastructure (Hernández, Merino & Rascón 2003: 33. In addition, accountability has been weak due to the lack of information at the municipal level about the use of the resources. In fact, only some municipalities properly report the ultimate destination of the monies.

Despite the importance of the fund and the new mechanism for the distribution of FAISM resources through specific formulae, the implementation of effective mechanisms to hold local officials accountable and to provide information about the actual use of the resources have been left behind. In fact, since 1998 when the fund was created, only a few municipalities have properly reported the actual use of the resources.

Due to difficulties into collecting information at the municipal level, the performance of municipalities in Mexico has only been partially studied. A few studies have analysed the impact of the FAISM on tax efforts in some municipalities (Raich 2000), but they have only partially explored the impact of FAISM on the poor. Other studies (Cabrero & Carrera 2004) have centred on the impact of fiscal decentralisation and institutional weaknesses or on particular decentralisation processes, such as education and health (Merino 1997, Ornelas 2000, Cabrero &

Martinez 2000), while others have explored decentralised expenditures and their impact on Human Development at the state level (De la Torre 2005).

Without effective mechanisms of accountability and transparency, the potential for using FAISM resources for objectives outside of those indicated in the FCL is high. As municipal authorities have a great deal of autonomy in the use of decentralised resources, antipoverty spending could be used as an important political instrument to capture votes from the most vulnerable sectors of the population. The following section provides a brief discussion on the political manipulation of decentralized antipoverty spending.

2.5 Change and continuity: the political manipulation of decentralised antipoverty spending

As mentioned in the previous sections of this chapter, a number of studies have explored the link between social policy and political variables within Mexico's most recent antipoverty strategies. The studies underscore the potential political use of antipoverty funds from two of the most important decentralised antipoverty strategies of Mexico's federal government. Most of the studies have explored the political manipulation of *Solidaridad* during the presidency of Carlos Salinas de Gortari and show how the central government was able to benefit from the political use of antipoverty funds.

More recently, a number of scholars have focused their attention on FAISM, the formula based program that aims to tackle the political shortcomings of *Solidaridad*. In general, it is argued that the distribution and allocation of resources for political gain has become a difficult task for federal and state level politicians. However, it has been found (Perez 2005: 27) that 'beneath formulas for distribution there may still be room for discretionary allocation that favors political parties at the municipal level.' It seems to be the case that once these antipoverty funds reach local level officials, the incentives to use them for political gain are considerably stronger. Limitations of the accountability and transparency of antipoverty spending

have undermined the roles of citizens and other institutional mechanisms of ensuring accountability and effectively monitoring and evaluating the use of these resources.

Further studies have also explored the political and institutional constraints of FAISM. In their study on the effects of the use of FAISM on investment in public infrastructure, Díaz-Cayeros & Silva (2004) point out that contrary to other federal social programs, monitoring and evaluation systems for the use of FAISM are extremely weak. As a result, it is not clear how local governments actually distribute the funds. They also note limitations in the allocation of resources from the states to the municipalities that undermine the prospects that the funds will be used for development. Regarding the possible links between the fund and electoral variables, a recent study (Somuano; et al. 2006) concluded that there are important variations in the distribution of resources from the states to the municipalities that might not be explained by the criteria established in the formula from the FCL. The study suggests that the explanations of such variations could instead be found at the municipal level.

These studies are important and show one side of the story regarding the effectiveness of social programs in fighting poverty at the local level. However, as Somuano; et al. (2006) point out, it is at the municipal level where we should focus our attention in order to have a better understanding of the influence of politics on antipoverty resource allocation and its effects on improving basic service provision.

In light of this, whereas most of the studies have examined the distribution of antipoverty funds at the municipal level, little is known regarding the actual use of these funds by municipal authorities. We already know that the distribution of resources to the municipalities can be influenced by political variables, but we do not know what exactly are the effects of those political variables on the actual use of antipoverty funds by the local political authorities who have a great deal of autonomy and decision-making power over their disbursement.

Although the FCL details a number of projects that can be carried out with FAISM resources, municipal authorities still have the ability to influence the allocation of

these funds in ways that might bring political advantages to them, and their political parties. We also know very little regarding the effects of increasing pluralisation within local politics on antipoverty policy or on the effects in increasing access to basic services that could improve the living conditions of the population living in poverty.

It is the aim of this research to gain a better understanding of the use of FAISM and to explore the extent to which electoral politics influence the use and allocation of this fund. The remaining chapters of this dissertation are dedicated to these issues through the exploration of FAISM in Estado de Mexico.

2.6 Conclusion

In this chapter we have seen how the recent political and economic developments in Mexico have shaped the social policy of the federal government. It has shown how the neoliberal reforms initiated in the 1980s created incentives for the creation of a new social program *Solidaridad* that would fight the social costs of austerity and adjustment. This strategy also played a fundamental role in politically legitimising the authority of the central government and was used to undermine the growing opposition to the political regime. *Solidaridad* was the most important social policy of Salinas' presidential term and it suffered an important transformation during the *sexenio*. From a program that aimed to improve the living conditions of an important sector of the population, *Solidaridad* became the centre of the Salinas administration's political strategy. It aimed to maintain the legitimacy of the political regime, and guarantee political control.

While the political side of *Solidaridad* was successful in terms of the ability of the federal government to retain the Presidency, the political and economic earthquake that the country experienced in the mid 1990s, the hard criticism regarding the political use of the social policy during the Salinas administration, and the gradual erosion of the centralistic structure of the federal system obliged the central

government to reformulate its social policy. Thus, from the mid 1990s, social policy started to be deeply decentralised and empowered state and municipal authorities to provide basic services. In contrast to the period when structural adjustment included significant reductions to state and municipal budgets, the 1990s were characterised by a steadily increase in the amount of resources that local governments had at their disposal as part of their municipal budget.

Since 1997, the dramatic increase in decentralised antipoverty transfers meant that local authorities had more powers responsibilities and resources at their disposal than at any other time in Mexico's recent history. In particular, through item 33 of the federal budget and particularly through FAISM, the new provisions allowed municipal governments to channel important resources to fight poverty and inequality in poor communities through social infrastructure investments. Local authorities were empowered through the policy process to promote local participation in the allocation of anti-poverty funds.

In theory, it was expected that, exploiting the local knowledge that authorities had about their localities, would enable the resources to reach those sectors facing the strongest limitations on local social infrastructure. Through better linkages between community participation and local governments, the allocation of resources was expected to be closely related to the needs of the local poor.

In practice, however, it seems that the prospects for decentralised antipoverty spending have not translated into effective mechanisms that will lead to more effective poverty eradication. Problems of accountability, lack of information and lack of transparency appear to have overshadowed the developmental outcomes of decentralised antipoverty spending.

Today, municipal presidents enjoy more powers and command more resources than ever before. They decide where to allocate antipoverty funds together with the communities and might be using antipoverty spending as an electoral tool for their political gain, just as the central government did two decades ago. It seems that the shortcomings of the Mexican political system, in particular the allocation of

resources through clientelistic exchanges between politicians and citizens that has characterised Mexican politics for decades, continue to challenge the prospects for decentralised antipoverty spending at the local level despite democratisation and decentralisation.

The empirical chapters explore the puzzle of the actual use of FAISM as a strategy to provide basic social infrastructure to the poorest communities. The main themes of those chapters are: a) the political determinants of antipoverty spending, and b) the effectiveness of decentralised antipoverty spending to improve access to basic services. The next chapter will provide a theoretical discussion about the use of antipoverty funds for political gain. It will provide a discussion on clientelism and will provide a framework for the analysis of the links between political institutions and resource allocation.

CHAPTER THREE

THEORETICAL FRAMEWORK

3.1 Introduction

This dissertation studies the impact of politics on antipoverty resource allocation at the municipal level. It takes a detailed look at the political institutions that shape the incentives of political actors who participate at the local level that participate in the allocation of antipoverty funds. It then explores the way in which the political process of resource allocation shapes social policy outcomes.

Antipoverty spending offers a valuable case study to test certain premises regarding the effects of local political institutions on resource allocation. One such premise examined in this dissertation is that incumbents, in seeking political support, may distribute goods and services to the electorate with political motivations –clientelism²⁶–. This makes the study of social policy an ideal case study since this policy arena is most vulnerable to clientelistic practices.

This chapter's contribution is to offer a theoretical framework for the study of the political determinants of antipoverty spending. Borrowing from Magaloni et al. (2007), this theoretical framework distinguishes between two types of goods: public and private. Private goods –clientelism– target benefits to individuals and small groups; they are excludable and politicians can stop or withdraw them at any time. In contrast, public goods benefit large groups or all the members of the community and, therefore are non-excludable and cannot be withdrawn (Magaloni et al. 2007; Persson and Tabellini 2000). This distinction is of great value as it allows to classify, for the first time, disaggregated data on social spending from 122 municipalities of one Mexican State.

²⁶ According to Kitschelt & Wilkinson (2007: 11), the provision of private goods through political exchange invariably signals the existence of clientelism.

Thus, the theoretical framework explores the politician's choice to allocate resources for political gain –clientelism– or public goods provision. It claims that politicians will allocate antipoverty funds through the two types of goods, even if they are earmarked for the construction of basic social infrastructure. The proposed theoretical framework will allow us to test some theoretical premises regarding the extent to which political variables influence resource allocation.

The next section elaborates on the study of clientelism, its effects on development and democracy, and the resilience of this political practice. The third part focuses on the distinction between private and public goods with the aim of securing a better understanding of the different forms that public spending can take and how these two types of goods create different relationships between politicians and citizens. Next, it provides a brief account of the studies on political institutions, resource allocations, and good governance. The fourth part provides a theoretical framework for the study the politics of antipoverty resource allocation at the local level. The final section concludes.

3.2 Clientelism and development

No matter what levels of economic and political development a country may have attained, the exchange of goods and services for votes is a common political practice. The fact that politicians and citizens engage in clientelistic practices even within some economically developed countries and stable democracies has renewed interest in the study of the reasons that lie behind this type of interactions (Kitschelt & Wilkinson 2007).

Although 'clientelism was viewed as a typical phenomenon of underdeveloped political systems, usually at early phases of institutionalisation, often under authoritarian or colonial regimes' (Magaloni et al. 2002: 1), recent economic and political developments around the globe have shown that clientelism persists as a political practice. The expectation that developing countries would eradicate clientelism as they achieved greater levels of economic and political development

has been proven wrong (Magaloni et al. 2002: 2). As Brusco, Nazareno & Stokes (2004: 67) note, in Argentina, even ‘the recent shift to pro-market policies and the downsizing of the state seem not to have eliminated political clientelism’. Moreover, not only has clientelism not disappeared, but some studies point out that clientelism is not a feature of the political systems exclusive to the developing world (Magaloni et al. 2002). Today, even established democracies show signs that clientelism prevails as a type of interaction between citizens and politicians²⁷ (Kitschelt 2007).

In light of this, recent research has paid particular attention to the study of clientelism in order to provide important insights into the conditions under which politicians seek political support through this political practice –the provision of targeted excludable private goods– as opposed to more programmatic forms of public spending. This section offers a brief account of clientelism, its possible effects on development, and the reasons behind the resilience of this political practice.

3.2.1 What is clientelism?

According to Stokes (forthcoming: 2), clientelism is ‘the proffering of material goods in return for electoral support, where the criterion of distribution that the patron uses is simply: did you (will you) support me?’²⁸,

For Fox (1994b: 153), clientelism is ‘a relationship based on political subordination in exchange for material rewards’. For Wantchekon (2003: 400), ‘clientelism is defined as transactions between politicians and citizens whereby material favors

²⁷ In his study of four capitalist democracies (Austria, Belgium, Italy and Japan), Kitschelt (2007:298-299) has found that ‘state interventionists modes of business governance and/or social policy schemes conducive to clientelistic politics were prevalent I all four (...) countries’.

²⁸ For this author ‘it is the distributive criterion of electoral support that distinguishes clientelism from other materially oriented political strategies’ (Stokes 2007: 3). Thus, clientelism is different from *pork-barrel politics* since in that type of interaction the benefits are distributed to one or a few geographical districts, and the costs are shared by all the members of the district (Stokes 2007: 3; Weitz-Shapiro 2007: 4). In this case ‘the implicit criterion for the distribution of *pork* is: do you live in my district?’ (Stokes 2007: 3). Clientelism is also distinct to *patronage* which entails a more specific relationship of the exchange of jobs for political support.

are offered in return for political support at the polls. Thus, clientelism is a form of interest-group politics (...)'.

In sum, clientelism is a form of political bargaining that involves exchanges between politicians and citizens where political support is traded for goods and services. As Kitschelt & Wilkinson (2007: 2) note, clientelistic relationships 'based on direct material inducements targeted to individuals and small groups of citizens whom politicians know to be highly responsive to such side-payments and willing to surrender their vote for the right price.'

A central feature of this bargaining is the asymmetry and inequality experienced between "patrons" and "clients" where 'power relations induce compliance more by the threat of the withdrawal of carrots than by the use of sticks' (Fox 1994b: 157).

The intrinsic characteristics of clientelistic relationships entail a series of characteristics that have an effect on democracy and development. The following section deals with these issues.

3.2.2 The effects of clientelism on democracy and economic development

A great deal of literature has discussed the allocation of private goods with negative connotations. Clientelism is considered to have a negative effect on the consolidation of democracy. Scholars have pointed out that in many political systems, citizens, particularly the poor, are obliged to sacrifice their political rights in order to have access to welfare programs (Fox 1994b: 152). This conditionality affects 'the exercise of citizenship rights and therefore undermines the consolidation of democratic regimes' (Fox 1994b: 153). Thus, for some scholars, clientelism is an authoritarian form of gaining political support that implies an asymmetrical relationship between citizens and politicians where public funds are used for private ends (Romero 2007: 6).

Other authors have noted that the use of public resources with political motivations threatens the democratic system as a whole. When the accountability linkages

between citizens and politicians are broken through clientelistic exchanges, the motivations that politicians have to respond to the social needs of the population are at risk. This fact not only undermines the performance of the democratic system, but there is also the potential peril that citizens will be disillusioned with a democratic form of government (Ackerman & Sandoval 2007).

Clientelism is also among a number of factors that lie behind the failure of the state to promote economic development (Stokes forthcoming) and is even considered as one of the causes of economic crises (Brusco, Nazareno & Stokes 2004: 67). As Chubb has noted in her analysis of the relationship between clientelistic politics and the process of economic development in the City of Palermo, when the selection and implementation of public works is determined by the political interests of local elites and the maintenance of local clienteles rather by a criteria of economic rationality, the ability to promote and sustain economic development is undermined (Chubb 1981).

Despite the negative implications of clientelism for development, in some contexts it could bring certain benefits to the population. As Brusco, Nazareno & Stokes (2004: 84) note:

‘Clientelistic networks (...) are sort of a poor country’s welfare state. Reform such systems too soon (...) and you run the danger of depriving “clients” of the only organisations and networks capable of responding to their needs (...). (A)lthough mattresses, corrugated roofing, and bags of food might appear to middle-class analysts as the sordid detritus of a backward polity, those receiving these items are presumably better off getting them than nothing’.

Whatever effects on development clientelism may have, it has not been eliminated. The next section will explore the reasons behind the resilience of clientelism.

3.2.3 The persistence of clientelism

The capacity of politicians to continue in office is related to the willingness of the members of society to support or remove them through democratic elections.

Therefore, politicians seek to maximise the likelihood of their holding on to power through winning elections, and in doing so they may choose to carry out actions that support clientelistic practices.

Although clientelism is perceived as an inefficient, unequal, and sometimes corrupt relationship between politicians and citizens, the exchange of specific benefits for political support –votes– is seen as an option that reinforces a sense of reciprocity between actors; citizens feel obliged to support those who have helped them (Stokes forthcoming: 8) and politicians ‘must deliver in order to sustain the support of their clienteles’ (Diaz-Cayeros & Magaloni 2003: 19). Apart from reciprocity, the ‘fear that the flow of benefits will be cut off’ (Stokes forthcoming: 9) is also considered a motivation that might cement the client citizen relationship and maintain it over time. Particularly among the poorest sectors of the population, ‘citizens are stuck in a prisoner’s dilemma: people abandoning a clientelistic exchange opportunity may therefore be punished and left empty-handed’ (Kitschelt & Wilkinson 2007: 25).

An additional reason for the prevalence of clientelism is explained by the fact that this form of political engagement ‘is not incompatible with “civic society”’ (Diaz-Cayeros & Magaloni 2003: 22). As Stokes notes, ‘[t]he “gift giving” of clientelism and patronage does not only motivate people to vote for the patron’s party directly but also reinforces a social network in which patron and client are embedded’ (forthcoming: 15).

The prevalence of clientelistic practices has called scholarly attention to the links between political institutions and the choices that politicians make in allocating public funds for political gain. Before discussing the links between political institutions and resource allocation, the following section will distinguish between clientelism and other forms of resource allocation, namely public goods provision and programmatic spending.

3.3 Clientelism vs the allocation of public goods

Public policies and the ways in which formal and informal institutions shape them is one of the main concerns of political scientists. According to Dawson & Robinson (1963: 266), policy 'is the outcome of activity or interaction among external conditions, political system, and political process.'

One way of looking at the effects of politics on policies has been through the study of the allocation of public funds. According to Persson and Tabellini (2000: 7), 'the government raises taxes and spends the resulting revenue in three alternative ways: (a) on general public goods (...) or broadly targeted redistributive transfer programs benefiting a large number of individuals; (b) on narrowly targeted redistribution to well-defined groups, through specific programs, benefiting only a narrow constituency; (c) on rents for politicians or their close associates.'

Other scholars (Diaz-Cayeros & Magaloni 2003) also consider that politicians can use public funds in three different ways: a) they can allocate resources towards the provision of public goods that benefit all members of society (also known as universal public goods); b) they can allocate public goods to regions or localities (what they call local public goods); or c) they can allocate private goods in a selective manner to individuals and well-defined sectors of society²⁹ –clientelism–.

Public –programmatic– and private goods –clientelism– have intrinsic characteristics that imply different relationships between society and the political authorities. The distribution of public goods implies that the members of the group of people who are entitled to receive the benefits of those goods cannot be excluded. This type of public good provision, also known as pork-barrel politics, implies that the criteria for resource allocation is based upon belonging to a given class of beneficiaries that, in most cases, are members of the same political district or jurisdiction. Although there are usually political or electoral considerations in the allocation of these type of resources, they have what Stokes (forthcoming: 3) calls

²⁹ Some scholars include an additional type of goods called "club goods" which 'provide benefits for subsets of citizens and impose costs on other subsets' (Kitschelt & Wilkinson 2007: 11). For the purposes of this research, this type of goods will be identified with clientelism.

a *public-good quality* insofar as they ‘redistribute benefits from classes of non-beneficiaries to classes of beneficiaries, but within a class of beneficiaries, particular people who qualify cannot be excluded’ (Stokes forthcoming: 3). In this sense, the allocation of this type of goods implies that large sectors of the population will benefit without fear of being excluded from receiving those same benefits in the future.

Whereas public goods benefit all members of society, the allocation of private goods (clientelism) covers a wide range of government policies and actions that produce benefits for individuals. These benefits have a particularity that implies a different relation between citizens and politicians; in the case of private goods allocations, there is an expected ‘quid-pro-quo’ where the benefits are only available ‘on condition that the client complies by providing political support’ (Stokes forthcoming: 3).

These two types of services have important effects on policy outcomes and development in general. According to Diaz-Cayeros & Magaloni (2003: 17), ‘clientelism does not bring the social benefits that public goods, even if politically manipulated in their allocation, can.’ These authors note that although most disadvantaged sectors of the population would benefit from private good provision, they would probably be better off benefiting from programmatic spending (Diaz-Cayeros & Magaloni 2003: 17).

The decisions taken by political leaders in allocating resources can have an enormous impact on the effectiveness of public spending benefits to the poor through improve service delivery. According to Wantchekon (2003: 401), ‘clientelism generates excessive redistribution at the expense of the provision of public goods, as politicians wastefully divert government resources to favored segments of the electorate. Second, since budgetary procedures in many countries either lack transparency or are discretionary, clientelism tends to favor those already in control of the government and therefore consolidates incumbency advantage in democratic elections.’ Thus, incumbents tend to benefit most from clientelistic spending since they can use their discretionary power over public funds

to strategically allocate private goods and persuade voters support them rather than the opposition at the polls.

Now that we have identified the main characteristics of the two types of resource allocation and the incentives that politicians have to choose according to their political gain, the following section will focus on how political institutions shape resource allocation and the possible effects of resource allocation on good governance.

3.4 Political institutions, resource allocation and good governance

The studies detailed below explore two dimensions of the effects of politics on resource allocation. First, there is strong evidence to believe that politics are linked to the different patterns that resource allocation can take namely public goods or private goods –clientelism–. The second set of studies shows how political institutions can potentially influence the consequences for development when resources are allocated in ways that improve government performance.

3.4.1 The links between politics and resource allocation

How do politicians allocate public funds when they have a significant autonomy over their use? Given the strong impulse which decentralisation reforms have had in the last three decades, there has been renewed interest in exploring the effects of politics on resource allocation. Thus, a number of scholars have started to look at how political institutions impact the types of policies that politicians pursue (Bueno de Mesquita et al. 2002).

A number of studies have concentrated on exploring the effects of political institutions on incumbents' policy decisions as a way to better understand what political factors might be linked to resource allocation. As many countries have moved towards increasingly democratic political regimes, there has been recent

interest in the literature in exploring whether or not these changes have had a positive effect on improving the distribution of public funds, hence improving basic service provision.

There is a great deal of literature that attempts to explore the relationship between political institutions and the allocation public spending. Most empirical studies have examined how the allocation of public and private goods is affected by political factors inherent to a particular jurisdiction. In most cases political factors determine the final destination of public funds.

The studies exploring the effects of political variables on public investment suggest that politicians tend to allocate resources in exchange for political support (Finan 2004) and to maximise their probabilities of winning elections (Moser 2004). In exploring how deputies in Brazil allocate their budgetary amendments, Finan (2004) suggests that the share of votes in a municipality influences the type of project to be financed. In particular, this author has found that ‘politicians are more likely to promote projects that are harder to target narrowly in the municipalities where they receive a higher share of votes’ (Finan 2004: 13). In other words, politicians with high levels of political support in the polls tend to allocate more resource for the provision of public goods as opposed to other types of investment.

Even in the so-called “developmental states” that were characterised as being highly insulated from political pressures, Yong (2001) found that political factors had indeed affected distributive patterns of allocation of resources. Throughout an examination of South Korea’s public spending between 1987 and 1997 Yong shows how the electoral cycles and the level of political competition impacted the patterns of resource redistribution. In particular, he found that government expenditure increased during pre-election periods. Costa, Rodriguez & Luna (1995) also emphasise the role of political competition in local elections in Mexico on determining the allocation of public investment. They suggested that ‘public investment was used as a way to enhance support for the incumbent, or to compensate local governments for not changing their support to the opposition party’ (Costa, Rodriguez & Luna 1995: 19).

In her study of a food distribution program across 130 Argentine cities, Weitz-Shapiro (2007) argues that the interaction between demographics and political competition can explain why some governments spend more in private goods (clientelism) than others. Her findings note that 'high levels of political competition decrease the use of clientelism in predominantly middle class settings, while having little impact on (...) the reliance on clientelism in settings with large poor populations' (2007: 28).

3.4.2 Politics, resource allocation and government performance

The influence of political institutions on resource allocation could also mediate the effectiveness of policies to improve government performance. Bueno de Mesquita et al. (2002) have explored how institutional electoral arrangements influence the types of policies that politicians pursue. They have found strong evidence in favor of the claim that the size of the winning coalitions in an election determines how effective public policies are. The larger the winning coalitions, they argue, the greater the emphasis leaders place on effective public policies. On the contrary, if the winning coalition is small, politicians will focus on providing private goods to their supporters. In their study on how the electoral system shapes government spending, Milesi-Ferret et al. (2000) have also found out that majoritarian systems are prone to more public good spending.

In exploring the politics of resource allocation recent studies have paid particular attention to political competition as a possible political variable that could shed light on the incentives that politicians have in allocating certain types of goods to the population. The reasons for the study of political competition can be understood if we look at the importance of competitive elections for a political regime. According to Boyne (1998: 210), '[p]arty competition is central to the operation of representative democracy. Just as competition between firms in private markets is supposed to ensure the efficient provision of services required by consumers, so competition between parties delivers the policies desired by the electorate.'

Democratic elections are the mechanism by which citizens have the power to avoid the perpetuation of politicians, since democratic elections lead to the replacement of undesired politicians by the electorate. It is believed that 'if competition works then the ruling party is fearful of loss of office and seeks to produce policies that satisfy the electorate' (Boyne 1998: 210).

In this sense, Ashworth et al. (2006: 12) suggests that 'electoral competition – measured in terms of the number of parties that participate in the election– has a significant and positive effect on the efficiency of municipal policy.' In his study on demand-based development and local electoral environments in Mexico, Hiskey (2003) also argues that 'there is strong evidence that local environments are potentially critical determinants of the effectiveness of demand-based programs in achieving their development goals' (Hiskey 2003: 51). He notes that high levels of political competition '[are] far more conducive to attaining real development successes through the demand-based approach' (Hiskey 2003: 53).

The literature on participation has also shed light on the positive effects of political competition on government performance. In his study on public participation and poverty alleviation in West Bengal, Echeverri-Gent (1992) found that while the implementation of antipoverty programs through local elected bodies has made policy more responsive to the needs of the poor, elite capture seems to prevail in distorting the implementation of programmes in favor of ruling parties at the local level. In this sense, Echeverri-Gent (1992) suggests that democratic political competition, among other factors, is essential for maximising responsiveness to the poor.

Politicians attempt to attract political support through the allocation of goods regardless of welfare outcomes. In other words, politicians (incumbents) use public spending to win the most possible votes with negative outcomes in terms of service delivery (quality and quantity).

The contribution of this dissertation is to explore two dimensions of the politics of resource allocation through an exploration of antipoverty spending in Mexico. I believe that Mexico is an ideal case study in which to examine these two

dimensions as the country has recently experienced a gradual transition to democracy and has undergone a significant decentralisation process that has enhanced the role played by local governments in the delivery of basic services to the population. Both democratisation and decentralisation have had a major impact on the development strategy of the country. An important part of the social policy of the country has been decentralised and for the last decade Mexican municipalities have been responsible for the provision of most basic services to the population. In this sense, this study sheds light on the political consequences of the shift from centralised to decentralised distribution of antipoverty funds. It could also contribute to the debate regarding the importance of incorporating local political institutions and the analysis of effective policy implementation and pro-poor policy.

The following section offers a theoretical framework for the study of the political determinants of antipoverty spending. Borrowing from the literature on the politics of resource allocation, this theoretical framework distinguishes between public and private good allocations. This theoretical framework allows us to test the extent to which political institutions influence the allocation of public investment. Once we have examined the links between politics and resource allocation, we will test how the influence of political institutions on resource allocations can impact basic service provision.

3.5. A framework for studying antipoverty spending and political gain

Given that social policy is the most vulnerable policy areas in the use of public funds for political gain –i.e. elite capture– and given the increasing involvement of local governments in the allocation of decentralised fiscal transfers with a social orientation, there is a strong need to investigate the ways in which municipalities use decentralised funds, what factors influence resource allocation at the very local level, and how the dynamics between local politics and resource allocation may determine improvements in access to basic services.

The objective of this theoretical framework is to: first, analyse how local governments use decentralised fiscal funds that aim to benefit the poor to explore the degree and way in which politics influence inter-jurisdictional policy variations; and second, explore the extent to which political institutions and their influence on resource allocation has an effect on basic service provision.

In this theoretical framework it is assumed that politicians will allocate public and private goods with political motivations. As politicians may allocate resources with political motivations, it is worth exploring the links between political institutions and resource allocation. Through the examination of the different ways in which politicians can allocate public funds, this dissertation attempts to analyse the effects of politics on resource allocation at the very local level in Mexico. In particular, as the poorest sectors of the population 'are more likely than the electorate as a whole to be targeted by clientelistic appeals'³⁰ (Brusco, Nazareno & Stokes 2004: 72) this dissertation will focus on the study of social policy, the policy arena thought to be most susceptible to political manipulation.

The following section provides an account of the goals of politicians and how these goals might shape their resource allocation decisions.

3.5.1 What do politicians want?

For Mendez (2007: 6), governments invest their whole political and human capital in order to be rewarded by the electorate or avoid being "punished" during democratic elections. He suggests that given that politicians are in constant search for political support during their mandates and that public policies will, inevitably, lack neutrality. Mendez (2007: 6) also suggests that all public policies have political aims; behind public policies there are political goals that are recognised as valid, legal, and legitimate in a democracy. Political parties' unique objective is to win elections. Candidates within the party system view winning elections not only as a

³⁰ Through the analysis of political clientelism in Argentina, these authors found that low income Argentines are more likely to receive private goods in exchange for votes.

goal *per se*, but also as a means of implementing better policy for their respective constituencies (Mendez 2007: 6).

Thus, most theoretical models exploring the choices that politicians make in the allocation of public spending assume that politicians seek to hold office through the distribution of resources using diverse forms of public spending (Bueno de Mesquita et al 2002: 561). It is argued that political leaders will allocate public funds 'in ways that can improve their chances of winning elections or in non-democratic settings, of keeping a coalition that is invulnerable to challengers' (Diaz-Cayeros & Magaloni 2003: 16).

According to Magaloni et al. (2002), political leaders will seek the optimal political allocation of public funds that could provide them the most political advantages against their opponents. Using a portfolio diversification model these authors analyse how political leaders decide to allocate a basket of funds to voters in order to secure their support in the polls. The central idea of this model is that 'an incumbent party must decide how to allocate a basket of discretionary transfers to voters in an attempt to get re-elected' (Magaloni et al. 2002: 4). Key to this model is the type of goods that politicians can allocate to the population. In this case, the model distinguishes between a range of goods that could take the form of: a) private excludable outlays (clientelism) that can be individually targeted; or, b) public non-excludable public goods that are targeted to a jurisdiction or to be consumed by voters across several jurisdictions.

Their theoretical model focuses on clientelism 'as a strategic choice made by politicians.' Private goods are considered to lower electoral risks, but are more expensive than public goods. As Weitz-Shapiro (2007) notes, public goods provision entails targeting benefits to large sectors of society (voters) with the expectation that some individuals will be persuaded by this distribution to vote for them. In this case there is some uncertainty over the number of people who will actually support the politicians as a result of the allocation. Thus the risk that individuals might not support politicians allocating these goods is higher. In contrast, private goods (clientelism) 'consists of the individualised exchange of

goods for votes, where the recipients of such goods are (...) monitored for compliance with this bargain' (Weitz-Shapiro 2007: 7), and therefore the risk is lower.

The model assumes that politicians seek to minimise electoral risk but at the same time guarantee an expected threshold of electoral return. Therefore incumbent parties strategically diversify their 'portfolio' of the two types of goods to the electorate: core supporters and swing voters. In contrast to other models that predict that politicians will either allocate discretionary transfers to a core or a swing voter, this 'model predicts "mixed policy baskets", by which both core and swing voters are favored' (Magaloni et al. 2002: 6) according to the political interest of political leaders. In other words, political parties (and more specifically incumbents) diversify their resources investing decisions depending on the different constituencies they target (Calvo & Murillo 2004: 745).

3.5.2 The Mexican case

In order to study antipoverty spending in Mexico we need to emphasise the incentives that politicians have to allocate public funds. Using Magaloni's et al. (2007) portfolio diversification model, my analysis assumes that politicians can choose to allocate public and/or private goods according to their political needs. In other words, I treat public and private good allocations as alternative ways in which politicians may provide goods and services to the population in exchange for votes.

The focus on public and private goods allows the disaggregation of data on public spending. In particular, this classification allowed me to classify, for the first time, specific data on one of the most important sources of municipal spending for basic social infrastructure, FAISM. As the norms that regulate the use of FAISM include a variety of projects that can be carried out with these resources, the use of this typology makes possible the observation of the forms that social transfers actually take as a result of the decisions made by local authorities.

As politicians allocate resources according to their political needs, there are a number of factors that could mediate their decisions over the final destination of antipoverty funds. As the literature suggests, political competition might determine the degree to which social policy takes the form of clientelistic exchanges or public goods provision. A second aspect that could influence incumbents' decisions over public funds allocations is related to the electoral cycle. It is relevant to test if, in democratic contexts, antipoverty spending is undermined by the political interest of incumbents and their political allies. In particular it is important to test the extent to which antipoverty funds are manipulated according to the electoral calendar of subnational political actors (state governors and municipal authorities) and their political parties. A third aspect that could be observed is whether the type of political party in power can tell us something about allocations patterns across municipalities that have elected political representatives from opposing political parties. Chapter four will test the extent to which these political variables have an effect on clientelism and public goods provision.

3.5.3 Does democracy leads to poverty reduction?

As I mentioned at the beginning of this section, a second aim of this theoretical framework is to allow us to study the extent to which political institutions and their influence on resource allocation has an effect on basic service provision. As FAISM's official mandate is to allocate resources for the provision of social infrastructure³¹, our framework and detailed classification of projects allows us to look at to the implications of this allocations for basic service provision.

Broadly speaking, as will be detailed in chapter five, three types of variables might mediate the effects of antipoverty spending on public good provision. The first set of variables attempt to account for the role played by political variables on improving basic service provision –electoral competition and party alignment will be

³¹ Social infrastructure includes, among other things, the provision of water, sewerage and electricity to poor communities.

tested. The second set of variables test whether state capacity has an effect on the ability of local governments to increase access to public services. In this case, this chapter tests for the effects that FAISM resources have had in improving public service provision. Since FAISM emphasises community participation, the effects of political participation on service delivery will be also tested.

This theoretical framework and its use to explore policy outcomes could shed some light on the broader development question of the effects on democracy of pro-poor outcomes.

3.6. Conclusion

As we have seen in the previous sections, clientelism persists even where democratic conditions have improved. We have also seen how the politics of public spending have important policy implications. These implications are more significant in those policy areas where the allocation of resources has a direct impact on improvements to the basic service provision that the population needs. In other words, social policy is a policy area where political incentives can have a major impact on those sectors of the population that face serious barriers to gaining access to key public services.

Given that local governments have more information about the basic needs of a population, and given the importance that local political actors have gained as a result of decentralisation and democratisation, there is a need to carry out studies that disaggregate data regarding social spending at the very local level. Doing this allows us to better know the possible ways in which politicians decide what to do with antipoverty spending, and the particular incentives that motivate these decisions.

In this sense, it is through exploring the ways in which local authorities allocate public funds and their incentives that we could have a better idea of the challenges that the implementation of decentralisation reforms entail at the very local level. It could also provide a better understanding of the effects of democratic politics on

policy implementation. As Kitschelt & Wilkinson (2007: 2) note, '[t]he current World Bank and bilateral donor focus on governance and transparency (...) is doomed to failure unless it takes more account of the often opposing incentives facing politicians charged with implementing reforms in patronage-based systems (...).'

The framework developed in this chapter could help in the understanding of the political factors linked to better service provision. It could also contribute to the debate regarding the effects of democratic politics on reducing poverty at the local level. The next chapter will explore the political determinants of antipoverty spending. Through an examination of FAISM allocation in 122 municipalities the chapter will explore the effects of political institutions on the final destination of FAISM resources.

CHAPTER FOUR

THE POLITICAL DETERMINANTS OF RESOURCE ALLOCATION: EVIDENCE FROM MEXICAN MUNICIPALITIES

4.1 Introduction

This chapter explores the political conditions that affect resource allocation at the municipal level. It seeks to promote a better understanding of the various political elements that determine the way in which politicians decide what to do with resources allocated to reducing poverty and inequality by providing social infrastructure to the poorest communities. It aims 'to understand how policy decisions are made [and] what shapes the incentives and constraints of the policymakers taking those decisions' (Persson and Tabellini 2000: 2).

The allocation of antipoverty funds with political motivations has been a feature of many countries around the world. In recent years, many developing countries have carried out deep decentralisation processes with the aim of shifting resources to governments closer to the people as a means of fostering development and reducing poverty. As such, academic interest in the study of resource allocation has gained major importance. In particular, there has been growing concern regarding the weak effectiveness of decentralised transfers and, most importantly, regarding the possible political motivations of politicians to use certain types of funds when they have a great amount of autonomy.

The literature on the politics of resource allocation points out that politicians 'attempt to allocate public spending in ways that can improve their chances of winning elections, or in non-democratic settings, of keeping a coalition that is invulnerable to challengers' (Diaz-Cayeros & Magaloni 2003: 16). Recent studies have explored the political incentives that politicians face when allocating public funds. In his study on political patronage and local development in Brazil, Finan

(2004) has found that the type of public work the municipality receives is determined by political motivations and not by its local needs. He points out that 'because these public goods vary in their degree of exclusion, politicians prefer to allocate goods that are less excludable to municipalities where they received more political support' (2004:32). Other studies have explored the effects of competitive elections on public good provision. In her study of goods allocation in Madagascar, Moser (2004) concludes that FID (a World Bank fund primarily concerned with the construction of basic infrastructure) projects were 'particularly vulnerable to political influence and displayed evidence of both patronage and vote-buying behavior' (Moser 2004: 18). Throughout an examination of South Korea's public spending between 1987 and 1997, Yong (2001) shows how the electoral cycles and the level of political competition impact patterns of resource redistribution. Similarly, in their study of Mexico during the 1990-1995 period, Costa, Rodriguez & Luna (1995) point out that 'the main political party [the PRI] employed the allocation of public funds as an incentive to avoid the loss of support in regions where political competition was rising.'

The type of electoral contestation at the subnational level could also explain how local governments use decentralised funds and could also explain possible variations across different cases. In his study on municipal budget choices in Bolivia, Singer (2006) argues that analysis of the use of municipal funds should focus on exploring the nature of the electoral arena as well as on the preferences of the electoral constituencies.

In developing countries, the increasing levels of political competition at the local level have raised new questions about the impact of this change on development. It is important to look at new political local conditions where different types of contestation are found and to see how these variations could shape policy choices.

In this sense, in studying the politics of antipoverty funds, it is important to have a clear idea about the political conditions that prevail at one particular setting. In the case of this research, the focus is on one state in one country characterised by a long tradition of clientelistic and authoritarian politics.

This research focuses on the politics of resource allocation in Mexican municipalities from 1998-2006. By looking at 122 municipalities in one Mexican state (Estado de Mexico), this research attempts to explore how despite the recent efforts to depoliticised antipoverty funds, resource allocation continues to be deeply affected by the political interests of local officials. It aims to characterise the way in which local governments in Mexico use a certain type of decentralised fiscal funds that aim to benefit the poor, and to explore the extent to which electoral politics play a role in its final destination. Through an examination of FAISM, this investigation seeks to understand how electoral politics influence the allocation of anti-poverty funds at the municipal level.

4.2 The politics of antipoverty funds in Mexico: The case of FAISM

As mentioned in chapter two, in the last two decades, Mexico has experienced fundamental transformations to the institutional design of decentralised antipoverty transfers. During the 1988-1994 presidential period, *Solidaridad* was created to improve the conditions of poor people, to promote regional development and to promote and strengthen the participation of social organisations and local governments by increasing social spending and channeling it to the municipal level. However the programme was politically motivated. At the local level, *Solidaridad* served as a response to the electoral challenges to the PRI hegemony, especially in electorally important and vulnerable municipalities that were experiencing a major presence of opposition political parties (Molinar & Weldom 1994).

During the 1990s Mexico initiated a deep process of decentralisation where most basic services responsibilities and infrastructure expenditures were transferred to states and municipalities. In the early 1990's, education and healthcare services were largely transferred to the state governments. In 1997, when the opposition political parties won the majority of the National Congress for the first time, FAISM was created to substitute *Solidaridad*. It became the main mechanism by which the

central government transfers resources to municipalities to finance basic infrastructure projects: potable water, sewers, drainage, urbanisation, electrification, basic education and health infrastructure, roads, housing improvements and productive rural infrastructure. Since then, the Federation has started to transfer more resources to the municipalities than ever before to finance social infrastructure, using a formula that assigns resources based on the relative position of the municipalities according to the deprivation index (Hernandez, Merino & Rascón 2003: 33).

The new formula-based fund aims to increase social infrastructure as a key aspect of Mexico's poverty reduction strategy. It was created as a response to the clientelistic nature of *Solidaridad* and marked an important step towards transparency and stability in municipal funding as three important steps were taken to further decentralisation. First, transfers were tied to the total amount of federal revenues, generating more stability. Second, the participation of the central government through the Ministry of Social Development in the choice and execution of projects was ended; under FAISM decisions are taken by the municipalities. Third, a specific calendar for disbursing the funds was established, giving states and municipalities the certainty that budgeted resources would reach them during the fiscal year.

Since its creation FAISM resources have been increasing in real terms. Yet, despite the increasing flux of resources transferred since 1998, municipalities continue to face strong limitations to fulfill the infrastructure needs of their communities. After 9 years since the creation of FAISM the capacity of local governments to solve the problem of limited basic infrastructure remains unsolved, therefore the effective use of such resources has been major issue in public debates.

The lack of effectiveness in the use of FAISM is explained by the fact that this fund has an inherent design problem. Contrary to other federal social programs, monitoring and evaluation systems for the use of FAISM are extremely weak as the federal government and the federal Congress cannot verify the use and destination

of these resources. Although the FCL states that municipalities must report their use of resources to the Ministry of Social Development, this does not happened as the law does not establish a sanction for lack of compliance (i.e. in 2005 only 7 states reported any involvement in FAISM funded projects). There is also a lack of downward accountability. According to the FCL local governments should promote community participation in programming, implementing, monitoring and evaluating the projects financed through FAISM. Unfortunately this regulation, in practice, has become only a recommendation that most municipalities have decided not to follow (World Bank 2006b: 181).

The weak legal and institutional design of *FAISM* has encouraged opportunistic behavior by political elites (Hernández & Jarillo 2006). The lack of transparency and weak accountability of FAISM has encouraged politicians to use the fund for political gain. Municipal officials with a great deal of autonomy to decide what to do with the share of resources received through FAISM have found it to be politically rewarding to channel the resources to those constituencies that could maximise the possibility of their party remain in power.

This investigation seeks to explore the extent to which local officials use *FAISM* for political gain by considering the case of Estado de Mexico, the most populated and politically important state of the country. Estado de Mexico is also a case study of a political setting that has recently moved from a political system dominated by one political party towards one where, in most local elections, opposition political parties have been able and allowed to win. It is also among the few states that have a systematic account of the use of FAISM since 1998.

4.3 Resource allocation and use of FAISM

As mentioned in the theoretical discussion the allocation of resources can take two forms: public and private goods. Although both types of investments have a “vote-buying potential”, there are important differences between these types of goods. Private goods target benefits to individuals and small groups who support, or are

expected to support, politicians with control over resources whereas public goods benefit large groups or all the members of the community. A second difference is that private goods are excludable which means that politicians 'can effectively screen voters to distinguish between supporters and opponents' (Díaz-Cayeros et al. forthcoming). A third difference refers to the fact that politicians can decide whether to continue or to stop delivering private goods (scholarships, construction materials, equipment, etc.) at any time. In contrast, public goods (hospitals, schools, bridges, sewerages, etc.) stay in the community; they cannot be withdrawn even if the voters decide to vote for a different party.

Recent studies on particularism and service provision have stressed the need to focus on the distinction between programmatic and particularistic spending on '*procedural grounds*', where the measurement of 'particularistic spending would require information on each transaction, to assess if resources are being assigned according to codified rules or otherwise as the result of discretionary mechanisms' (Armesto 2008: 7). According to this approach 'spending in (...) public goods is universalistic when resources are assigned according to the rules and criteria of the party platform or the program of government of the administration; conversely, the provision of (...) goods is particularistic when allocation decisions deviate from the established rules and criteria (Armesto 2008: 7).

Although this approach offers an alternative and useful way to understand public spending that could also account for universalistic allocations with political motivations – cases in which politicians could allocate public or non excludable goods for political gain –, the lack of information regarding the process by which funds are allocated makes it difficult to assess whether a particular allocation was made on particularistic or programmatic criteria (Armesto 2008: 7).

In order to explore the potential electoral impact of the projects financed through FAISM resources in Estado de Mexico, I have grouped the projects into two categories: public goods – that benefit all voters –, and private goods targeted to specific groups or types of voters to the exclusion of others. This classification allows us to differentiate between the different material benefits that political

leaders might be able to offer the population. It constitutes a useful distinction between clientelistic and programmatic politics. As mentioned above, the two types of goods have fundamental political characteristics that make it possible to identify those allocations whose beneficiaries are individuals from those which represent long term investments that benefit the community as a whole (annex 1 provides a detailed description of the types of FAISM projects involved in each of the programs and the way they have been classified³²).

The public and private goods categories offer the best mean of classifying the data on FAISM spending and identifying possible use of these funds for political gain. According to data on FAISM allocations in 122 municipalities of Estado de Mexico, food supply, scholarships, and housing improvement are the most common forms of private goods allocation by local politicians. As mentioned before, these projects are considered private goods allocations, as they can be targeted to specific individuals, households or groups of individuals, and denied to others.

In the case of food supply, the data shows how those municipalities with the lowest level of development allocate important amounts of resources per capita on this type of project; only the municipality of Teoloyucan, which is considered among the municipalities with lower levels of deprivation, has designated significant amounts of resources to allocating this type of private goods. In the case of scholarships, we find municipalities with different levels of development and political competition with high levels of spending on this type of private good. On one side of the spectrum, we find cases such as Toluca and Ecatepec –important municipalities in terms of population and development that have experienced alternation of power– as among the municipalities that rely on the use of scholarships to benefit individuals. On the other side of the spectrum, we find municipalities such as Chimalhuacan and San Felipe del Progreso – with high levels of deprivation and politically dominated by the PRI – allocating important funds to grant scholarships to basic education students. A similar pattern is observed in the case of housing improvements, where municipalities as rich as Huixquilucan and as poor as

³² This distinction was borrowed from Magaloni's et al. (2007: 203) classification of *Solidaridad* projects where 'the main indicator used for the classification was information regarding the unit of measurement of the project on which basis they contrast private goods and (...) public goods'.

Tlatlaya spend significant resources on urban and rural housing improvement programs.

In the case of public goods provision, water, sewerage, electricity, schools, health centers and urbanisation are the most common projects carried out by municipal authorities with benefits for large sectors of the population. It is worth mentioning that, to a certain extent, water and electricity projects can benefit individual households. However, as these type of benefits ‘can hardly be denied to individuals or households once a water or electricity network is in place’ (Armesto 2009: 3), I have classified them as public goods.

In the case of Estado de Mexico, if the allocation of resources were apolitical, or in other words, if resources were allocated in programmatic terms according to the rules that indicate how FAISM resources should be used (with the aim to provide infrastructure services that benefit large sectors of the population instead of allocating excludable goods –clientelism–), we would expect to find no significant amounts of funds allocated to projects that aim to benefit specific sectors of the population. However in Estado de Mexico from 1998-2006, spending on clientelism constituted 18 percent of the total funds received by municipalities through FAISM.

In this sense, as the general concern of this investigation is to understand the impact of electoral politics on antipoverty spending in Estado de Mexico, the allocation of resources for political gain (clientelism) at the municipal level will be the dependent variable.

As public goods could also be used with political motivations through the construction of social infrastructure projects that benefit large sectors of the population, thereby expanding the possible political impact of government actions, I also analyse the extent to which electoral politics determine “public goods” allocation. This effort marks a first attempt to explore whether or not these types of goods could be also allocated with political motivations or whether or not these resources could be allocated with the aim of supporting specific political agendas, particularly those of the state and national governments. For this analysis, I will use public goods as a second dependent variable.

4.4. The data set

For purposes of this investigation, and using information collected during my field visit to Mexico, I compiled a data set that includes FAISM allocations by project based on information reported from the municipalities to the Ministry of Finance of Estado de Mexico³³. The data set contains more than 57,000 projects carried out between January 1998 and September 2006 in 122 municipalities of Estado de Mexico. The following information is included for each of the projects: name, sector, programme, subprogramme, type of project, locality, beginning and end of project, duration, number of beneficiaries, amount and type of resources used for the project (from citizens or from other budget items) and status of the project.

Table 2. Number of FAISM projects by program

Programme	No. of projects.
Urbanisation	17,685
Basic education infrastructure	13,650
Basic education support (scholarships)	3,036
Communication infrastructure	4,323
Potable water	3,783
Drainage and sewerage	4,250
Electricity	3,138
Housing	2,142
Municipal Strengthening	991
Health infrastructure	925
Irrigation	2,665
Environment	257
Public buildings	352
Community development	75
Others	44
Total	57,316

³³ It is worth mentioning that since the fund was created, the municipalities of this state have been asked to report monthly on the physical and financial status of the projects undertaken with FAISM resources. The government of *Estado de Mexico* has issued a standardised reporting procedure for its municipalities and has provided technical assistance for its implementation.

The data-set also includes socio-demographic information from the 122 municipalities and electoral information from the last four municipal elections and the last two gubernatorial elections. I have calculated two different indices that measure the degree and level of political fragmentation (Rae index of political competition and the effective number of parties (ENP) from Laakso and Taagepera).

For purposes of this study, the key variables of interest are the type of project chosen by each municipality, the time of the execution of the project and the political party in power at the moment of the allocations. Other socioeconomic variables such as the deprivation index are also considered in the analysis.

The following section explores how, despite the fact that the distribution of FAISM resources is based on poverty levels and aims to provide social infrastructure projects to poor communities, the actual allocation of resources is driven by political motivations.

4.5 Testing the evidence

When FAISM was created, it was expected that by giving more resources and responsibilities to governments closer to the people, participation and accountability would improve. Unfortunately the lack of transparency and the institutional framework deficiencies of the fund have encouraged opportunistic behavior that has reduced the effectiveness of the fund. It is in this context where the study of investment for political gains in Estado de Mexico matters. It can help us to map out the types of investments that best characterise certain political contexts and the conditions that determine the allocation of resources.

In order to explore the political determinants of FAISM allocations, the following section examines three political variables: electoral competition, electoral cycles and partisan considerations. The analysis incorporates both types of goods: public and private.

4.5.1 Electoral competition

In studying antipoverty funds in one Mexican state, one objective of this research is to uncover the political logic driving the allocation of resources by municipal governments. It is argued that the allocation of resources by municipal authorities is determined by the level of development of the community and the interaction between the nature of the party system and the degree of political competition.

Recent studies of political competition and allocation of public resources suggest that competitive elections alone are not sufficient to ensure that governments will effectively provide public goods (Singer, 2004). Singer (2004: 3) argues that increasing levels of political competition provide incentives for politicians to act with anticipation of electoral evaluation and that the type of electoral competition facing parties will determine the types of demands to which the governments are responsive. It is the local electoral environment that determines the degree to which local governments invest their scarce resources for political gain instead of programmatic and long-term government services (Hiskey, 2000). Other studies investigating whether political competition induces efficient outcomes have found that, under certain circumstances, electoral competition could constrain the ability of political actors to gain political rents (Polo 1998).

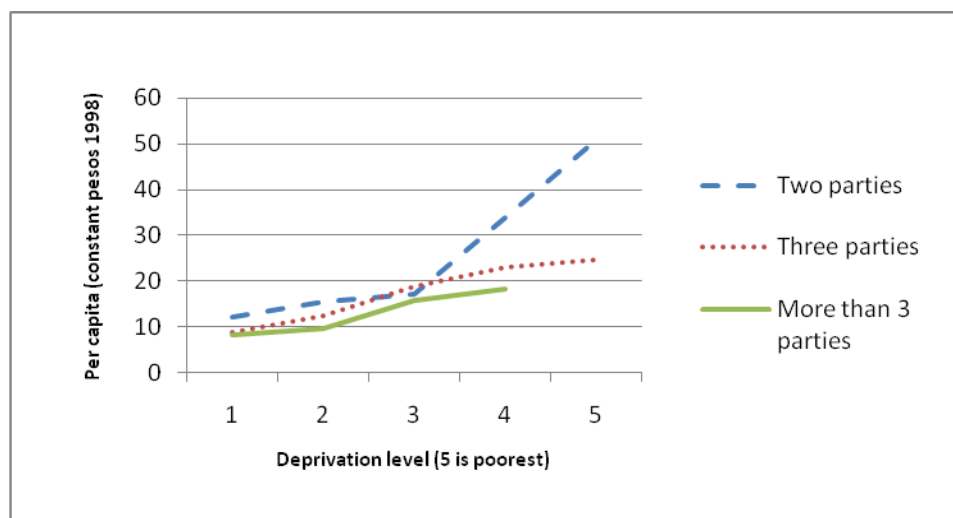
Figure 1 shows the average per capita allocation of FAISM on clientelism disaggregated by the level of development and the type of political competition. The level of development is measured by the deprivation index from the Consejo Nacional de Población (CONAPO)³⁴. The level of political competition is measured using the effective number of parties index (ENP) developed by Laakso and Taagepera (1979). This index measures the level of political fragmentation and has become the standard numerical measure for the comparative analysis of party systems, as it takes both the number of parties and their relative weights into account to compute a unique variable. When seats are equally distributed among

³⁴ The deprivation index is constructed with a number of socioeconomic variables commonly associated with deprivation: illiteracy, access to basic education, lacking access to basic services (electricity, potable water and sewerage), quality of housing construction, population living in rural areas and income)

the different political parties, the ENP coincides with the raw number of parties (i.e. if all five parties of a system each get 20 percent of the votes or seats, the effective number of parties is exactly 5.00). The value given by the ENP can be interpreted as the number of hypothetical equal-sized parties competing or being influential for the building of a majority government (Dumont & Caulier: 2003). The figure distinguishes between municipalities with two effective political parties competing in local elections, municipalities with three effective political parties; and municipalities with more than three effective political parties.

According to the figure, FAISM spending on clientelism tends to increase as the deprivation level increases. This might suggest that, as noted by Magaloni et al. (2007), people living in rich localities prefer public goods provision to private goods, which makes it too difficult for a political party to try to buy them off through clientelism.

Figure 1. FAISM spending on private goods per capita by level of development



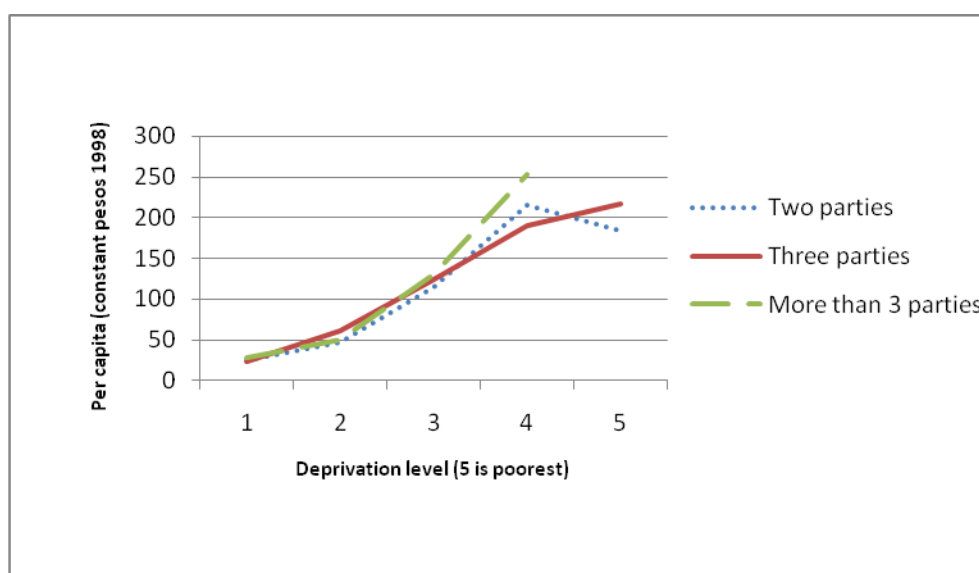
The figure also shows that rich municipalities (deprivation level 1 and 2) and poor municipalities (deprivation levels 4 and 5) with two effective political parties – bipartidism– tend to spend more on clientelism per capita than those with three or more political parties. However, municipalities with a medium level of

socioeconomic development (deprivation level 3) with two effective political parties appear to spend less than those municipalities with three effective political parties.

The combination of bipartidism and low levels of development indicates that municipalities that share these two characteristics allocate important amounts of resources per capita on clientelism. Apparently pluralistic politics at the local level tend to persuade politicians in municipalities with low levels of development to spend less on clientelism than the other two types of political competition.

The allocation of public goods could also be affected by the type of political competition in the municipalities. Figure 2 shows the average per capita allocation of FAISM to public goods disaggregated by the level of development and type of political competition at the municipal level. In this case, public spending on public (non-excludable) goods increases when the level of development is low. This suggests that municipalities with a higher degree of poverty are spending more resources per capita on social infrastructure projects than those with a higher level of development.

Figure 2. FAISM spending on public goods per capita by level of development



Regarding the type of political competition at the municipal level, the spending pattern on public goods is very similar across the three different types of political fragmentation. Apparently, the effective number of parties competing at the local level does not have an impact on the allocation of public goods. This statement will be tested when we run the statistical model.

4.5.2 Electoral cycles

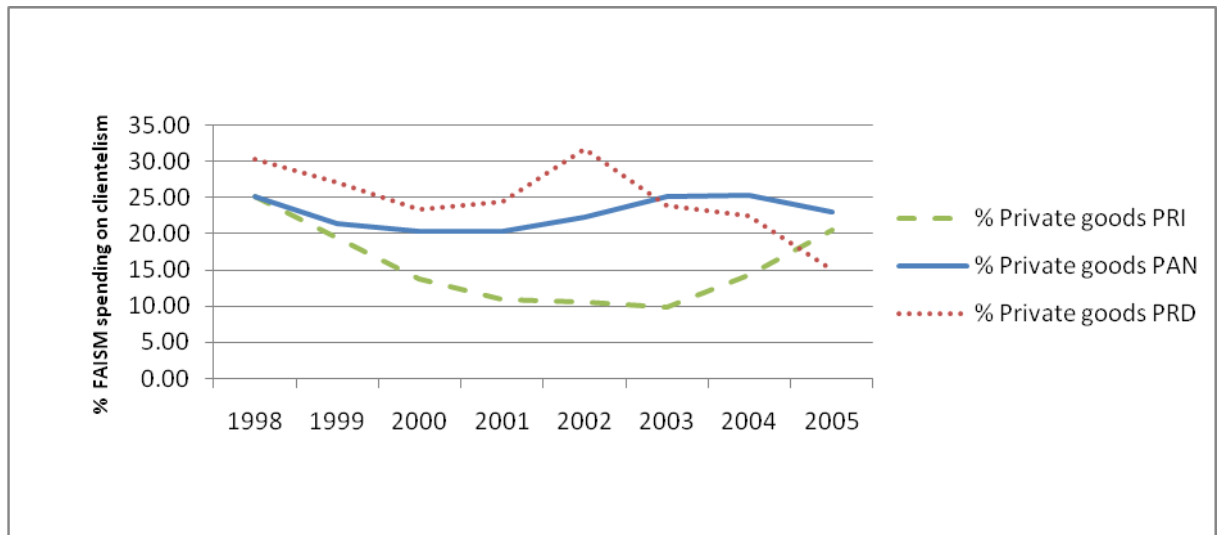
Proponents of the electoral cycle hypothesis point out that electoral competition in a democratic context motivates political actors in power to carry out actions that could create favorable conditions for the electorate just before the election date, thereby favoring the party in power (Molinar & Weldom 1994). It is argued that there are rational voters, with limited information, that can assess government performance with their votes. This political behavior from voters creates strong incentives for politicians to find ways in which voters could perceive and assess their administration favorably just prior to the election date, increasing their chances of an electoral victory.

Figure 3 shows the percentage of FAISM spending on clientelism by party during 1998-2005 period. Although the PRI appears to spend less on clientelism in most of the years, it is striking how clientelism increases when gubernatorial elections are scheduled: 1995 and 2005. This finding suggests that municipalities with a PRI government favor investment in clientelism during gubernatorial elections in an attempt to win votes through the provision of excludable goods, and thus guarantee the permanence of their party at the state level.

Electoral law in Estado de Mexico prohibits the promotion of projects and actions during electoral campaigns; however, there are documented cases where municipal authorities were found actively promoting the PRI candidate for the governorship during the 2005 electoral process. According to a resolution from the Tribunal Electoral del Poder Judicial de la Federación, who is the highest authority on electoral matters in Mexico, members of 41 municipalities (governed by the

PRI) subscribed “as witnesses” a document that included the campaign promises of the PRI candidate. This act was accredited as proselytism in favor of the PRI candidate³⁵ (Acosta 2006: 12).

Figure 3. Percentage of FAISM spending on clientelism by party

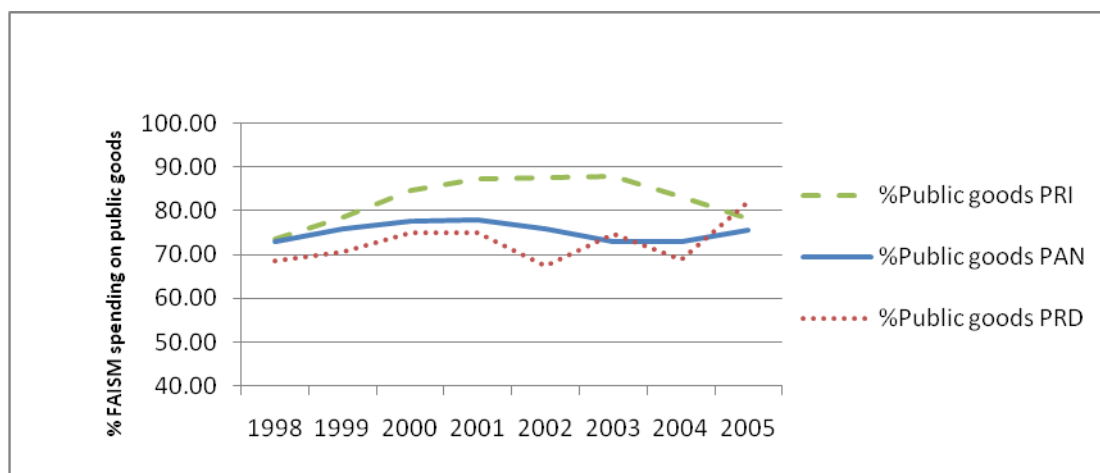


In the case of municipalities governed by the PAN, the figure suggests that after the year 2000, when the PAN defeated the PRI at the national level, these municipalities started to spend more on clientelism than previous years. This could be explained by the fact that these municipalities changed their spending priorities in accordance with the priorities of the federal government. A main concern for the recently elected President Fox, who defeated the PRI candidate for the first time in more than seven decades, was to reach a majority of the seats in the Chamber of Deputies in order to carry out his political agenda. It is possible that in an attempt to win more votes during the 2003 mid-term congressional election, municipalities with this political affiliation decided to spend more on clientelism in order to improve the chances of their candidates to secure a seat at the National Congress in lines with the President’s political interest.

³⁵ There are also other documented cases where members of the Legislative Chamber that belong to the PRI were found delivering benefits during the electoral process of 2005 in the municipalities of Soyaniquilpan and Villa Victoria (Acosta 2006: 12).

In general terms, the three main political parties represented at the municipal level in Estado de Mexico use significant amounts of resources in financing private goods. This is an important finding as the resources received by the municipal governments through FAISM should be used to finance social infrastructure projects in line with the social objectives of the fund. In other words, the intended aim to guarantee an apolitical use of these resources has not been accomplished.

Figure 4. Percentage of FAISM spending on public goods by party



In terms of FAISM spending on public goods, figure 4 illustrates how the PRI spent more on public goods than the other two political parties. The left wing party, the PRD, spent less on public goods than the PRI and the PAN, which reflects its orientation to support projects that benefit specific sectors of the population in order to keep unity among its different factions.

It is worth noting that despite the fact that the three major political parties spent most FAISM resources on public goods provision, a recent monitoring of social programs in a number of municipalities of Estado de Mexico has found that the resources allocated to specific projects tend to favor groups or communities that offer political support to the head of the municipality (FUNDAR 2006: 22). The control and monitoring mechanisms that regulate the use of FAISM resources through active participation of the citizenship have proved to be unsuccessful even in contexts that have recently experienced political change. As Grindle notes

(2007: 174), 'in a country that had, through many years of authoritarian government, encouraged clientelism in the distribution of public benefits, it is perhaps not surprising that much citizen activity under more democratic conditions mimicked previous mechanisms of making connections and presenting petitions'.

4.5.3 Partisan considerations

One aspect which has acquired more relevance within Mexican local politics has been the increasing number of municipalities that have experienced alternance in power. As we have mentioned before, after years of one-party domination in local elections in Estado de Mexico, during the 1990's the political landscape started to change. In the 1990 local election the opposition political parties were able to defeat the PRI in 5 municipalities. By the 1993 municipal election the number increased to 11 municipalities; the majority of these municipalities were small in size, with low population density and a low level of economic development.

In the local election of 1996 the PRI lost in 49 municipalities, representing 40% of the 122 municipalities of the state. It was in this election when important municipalities –in terms of size, population and development- were won by the PAN and the PRD.

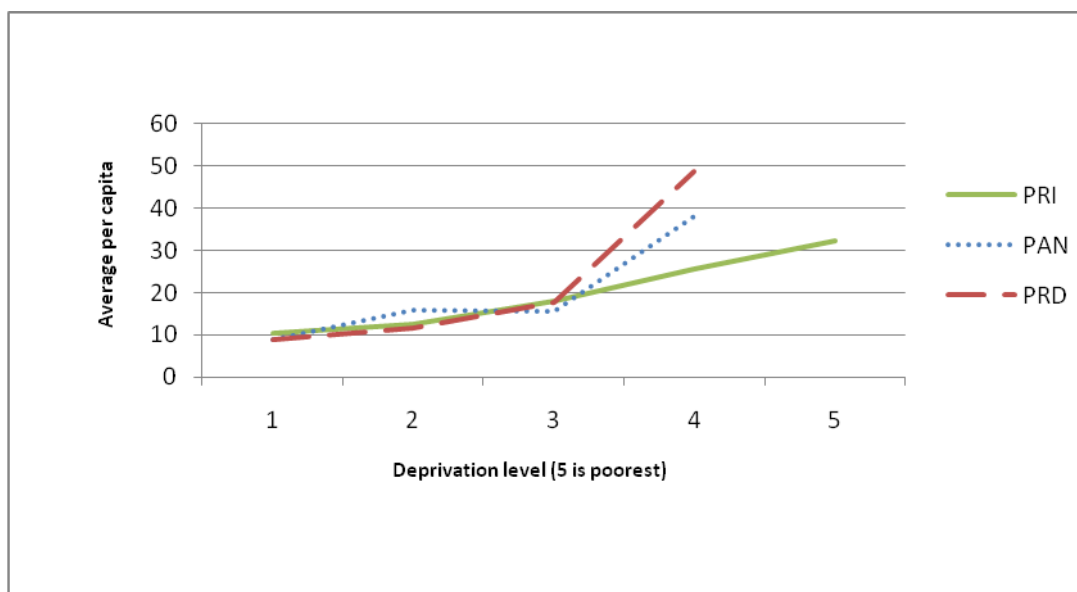
For the 2000 and 2003 local election the political landscape became more complex. Not only were the PAN and PRD able to win elections but also the PRI was able to take back a few municipalities and others were won by small political parties. By 2003 alternance became evident as only 24% of the municipalities had never experienced alternance in power, and in the 2006 election the number reduced to only 13 municipalities, most of them are of a medium size, with low population density and are located in the north west and southwest of the state. Alongside the increasing cases of alternance experienced in the last 4 local elections, a new trend of new party domination has emerged. There are a number of municipalities where the PAN and PRD are now consolidated, as they have been able to win consecutive elections since 1996 and 2000.

With a political map with important variations with respect to political competition it is possible to observe whether or not the type of political party in power can also have an impact on the way in which FAISM resources are allocated. The political party's ideology might determine the type of projects or actions to be funded.

Figure 5 shows how the three major political parties in Estado de Mexico spend more on clientelism when the level of development of the municipalities is low. Again, this suggests that voters in poor municipalities are extremely vulnerable to vote buying and that the three political parties take advantage of this. Contrary to the aims of FAISM funds to benefit the poorest localities by providing social infrastructure services, the figure reports that political considerations matter when political officials decide how to use antipoverty funds.

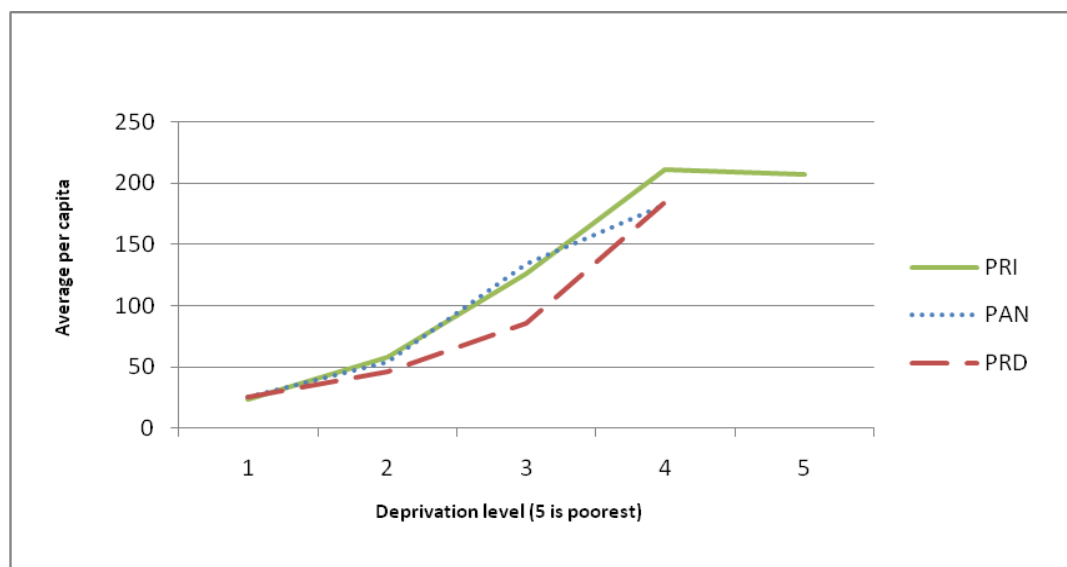
One clear example of the political use of FAISM resources by the three major political parties is the extensive allocation of resources for basic education support (scholarships). In those municipalities where the two major opposition political parties, the right-wing PAN and the left-wing PRD, have been able to win in the last three electoral contests (new dominant parties in these localities), the disbursements for scholarships account for 17 percent (PAN), and 27 percent (PRD), of FAISM total spending. The use of FAISM resources to provide individual benefits shows the resilience of clientelism in local contexts that have undergone political change. In these contexts, local politicians that care about the electoral returns of resource allocations have supplied particularistic goods that are more tangible and immediate to poor constituencies for political gain.

Figure 5. FAISM spending on clientelism per capita by level of development



In terms of public goods provision, the allocation of resources increases as the level of development decreases. Apparently the three political parties in power in poor municipalities spend more on public goods per capita than those in power in municipalities with a high level of development.

Figure 6. FAISM spending on public goods per capita by level of development



Public goods provision could be also used with political motivations to improve or maintain the electoral prospects of the incumbent party. In this sense it is not surprising that the PRI is the political party that spends more per capita on public goods in poor municipalities. It could be argued that it is the interest of the state government to support those projects that could eventually benefit large sections of the population.

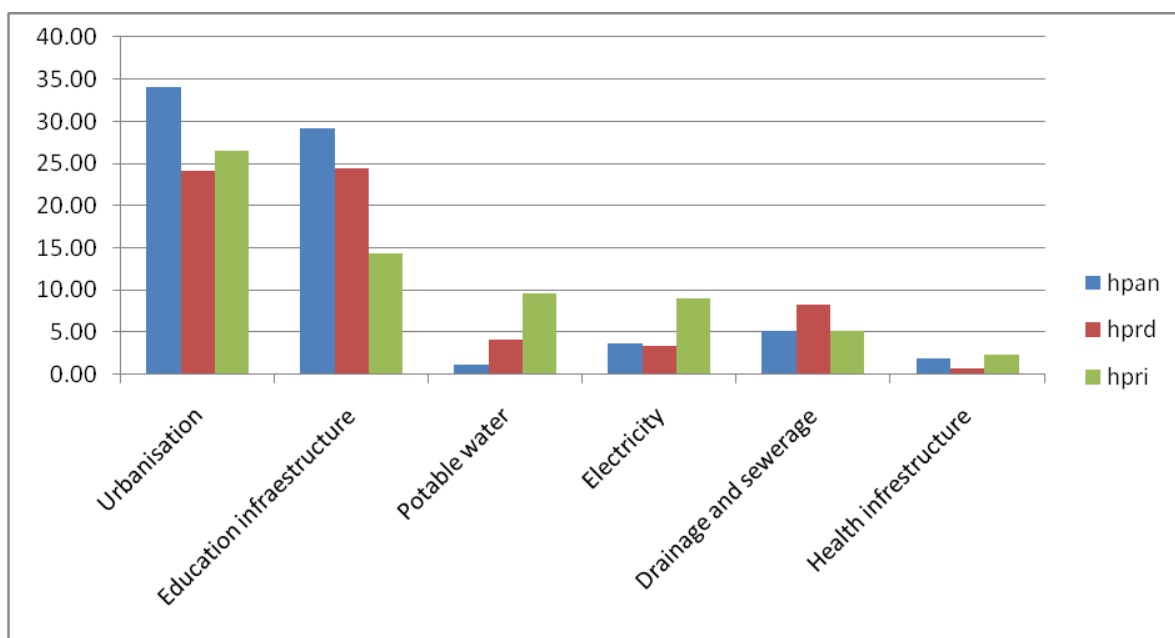
Even if municipal governments are responsible for the projects, for years the state government (governor) has put pressure on municipal authorities belonging to the same party (PRI) to inform the population that the projects are carried out in conjunction with the state. As Armesto (2009: 5) notes, 'partisan alignment between municipal and state or provincial governments matters because mayors stand between the state/provincial government and voters in each municipality'. Given the proximity of municipal authorities to the population, state governments have strong incentives to influence the allocation of public goods by municipal authorities that belong to the same political party. At the same time, the prohibition of immediate reelection at the municipal level and the fact that the governor exerts important influence on the PRI appointments of candidates to municipal office, stimulate municipal authorities to carry out actions in line with the interest of the state government that could guarantee the future success of their political party. Mayors have more incentives to respond to the interest of the governor than to paying attention to the needs of the population, thus undermining 'the linkages between citizen satisfaction and local accountability' (Grindle 2007: 180).

In these contexts, mayors become key actors for the political interests of the governor as they 'share credit with state/provincial government and they fulfill the role of political brokers' (Armesto 2009: 5). This is the case of the municipalities of Estado de Mexico governed by the PRI where, through the provision of services or development of public works, both local and state governments were able to get some credit for the benefits delivered to the population. For instance, during the 1999 to 2005 governorship, cabinet members were responsible for monitoring the development of projects carried out in the municipalities of the state. In full

coordination with municipal officials (and in some cases in collaboration with local members of the PRI), cabinet members and high level state officials had to ensure that all the projects were finished and that the population was informed about the project, highlighting the participation of the state government (governor) in the construction of the projects. In this way the state government could 'rely on mayors and their political machines to narrow targets' (Armesto 2005: 5).

An additional finding on the municipal allocation of FAISM funds resources is the significant amount of resources for urbanisation projects. In this case, it is the right-wing party, the PAN, which spends more on urbanisation than the other two major parties. By looking at those municipalities where this political party has won the last five consecutive elections, almost 35 percent of FAISM resources is allocated to urbanisation projects.

Figure 7. FAISM spending on public goods by dominant party



The reason for this trend is explained by the fact that the municipalities ruled by this political party are large urban centres with low deprivation levels. In this case, the municipal government priorities are to satisfy the demands of a large, middle class constituency that demands good roads to circulate within the municipality. It

seems that in those municipalities where the PAN has become the dominant political actor, the party finds more political reward in improving the urban infrastructure of the communities.

4.6 Panel corrected standard errors (PCSE) model

In addressing the political logic of resource allocation in Mexican municipalities, the model attempts to explore how the number of parties competing at the local level, the electoral cycle and partisan considerations affect the allocation of FAISM for political gain. It is assumed that political considerations do play a role in the actual use of FAISM resources at the municipal level in Mexico and that these considerations, in fact, are important in a program which aims to allocate resources on the basis of pro-poor spending to benefit large sectors of the population by providing social infrastructure services.

The model explains how political considerations have an impact on the allocation of FAISM resources for political gain among 122 municipalities of Estado de Mexico (cross sectional elements) over a nine year period (time series). The allocation of resources for political gain at the municipal level is the dependent variable and is measured by the FAISM spending per capita on private goods – clientelism– for each municipality for each year. I have also run the model using FAISM spending per capita on public goods as an attempt to explore the extent to which the projects that fall in this category might also be used with political motivations (see table 3).

With regards to the number of parties, the model confirms the hypothesis that clientelism tends to be eroded as the number of political parties competing in local elections increases (see model 1 in table 2). The model suggests that the increasing number of parties participating in local elections has a positive impact on the allocation of antipoverty funds, as the presence of more political parties might induce politicians to invest less in clientelism.

Contrary to Singer's (2004) findings that municipalities facing strong competition might have great incentives to distribute private goods to maintain clientelistic networks and to maintain a small but united constituency, it seems that in the case of FAISM resources in more pluralistic political arenas, local officials tend to compromise less with the provision of excludable (short term) private goods.

Table 3. The political determinants of FAISM spending on clientelism

DV: FAISM spending per capita on clientelism			
	Model 1	Model 2	Model 3
	Coeff. (S.E.)	Coeff. (S.E.)	Coeff. (S.E.)
ENP	-1.70*** (.68)	-1.71*** (.63)	
Rae index of political competition			-22.60*** (8.5)
Electoral cycle (municipal)		-.92*** (.44)	
Electoral cycle (state)	-.08 (.08)		-.08 (.09)
PAN federal government	-.097 (2.04)	-.21 (1.85)	-3.55 (2.16)
PRI			2.94 (2.12)
PAN			5.59*** (2.75)
PRD			4.92*** (2.41)
Population	-1.77 (1.15)	-1.69 (1.14)	2.11 (1.12)
Illiteracy	.89*** (.14)	.87*** (.14)	
% Population lacking access to drinking water	.17*** (.049)	.18*** (.049)	
Quality of housing construction	-.19*** (.073)	-.020*** (.07)	
Workers earning less than 2 minimum wages	.18** (.07)	.20*** (.07)	
Deprivation index			9.61*** (.83)
Intercept	3.32 (4.51)	1.06 (4.46)	36.54*** (7.30)
No. of observations	1038	1038	1038
R-squared	0.27	0.28	0.26

Standard errors reported in parentheses. Significance levels are indicated as follows: ***p<.01, **p<.05, *p<.1

The model also shows how the level of development affects FAISM spending on clientelism. By measuring development through the deprivation index, it seems that there is a positive relationship between the deprivation index and clientelism. It seems that the poorest municipalities (categorised with a deprivation level of 'very high') spend more on clientelism than those with a higher level of development. This suggests that voters in poor municipalities are highly susceptible to vote buying.

A second political element that has an effect on FAISM spending on clientelism is the timing of elections. It is argued that when elections are scheduled, municipal officials might have incentives to spend public funds on projects that could benefit their political party or group. It is possible that politicians will choose to spend funds closer to the election date in an attempt to win elections, using private goods – clientelism– to maintain and construct partisan loyalties. In the case of Estado de Mexico, municipal officials have found in FAISM a source of funds for which they have a great deal of autonomy to allocate, and which lack effective mechanisms of accountability. Since 1998, municipal officials know with certainty that budgeted resources will reach them during the fiscal year, thus they can easily schedule their execution according to their political interests.

I ran the model to test if FAISM spending on clientelism does in fact respond to the timing of elections. I created a dummy variable which assumes a value of 0 when a local election was scheduled, 1 for the first year of the municipal government term and 2 for the second. The results reveal (see table 3) that there is a significant relationship between the per capita level of FAISM spending on clientelism and the electoral calendar. Apparently, clientelism tends to increase when local elections are scheduled. The results also show that the number of parties and the deprivation index continue to have an effect on FAISM spending on clientelism.

The political party in power at the time of the execution of the projects is a third element in this investigation. As mentioned above, the political map in Estado de Mexico has dramatically changed in the last two decades.

Table 4. The political determinants of FAISM spending on public goods

DV: FAISM spending per capita on public goods			
	Model 1	Model 2	Model 3
	Coeff. (S.E.)	Coeff. (S.E.)	Coeff. (S.E.)
ENP	1.77 (4.16)	1.20 (3.96)	
Rae index of political competition			-22.14 (43.4)
Electoral cycle (municipal)		-7.65** (3.10)	
Electoral cycle (state)	-4.16 (.64)		1.49 (2.76)
PAN federal government	69.52*** (16.15)	77.20*** (13.5)	46.73*** (12.53)
PRI			-4.70 (8.77)
PAN			2.48 (7.57)
PRD			-17.00** (7.55)
Population	-3.65 (4.62)	-2.67 (3.93)	.00*** (3.96)
Illiteracy	9.52*** (1.04)	9.27*** (1.00)	
% Population lacking access to drinking water	.28 (.20)	.34* (.20)	
Quality of housing construction	.59* (.34)	.63* (.34)	
Workers earning less than 2 minimum wages	.44 (.56)	.58 (.50)	
Deprivation index			100.76*** (10.71)
Intercept	-123.89 (37.98)	145.26 (37.73)	117.94*** (30.25)
No. of observations	1038	1038	1038
R-squared	0.65	0.66	0.70

Standard errors reported in parentheses. Significance levels are indicated as follows: ***p<.01, **p<.05, *p<.1

From 1990-2006, most municipal governments have experienced alternance in power (in this period more than two thirds of the municipalities have been ruled by more than one political party). With opposition political parties ruling municipal governments, and with the creation in 1997 of new rules to allocate decentralised resources at the municipal level, it was expected that it would be more difficult for municipal officials to use antipoverty funds for political gain. The data, however, suggests that this is not the case. By incorporating the party in power at the time of the allocation of the funds into the model, it seems that the three major political parties in Estado de Mexico (PAN, PRI and PRD) allocate FAISM resources with political motivations.

Regarding the possible impact of political elements on the allocation of public goods, the model (see table 4) suggests that the effective number of parties does not have an impact on the allocation of these types of goods. It is clear that there are other political factors that determine the allocation of these funds. For instance, the presence of the right-wing party, the PAN, at the national level appears to have an impact on FAISM spending on public goods. A second political variable that influences FAISM allocations on public goods is the timing of elections. When elections are scheduled municipal governments tend to spend more on public goods.

In terms of the political party in power at the time of the allocation, the model shows that the PRD is the political party that tends to spend less on public goods. In all the cases, the level of development appears to have a significant impact on the provision of public goods.

4.7 Conclusion

In Mexico, the dramatic increase in decentralised transfers in the last two decades has meant that local authorities have more powers, responsibilities and resources at their disposal. In particular, the new provisions have allowed local governments to channel important resources to actions to fight poverty and inequality in poor communities. Regarding the policy process, local authorities were empowered to

promote local participation in the allocation of anti-poverty funds. It was expected that by exploiting the knowledge of local authorities of their municipalities, resources would reach those sectors facing strong limitations related to local social infrastructure. Through better linkages between community participation and local governments, the allocation of resources was expected to be closely related to the local needs of the poor.

Unfortunately, the prospects of antipoverty funds have not been translated into effective mechanisms that could lead to a more effective combat against poverty. It seems that the clientelistic nature of the Mexican political system has been reinforced at the very local level. Today municipal authorities, enjoying more powers and resources than before, allocate important amounts of resources with the aim of guaranteeing their survival, and/or that of their parties, in the political arena.

The statistical model shows how political considerations are important determinants of *FAISM* spending on clientelism. Some of the initial findings are as follows:

- The level of political competition can tell us something about the budget priorities of the municipalities. As we have seen by looking at the level of political competition and the use of *FAISM*, the number of parties competing in local elections influences clientelism.
- Electoral cycles matter. Political parties might use public funds with political considerations, particularly in electoral years. By looking at the electoral calendar it seems that the PAN spent more on private goods after the year 2000 –the year the PAN won the presidency–. The PRI shows a similar spending pattern but in the gubernatorial elections.
- Political parties tend to invest important amounts of resources on projects that guarantee that their supporters will benefit from them. Not only the PRI but also opposition political parties spend a great deal on clientelism.

- The level of development matters. There is significant evidence of increased spending on clientelism in poor municipalities and that clientelism tends to erode as municipalities develop.

In sum, political choices and local contexts play a large role in determining the way in which local governments allocate decentralised antipoverty funds. Electoral competition, the timing of elections and partisan considerations have an impact on the antipoverty spending of local governments.

The following chapter uses statistical analysis to test the extent to which FAISM allocation have an effect on improving access to basic services.

CHAPTER FIVE

PRO-POOR SPENDING AND BASIC SERVICE PROVISION IN MEXICAN MUNICIPALITIES

5.1 Introduction

According to the World Bank (2006a: 69) 'access to basic services such as water, sewerage and electricity are important to reduce poverty and improve the well-being of families'. In chapter two it was argued that over the past two decades, pressures brought about by increased political competition and a gradual transfer of resources to lower levels of government have led to an important restructuring of poverty alleviation efforts in Mexico. In particular, the changes to the social policy of the country have brought new life to subnational governments and today they have become effective providers of basic services to their populations.

At the municipal level, an important aspect of this restructuring has been the increasing transfer of resources with the objective of funding investments in basic social infrastructure that directly benefits the poorer population. Since the mid-1990s, with the creation of the FAISM municipal governments have received more resources than ever before to improve basic infrastructure services for their communities. In the years that followed the creation of FAISM, this fund became 'the most important funding source for local social infrastructure for poor municipalities' (World Bank 2006a: 71).

But have these changes led to improvements in access to basic services at the local level in Mexico? This chapter addresses this question by offering a comparative analysis focused on municipal basic service provision in 122 municipalities of Estado de Mexico between 2000 and 2005. Increase access to water, sewerage and electricity are tested. Given that 'the nature and extent of the

relationship between local political institutions and the outcome of development programs have been little examined empirically' (Hiskey 2003: 41), this chapter pays particular attention to the extent to which service delivery in Mexican municipalities is also linked to the new conditions of multi-party politics and decentralisation. In particular, it tests for the effects of electoral competition and party alignment on the capacity of local governments to increase basic service provision. A second aspect is related to the impact of social transfers (state capacity) on the ability of local governments to increase access to public services. In this case, this chapter tests for the effects that FAISM resources have had in improving public service provision. As FAISM emphasises community participation, the chapter also explores the effects of political participation on service delivery. Other aspects will also be considered related to the extent to which modernisation population growth and poverty levels have impact basic service provision at the municipal level.

The previous chapter of this dissertation examined the extent to which the political interest of local politicians continues to be a determinant for the allocation of FAISM resources. The analysis shows that despite recent reforms designed to depoliticise poverty alleviation programs, a significant amount of FAISM funds were distributed in a selective manner to advance the political gain of incumbent parties at the municipal level. It seems that, a significant number of resources continues to be allocated for the provision of private goods –characterised by targeted benefits to individuals or identifiable small groups in exchanged for electoral support (Kitschelt & Wilkinson 2007: 10). Thus, the most decentralised program for poverty alleviation in Mexico faces the problem of resource allocation with electoral rather than programmatic motivations. Clientelistic practices seem to prevail at the local level in Mexico. Yet, a positive sign for the distribution of antipoverty funds is associated with increasing levels of electoral competition and higher levels of socioeconomic development. These two factors appear to be significantly associated with reducing the provision of private goods. It remains to be seen if these factors are also linked to increase access to basic services.

While exploring the political determinants of antipoverty spending at the local level is important to understand how recent changes brought about by democratisation and decentralisation have shaped the implementation of social policy in Mexico at the municipal level. The extent to which public goods provision is increasing access to basic services that could also improve the living conditions of the population remains to be explored.

In Mexico previous programmes that channeled resources to the local level have been regarded as an example of the failure of decentralised transfers to help the poor (Crook & Sverrisson 2001; Rocha 2005). Under these circumstances, the question of how effective the most recent type of antipoverty allocations have been in providing better services for the poor population is key to understanding the possible challenges that the new political environment level has brought to decentralised antipoverty spending. In particular, while exploring the political factors that affect resource allocation at the local level might help to understand the political incentives under which local politicians favor private service provision (clientelism), it is worth examining the extent to which such allocations have improved the effective provision of basic public goods and services by municipal authorities.

Scholars have addressed the issue of the determinants of good service provision providing important insights. In studying the Mexican case, Hiskey (2003) examines the impact of pro-poor spending in the provision of basic services (water, sewerage and electricity). His findings suggest that local level democracy is critical for the success of pro-poor spending. Where there is multiparty competition, he found that antipoverty spending improved the access to public services. Ashworth et al. (2006) also provides evidence of the performance in public good provision of Flemish municipalities. His findings suggest that political competition at elections does have a beneficial effect on the capacity of local governments to generate a high level of public goods provision. His study also argues that the beneficial effects brought about by political competition might be mitigated if such competition leads to fragmented governments. Fragmentation, he argues, could work against efficiency.

Other studies have focused their attention on the association between other dimensions of democracy and public goods provision. Cleary (2007) for example, using a comprehensive analysis of public goods provision for all of Mexico's municipalities, incorporates participation as an additional factor that could affect the performance of local governments. Cleary's findings suggest that there is no significant relationship between electoral competition and public goods provision. He found that non-electoral participation, rather than competition between political parties, is associated with improvements in access to basic services (Cleary 2007).

Apart from these studies about how political competition and participation affect public goods provision, a number of scholars have paid particular attention to other structural elements as possible explanations for the failures in public service provision by municipal authorities. Thus, the literature on state capacity suggests that 'failures in the provision of public goods reflect underlying problems arising from weak states that are incapable of taxing, running a bureaucracy, or in general, fulfilling basic public functions (Diaz-Cayeros et al. forthcoming: 263).

This chapter explores the most recent effort to decentralise antipoverty spending for social infrastructure to the municipal level in Estado de Mexico. The following section offers a general overview of the literature about the factors that influence effective public goods provision. It also addresses several other factors (alternative explanations) that potentially explain local government's capacity to effectively deliver public services to their population. The third section includes the main hypothesis of this study and the justification for the study of Mexico's municipal governments. The fourth section describes measurement issues and the fifth presents some preliminary statistics and tests the main hypothesis. The sixth section concludes.

5.2 Literature review

The last three decades 'have witnessed a huge increase in the number of democratic governments in the world, but not concomitant improvements in

services for the poor' (Hasnain 2008: 130). As such, there has been increasing awareness among academics and policymakers that political institutions are critical to understanding why some local governments are more successful than others in delivering public goods to their populations (Kauneckis & Andersson 2006).

One political variable that is linked to better service provision is political competition. There is broad theoretical literature that highlights a number of reasons for the positive effect of political competition on local governments' performance (efficiency). First, 'a large electoral advantage or a lack of (significant) political competitors is likely to decrease the electoral accountability of politicians' (Ashworth et al.: 2006: 4). It is argued that as citizens are better informed regarding the performance of their respective local governments, competitive elections would give them 'opportunities to reward and punish those now directly responsible for administration and public services' (Grindle 2007: 63). In other words, political competition increases government performance through the selection of more efficient politicians. Second, political competition is considered a central aspect of representative democracy as strong competition between parties is expected to push politicians and government officials to deliver the policies desired by the electorate (Boyne 1998: 210).

The World Bank has also noted that 'elections, informed voting, and other traditional voice mechanisms should be strengthened because these processes (...) can make political commitments more credible, helping to produce better service outcomes' (WDR 2004: 78). The World Bank suggests that increasing the influence of poor citizens in policymaking and aligning their interests with those of the non-poor is expected to hold politicians accountable and hence improve service delivery (WDR 2004: 78).

Some empirical evidence has found that greater political competition is associated with better performance of local governments (Rodriguez and Ward 1994; Hiskey 2003). Recent research has found that officials elected, through transparent, open and competitive electoral processes, respond better to citizens' demands than non-

elected officials or those elected through non-competitive electoral processes (Crook & Manor 1998).

Regarding the particular effects of electoral competition on public goods provision, a number of scholars have found that the higher the levels of political competition, the higher the possibilities of a political party (politician) to serve the interests of their constituencies through better public goods provision. Through an empirical study of a set of 308 Flemish municipalities, Ashworth et al. (2006) found that electoral competition (measured in terms of the number of parties that participate in the election) has a significant and positive effect on service delivery by municipal authorities. These authors suggest that 'more stringent political competition between parties (or politicians) may lead to a reduction in rent extraction and inefficient provision of public goods' (Ashworth et al.: 2006: 4). In exploring the impact of antipoverty spending in the provision of electricity, potable water and sewerage in the municipalities of two Mexican states, Hiskey (2003) argues that when there is multiparty competition at the municipal level pro poor investment improved access to basic public services.

Participation is also considered to be a key aspect in increasing the citizen's ability to articulate demands and put pressure on politicians to increase access to public services. A recent study on participation and government responsiveness in Mexican municipalities carried out by Cleary (2007) has found that citizen involvement in policy implementation in the form of public protests, public meetings, and individual interactions with municipal officials are important determinants of government responsiveness. In line with Putnam's (1993) arguments regarding the effects of social capital on government performance, Cleary (2007: 285) points out that even in the absence of meaningful electoral competition 'participation may stimulate a response from government officials if those officials are tied to their constituency via social networks'. He also notes that governments with better information are more likely to be more responsive (Cleary 2007: 285). In general, the hypothesis behind these arguments is that when the levels of political participation are high, governments will be more responsive and hence improve service provision.

Contrary to Hiskey (2003), Cleary (2007) argues that in the case of Mexican municipalities electoral competition has no significant effect on better public goods provision. His statistical analysis shows how variables related to political participation, such as literacy and voter turnout, have a significant effect on increasing access to basic public services. According to his results, increasing citizen involvement in policy implementation accounts for variations in the local government's capacity to improve basic service provision. In general, he argues that 'increased participation is the most reasonable explanation for improved government performance in Mexican municipalities' (Cleary 2007: 296).

Apart from the recent focus on democratic institutions and partisan politics as the main explanatory factors of variation in public service provision, other scholars have considered state capacity as an important aspect that influences public good provision. According to Díaz-Cayeros et al. (forthcoming: 264) 'it is important to acknowledge that public service provision might be better or worse due to differences in bureaucratic performance'. The literature considers that local governments can be thought to lack state capacity due to their small size, precarious public finances, the poverty of their inhabitants and low levels of service provision.

Recent empirical studies have included a number of variables to account for state capacity. According to Díaz-Cayeros et al. (forthcoming), in exploring government performance it is important to control for the initial level of service provision as 'it is easier to improve public services in places where there is virtually no provision of public services than to expand to 100 percent coverage' (Díaz-Cayeros et al. forthcoming: 274). A second element that may affect a municipality's capacity to deliver basic public services is the type of municipality: urban or rural. This variable has been used to control 'for the greater difficulty in providing basic services in municipalities with populations living in small, relatively isolated communities rather than in a single municipal centre' (Hiskey 2003: 50-51).

A third factor that affects the capacity of local governments to deliver public services to their population is the amount of resources that they have at their

disposal. This means that ‘all else equal, municipalities with larger budgets (...) should be able to provide better services’ (Cleary 2001: 5). Although it might be the case that antipoverty resource allocation has been and is still affected by political motivations, whether or not performance is explained by the amount of spending that municipal governments have at their disposal remains to be examined. It is expected that with more resources and autonomy to allocate social infrastructure funds, local governments would be more effective in improving service coverage as they are better able to know what the real needs of the population are. It is expected that governments closer to the people would be more responsive and efficient, and thus, foster development and reduce poverty. The role of social infrastructure investment in general implies that as the investment in basic social infrastructure increases, government performance (measured as improvement in basic service coverage) should improve.

In sum, as the most recent studies on local governments have shown, there is no consensus with regard to the factors that affect public good provision. In this sense, this chapter puts forward three hypotheses regarding the political and structural aspects that seem to be determinants of local government’s ability to increase access to public services. Each hypothesis evaluates the different visions on the factors that are thought to influence the effective delivery of public services.

5.2.1 Other variables affecting public goods provision

One aspect that has been recently explored to explain this poor performance is the nature of local politics. In Mexico, as local politics have become more pluralistic and democratic, the political society at the local level has started to develop incentives to broaden their policy influence in order to maintain their political capital over their jurisdictions (Beer 2004). With more decision-making powers and resources, local political actors started to have more incentives to increase their possibilities to compete for political spaces in the future. This increasing desire

from local political actors to win local political positions is thought to have major effects on governments' performance.

Given the current political conditions in Mexico, characterised by multiparty competition at all levels of government, the study of the effects of the local political logic has gained more importance. It is not until recent years that the literature has started to pay more attention to the substantial subnational variations in political environments and its effects on development.

In this sense, other political variables that the literature considers as determinants of government performance are: a) the identity of the party in power, and b) the party relationship between municipal and state governments. It is believed that the ideological nature of the ruling party might have significantly influence policy outcomes. By looking at the available body of evidence on local party effects of local policies in the UK, Boyne (1996: 249) concludes that it is plausible that the party influence on local policies are likely significant and widespread.

Recent empirical studies have noted that some political parties exhibit better performance than others depending on their ideological nature and/or their willingness to perform well to prove that they can govern. For the Mexican case, Hiskey (2003) suggests that it is difficult to give strong arguments regarding the particular performance of a political party. Yet, it is, at least, worth testing whether or not there are party-level differences in the quality of government among municipalities, controlling for other factors.

In the case where the municipal and state governments belong to different political parties, Cleary (2001: 6) argues that it is plausible that 'the governor could make life difficult for mayors who are of an opposing party'. It is expected that municipalities with a mayor from a different party than the state governor will show a lower level of performance than municipalities where the mayor and governor belong to the same political party.

An additional political factor linked to local government' performance is the political composition of the municipal councils. In Mexico, with the introduction of the proportional representation principle for seats on municipal councils in 1983,

'pluralism became a more regular feature of these councils' (Grindle 2007:78). Although the integration of the municipal councils (*cabildos*) is a result of the success of the candidate running for the presidency of the municipal government (as the mayor automatically gets the majority of the seats), it allows some multiparty representation within municipal councils. This fact has brought new life to the role of municipal councils in terms of policy decision-making and implementation. Today, '*cabildos* are more likely than ever before to meet in open sessions and play the role of public 'watchdog' with oversight of programs and budget' (Ward 1998: 353), thereby enhancing responsiveness and accountability.

Despite the positive expectations that multiparty representation has brought for municipal governance, it could be the case that it might have negative effects in terms of better service provision. It is possible that given the opportunity for multiparty compositions of municipal councils, municipal councils might become spaces of significant inter-party discord over resource allocation and administration. In particular, a more pluralistic representation within municipal councils could produce more conflict over the distribution of social and physical infrastructure (Grindle 2007: 79), having negative effects on the ability of local governments to produce more efficient public service provision. As Grindle (2007: 78) suggests, 'more competitive elections [have] often left behind divided councils, partisan bickering over the allocation of municipal resources, and administrators frustrated by gridlocked decision making.'

With increasing levels of political competition politicians may have incentives to spend resources with the aim of improving their chances of winning elections rather than with the aim of satisfying citizens' preferences. In her study on competitive elections and government performance, Grindle (2007) found that although electoral contests at the municipal level in Mexico became more meaningful as a result of decentralisation to the municipal level, democratisation did not necessarily lead to less conflictive politics, easier decision making or good governance. High levels of political competition may lead to highly fragmented governments that could work against efficiency (Ashworth et al. 2006). Just as the lack of political competition might result in poor government performance,

extremely high levels of partisan fragmentation might be translated into inefficient service provision (Singer 2004).

Finally, other factors could be also linked to effective public goods provision. Corruption might distort the composition of government spending (Baraldi 2008: 2). Recent studies have found that governments might choose to spend less on those areas where it is more difficult to extract lucrative gains than from other components of public spending. For example, public officials might choose to spend less on education or to favor investment in completely new projects rather than operation and maintenance, with negative effects on the wellbeing of the population (Ehrlich and Lui 1999).

5.3 Hypotheses

As described in the previous section, the literature offers three main explanations for the differential provision of local public goods. First, a wide range of empirical research posits that political competition is a necessary condition for the success of public service provision that emphasises citizen empowerment at the local level. This is because citizens living under competitive political regimes will be more likely to initiate and/or sustain the level of political participation required to achieve the development outcomes of public spending (Hiskey 2000). In this sense, it is possible that *in more competitive political environments municipal governments are more likely to provide public goods to their population.*

Second, democratic accountability in the form of political participation is thought to determine success or failure in the provision of public goods. The literature suggests the need to explore the effect of citizen participation on the provision of public goods as the quality of government performance likely depends on a citizenry engaged in policy implementation. Thus, it is possible that *municipal governments might provide public goods to the population when political participation is higher.*

Third, there were great expectations that through strengthening local government's capacity by giving them more autonomy, resources and responsibilities, service provision would improve. Devolution of powers and resources is believed to have a positive effect on public service provision. In line with this optimistic view, great amounts of resources have been transferred to the lower tiers of government in Mexico with the expectation that this level of government would be more effective in improving access to basic services. In particular, decentralised antipoverty funds have been given to municipal authorities in an attempt to improve the social infrastructure of the municipalities. While recognising that greater expenditures on public services does not necessarily translate to better service provision (in terms of quality and equal access), it is important to explore the extent to which the most recent antipoverty strategies are increasing access to basic services across municipalities. *Thus, it is possible that decentralised antipoverty funds might increase the likelihood of a municipality's capacity to provide access to public goods.*

Keeping in mind other factors that might also account for variations in the provision of public goods at the local level, in this chapter I examine the impact of social spending in local public goods provision in the 122 municipalities of Estado de Mexico. The Mexican case is ideal for the testing of these hypotheses. First, in the last two decades, the provision of basic services for the poor has become a key aspect of local government activities in Mexico. By transferring resources and decision-making powers, the decentralisation process of the last two decades has awakened the once dormant local governments. With more resources and responsibilities than ever before, local governments in Mexico have become *de facto* participants within Mexico's federal system. Second, since the introduction of *FAISM*, Mexico's most recent antipoverty fund that aims to improve basic infrastructure needs of poor communities, municipal governments have had considerable policy discretion in the allocation of infrastructure investment. This allows us to test the capacity of local governments to use social infrastructure funds efficiently with no intervention from other levels of government. Third, and most importantly for this chapter, the Mexican case allows us to examine how local

governments, exposed to new conditions of increasing political competition, respond to citizens' demands for basic service provision.

The remainder of this chapter is dedicated to the measurement of the variables and to the main statistical results and conclusions.

5.4 The Model

To date, there has been no systematic evaluation of the effectiveness of FAISM at the municipal level. No quantitative research has been carried out with to evaluate the impact of these decentralised transfers to provide basic public services to the poor under recent conditions of multiparty politics and decentralisation. The data set constructed for this research represents a first attempt to explore the extent to which FAISM funds can effectively improve basic service delivery at the local level. Most of the research carried out to explore the impact of FAISM on the reduction of poverty in Mexican municipalities has been based on qualitative empirical data drawn from specific case studies (Rocha 2005). Since it has been difficult to find reliable and comparable data across municipalities, other studies have focused on the effects of political variables on the distribution of resources of federal programs at the municipal level (Perez 2007) but not on the actual use of such resources by municipal authorities.

For the purposes of this chapter, I estimate the effects of political variables on the change in access to drinking water, electricity and sewerage. I have chosen these development indicators because the data on these indicators is available for comparison across both censuses at the municipal level in Mexican municipalities. A second reason for my choosing these indicators is that there is broad consensus in the literature that access to public goods can effectively improve the welfare of inhabitants in any given population (Diaz-Cayeros et al. forthcoming). Finally, a third reason for the use of these indicators as a dependent variable is that article 115 of the Mexican constitution explicitly assigns responsibility to municipal

governments for the provision of these three basic services³⁶. Although federal spending (such as FAISM) is allocated to the municipalities to improve basic social infrastructure, it is the municipal authorities who have the last word regarding the actual use of those resources.

Specific spending data from FAISM on the three basic services mentioned above were reported by 122 municipalities in Estado de Mexico during 2000 and 2005 which makes it possible to examine the extent to which FAISM spending is associated with changes in public goods provision. Basic service provision is a principal component of FAISM allocations and represented around 20 percent of total per capita FAISM investment during the 2000-2005 period. It is worth noting that we do not include education and health services since their provision is primarily the responsibility of state and federal governments and because it is difficult to find reliable data about school and health clinic coverage. In the case of potable water, sewerage and electricity, access to these services depends upon provision by municipal governments.

5.4.1 Dependent variables

In order to evaluate the change in public good provision, three basic services have been selected: potable water, sewerage and electricity. Municipal development data between the years 2000 and 2005 have been collected which make it possible to estimate basic services coverage achieved during those five years. For this case, data from the Mexican National Statistics Office (INEGI) includes the number of inhabitants at the municipal level with access to water, sewerage and electricity services in 2000 and 2005.

In line with Hiskey's (2003) analysis on government performance, the dependent variables of this analysis are the changes in the percentage of households at the

³⁶ Data regarding other responsibilities of municipal governments such as public security, road maintenance, etc. are either non-existent or are not of sufficient quality, thus it is problematic to use them as a measure of government performance.

municipal level with access to drinking water, sewers and electricity between the 2000 and 2005 censuses. They are measured by the changes in the percentage of households with access to drinking water, sewers and electricity between the 2000 and 2005 censuses specified as follows: (percentage of population receiving service in 2005 less the percentage of population receiving service in 2000).

Table 5: Descriptive statistics of dependent variable

	Sewerage			Water			Electricity		
	2000	2005	change	2000	2005	change	2000	2005	change
Mean	80.76	88.57	7.81	89.42	90.56	1.14	96.31	98.17	1.86
Standard deviation	20.51	13.65	-6.86	12.47	12.19	-0.28	4.63	2.25	-2.38
d1 (10%)	47.08	66.91	19.83	73.64	75.75	2.11	90.9	95.23	4.33
q1 (25%)	62.11	77.04	14.93	85.1	88.93	3.83	94.78	97.56	2.78
Median	91.27	96.52	5.25	94.55	94.77	0.22	98.47	99.13	0.66
q3 (75%)	98.36	99.23	0.87	97.75	98.18	0.43	99.14	99.56	0.42
d10 (90%)	98.75	99.73	0.98	99.37	99.39	0.02	99.57	99.77	0.2

There are important differences between the provision of sewerage services in poor and rich municipalities. The visible disparities across quartiles of municipalities highlight the poor's lack of access to basic services. For example, the first decile of the distribution (d1) had an average coverage of 47.08, while the top decile (d10) had approximately two times greater coverage at 98 percent. However, the gap has somewhat narrowed since improvements in sewerage services have progressed more rapidly among the lower half of the distribution. The median municipality in 2000 would fail to provide this essential public service to almost 10 percent of the population.

In the case of water, the differences in provision of this essential service are not as large as in the case of sewerage but they are nonetheless important. In this case, in the year 2000, the median municipality had reached 94 percent coverage while

the first decile of the distribution had an average coverage of 73 percent. In other words, in the case of potable water municipalities would fail to provide this essential service to roughly one fourth of its inhabitants. It is worth noting that in the case of the water provision, the municipalities in the first decile of the distribution are not the ones showing the largest improvements, as in the case of the other two services. Despite the fact that it is expected that those municipalities lagging behind in service coverage would have the largest improvements, it seems that those municipalities actually found it more difficult to increase service coverage in 2005 despite their low initial level of service provision in the year 2000. The provision of electricity also shows fewer differences between rich and poor municipalities than the other two cases. In this case, even in the first decile of the distribution, by the year 2000 these municipalities had already reached 90 percent coverage.

5.4.2 Explanatory variables

Political competition

One of the independent (political) variables of central interest for this analysis is the level of political competition as measured by the effective number of electoral parties competing in local elections estimated for each municipality in Estado de Mexico³⁷ (Laakso and Taagepera 1979).

³⁷ This measure is an indicator that counts parties after weighting them by size.

Table 6. ENP municipal elections in Estado de Mexico

ENP	Freq.	Percent
Two party ($ENP < 2.4$)	14	11.57
Three party ($2.4 < ENP < 3.4$)	73	60.33
Multiparty ($ENP > 3.4$)	34	28.1
Total	121	100

In 2000, 60 percent of the municipalities presented an important fragmentation of the party system. Elections were contested and, in most cases, three or more political parties had candidates that obtained significant shares of the municipal votes.

Party ideological nature

In order to capture the ideological nature of municipal governments I have used the Mean Left-Right Position (MLRP) which measures 'how far to the left or the right the average party was in each election, based on the left-right positions of all the parties and their shares of the vote' (Coppedge 1998: 556). According to this index, if all parties were on the right, the index would equal 100. Conversely, it would equal -100 if all parties were on the left, 50 or -50 if all parties were centre-right or centre left, respectively, and zero if all parties were centrist. In the case of Estado de Mexico, for the year 2000 the MLRP ranges from -37.91 to +24.79, with an overall mean of -.16. In this sample, roughly 50 per cent of the municipalities are within the centre-left spectrum.

Since one of the goals of this chapter is to examine the extent to which the ideological distance between the members of the *municipal council* and the Mayor is associated with improvements in basic service provision, I have also calculated the MLRP of the municipal councils and estimated the ideological distance

between the council and the head of the municipal government. I have estimated this variable with the percentage of representation of each political party within the municipal councils.

Political participation

Since accountability in public service delivery might be associated with political participation and electoral competition (Hiskey 2003; Cleary 2007), turnout will be used as a proxy of participation. It is assumed that higher turnout levels indicate higher levels of participation. This variable will also be used to test whether or not participation is associated with higher levels of basic service coverage at the municipal level.

The remaining independent variables will include a cumulative FAISM spending per capita measure with only those funds specifically designated for basic services of water, sewerage and electricity between 2000 and 2005. I estimate one measure for each service. Since the dependent variable covers the period between 2000 and 2005, I use total per capita amount spent on these basic services during this five-year period. This allows me to analyse the impact of FAISM on changes in the provision of the basic services: potable water, sewerage, and electricity. As mentioned before, the expectation for this variable is that the higher the per capita spending levels of each service, the greater the expansion of the service in municipality in question. I will also run the model differentiating between rich and poor municipalities. Also included is the type of municipality (urban or rural) to control for difficulties in providing basic services to populations living in rural municipalities.

State capacity and other control variables

The remaining independent variables for this model intend to account for other factors that might explain variation in basic service provision levels across the 122 municipalities of Estado de Mexico. First, change in a municipality's population has

been linked to a municipality's capacity to perform well. Thus, the population change between 2000 and 2005 is estimated to control for the impact that variation in the population might otherwise have on the change in service provision. The idea is to control for 'any effects population gains or losses may have had on the change in basic service provision' (Hiskey 2003: 49). For exploratory purposes, it is expected that the causal impact of this variable may run in both directions depending on the nature of the population change.

An additional control variable is the initial level of basic service provision. In this case, a municipality's 2000 level of basic service provision is included for each of the services in question. It is expected that those municipalities lagging behind in public services would be the ones showing the largest improvements (Díaz-Cayeros et al. forthcoming).

Dummy variables indicating whether the municipal president is of a different party than the governor will be included in the model. The idea is to explore the extent to which municipalities with a Mayor belonging to a different party than the state governor can improve service coverage within their population. Finally, a dummy variable indicating if the municipality belongs to the metropolitan area of Mexico City will be included to examine how a municipality's proximity to a larger urban centre is associated with improvements to basic service provision.

5.5 Results and discussion

This analysis includes three models of the determinants of changes in the percentage of the population with access to basic services. Each model corresponds to one of the public services included in the analysis: potable water, sewage and electricity. The models include three types of variables: state capacity, political variables and participation as determinants of changes in basic service provision. The estimations were run in STATA with robust standard errors (OLS).

Table 7. Determinants of the Change in Basic Service Provision (OLS)

DV: Change in local public goods coverage

	Water Coeff. (S.E.)	Sewerage Coeff. (S.E.)	Electricity Coeff. (S.E.)
Constant	-14.57 (9.37)	23.08*** (8.23)	4.24** (1.85)
Initial level of provision	-.022 (.102)		
% change in population	-5.33 (4.05)	-4.77** (1.90)	-2.59*** (.89)
Population	1.40 (1.87)	-1.64 (1.34)	-2.17 (3.39)
Type of municipality (1 = rural)	.962 (1.36)	8.67*** (1.33)	.63** (.30)
FAISM spending/cap	.022* (.011)	.016 (.013)	.026*** (.002)
Electoral competition (1 = two parties; 2 = three parties; 3 = more than three parties)	1.89* (1.01)	-2.54** (1.00)	-.37 (.25)
Municipal MLRP	.060* (.03)	-.035 (.04)	.001 (.008)
Ideological distance Mayor – Cabildo	.019 (.082)	.033 (.062)	.004 (.013)
Juxtaposed Mayor	-.44 (1.69)	-.15 (1.01)	-.48 (.32)
Electoral participation	.18* (.100)	-.18* (.10)	-.03 (.025)
ZMVM (metropolitan area of Mexico City)	-1.70 (1.22)	-2.34 (.90)	-.30 (.198)
R-squared	0.26	.68	.77

N=121. Standard errors reported in parentheses. Significance levels are indicated as follows: ***p<.01, **p<.05, *p<.1

As similar studies have noted (Hiskey 2003, Diaz-Cayeros et al. forthcoming), the improvements in the provision of each of the basic services analysed in this chapter are significantly associated with the initial levels of provision³⁸. This finding indicates that municipalities with the worst indicators of service provision are the ones that have improved the most quickly. Thus, in general, there is a positive trend across the municipalities of Estado de Mexico to increasing access to basic services.

The first model relates to the determinants of the change in water service provision. The results confirm expectations regarding the association between our three variables –electoral competition, state capacity and participation– and changes in basic service provision. First, higher levels of political competition, measured by the number of political parties competing in each municipality, seem to be positively correlated with increasing levels of service provision. In line with the hypothesis that *‘in more competitive political environments municipal governments might be better able to provide public goods to their population’*, it could be argued that, despite the fact that municipal re-election³⁹ is not permitted in the Mexican legislation, politicians still have incentives to respond to the population demands through improving access to water services.

Most of the municipalities of Estado de Mexico show high levels of political competition and most of them have experience alternation of power in recent elections, therefore, it could be the case that the short experience with democratic politics has put pressure on local politicians to deliver better services, and in the

³⁸ It is important to mention that I regressed first both the initial level of service provision of sewage, water and electricity in the 122 municipalities of Estado de Mexico and the level of service provision achieved in 2005 to see if there is a significant positive relationship between these variables. As it was expected, there is a strong correlation between the initial level of provision and the level of provision five years later in the three cases. In order to test if the coefficient on the initial level of service provision is equal to one in the regressions mentioned above, I performed an F Test for each of the three regressions with the test command using STATA. The results confirm that in the case of sewage and electricity the coefficient of the regressions is equal to one. In the case of water, it is not equal to one. The test was performed in order to clarify the extent to which the initial level of service coverage is associated with the changes experienced on the provision of the three basic services which is the dependent variable of my statistical model. In order to clarify the model that attempts to examine the determinants of changes in service provision and based on the tests mentioned in the previous paragraph, I decided to run the water model with the initial level of service provision as one of the independent variables. In the case of sewerage and electricity I removed the initial level of service provision as this variable was masking out most of the effect of the other independent variables.

³⁹ According to Cleary (2007: 296), ‘the prohibition against re-election and the three-year term make sustained responsiveness quite difficult’.

case of infrastructure investment to allocate resources to improve the infrastructure needs of the population. An additional explanation is that municipalities that have exhibited greater competition from two or more political parties, aiming political support from broader sectors of the population have more incentives to invest in projects that benefit large proportions of the population.

Second, as argued in previous sections of this dissertation, decentralisation has strengthened the capacity of local governments to respond to local demands by giving them more resources and responsibilities. According to the results, there is some evidence to suggest that through FAISM spending, the municipal governments of Estado de Mexico have been able to improve water service provision during the period of analysis. There is a positive correlation between per capita FAISM spending in water related projects and improvements in access to this basic service. This finding suggests that when antipoverty spending is allocated to projects categorised as public goods, important improvements can be achieved in terms of basic service provision. In addition, despite the fact that a great deal of FAISM resources are allocated for private goods, the share of resources invested in public goods provision seems to be spent effectively. In line with our second hypothesis, it could be argued that decentralised antipoverty funds have increased the likelihood of the municipality's ability to improve access to public goods.

Third, the evidence is consistent with the prediction that municipal governments are more effective in providing public goods to the population when electoral participation is higher. In line with Cleary's (2007) findings that increased participation is a reasonable explanation for improved service provision, the findings of the determinants of changes in water provision in the municipalities of Estado de Mexico suggest that in municipalities where the possibilities of effective citizen participation are higher political representatives are under greater pressure to respond to their demands. Thus, it could be argued that in places where citizens participate more in public affairs water service provision tends to improve.

The second model tests the determinants of the change in sewerage service provision. As expected, socio-demographic variables are associated with changes in sewerage services coverage. For instance, important changes in population make it more difficult for municipalities to increase service coverage (it is more difficult to increase coverage when the population increases). A second important finding is that rural municipalities tend to increase sewerage services coverage. As anticipated, as rural municipalities lag in providing this basic service to their populations, improvements are more noticeable. In general, rural municipalities have problems of institutional capacities that might undermine their abilities to deliver basic services. Yet, our findings suggest that despite the possible limitations that rural municipalities might encounter in terms of their capacity to deliver public goods, they have been able to make significant progress in improving access to this basic service.

With respect to the other independent variables of interest the results are mixed. As I found in the water model, political competition is associated with better levels of sewage services coverage. Yet, in this case, improvements in service provision are associated with a different type of political competition. It seems that, municipalities with electoral competition between two political parties –as opposed to multiparty politics as in the case of water– seem to show larger improvements in service coverage. In this case, moderate electoral competition with enough parties to make the election competitive and to generate organised competition but with few enough to provide incentives for parties to build large electoral coalitions, puts pressure on local governments to compromise with the provision of programmatic (long term) public goods. Again these findings suggest that in the presence of political competition between two political parties, local authorities might have more incentives to benefit large sectors of the population through public goods provision.

In terms of electoral participation, it is striking that the sign of the coefficient of this variable is negative. This suggests that those municipalities that show lower levels of electoral participation appear to have some improvements in sewerage services coverage. Recent research has found that, ‘the groups that are politically more visible at the local level are the ones who tend to benefit the most from FAISM (...)’

(Rocha 2005: 356). It is not necessarily the poor who are setting spending priorities in the communities. In this sense, it seems that municipal authorities encounter more pressure to allocate resources from organised groups that are more interested in '[having a] commercial kiosk or otherwise 'beautify' the municipality rather than addressing needs that may be much more elemental (...) but also a lot less visible' (Rocha 2005: 356). My findings are consistent with this study in the sense that local officials find it more politically rewarding to attend to the demands of more empowered citizens who do not necessarily represent the interest of the poorest sectors of the population. Therefore, in those places where participation is low, improvements to basic demands from the poor, like sewerage, are possible. This does not mean that participation is bad for service delivery. What my findings suggest is that the current community participation mechanisms at the municipal level are not effectively incorporating the demands of the poor.

The reasons for the lack of incorporation of the demands of the poor into the allocation of FAISM funds are found in the decision-making process to select public works and projects. In some cases, it is the municipal officials who actively promote the development of projects, taking into consideration the cost of the public work and the priorities set by the municipal government and the petitions from the population. These petitions are the result of the collection of demands that organised groups make to candidates during electoral campaigns. Electoral promises become the main instrument for exchanging possible benefits in the form of public goods in return for electoral support. It is during electoral campaigns that the consolidation of alliances between candidates and the different local political groups – that later dominate the spaces of citizen participation – takes place, with important implications for the final destination of antipoverty funds. During the electoral contests, organised groups, which are led by party affiliates most of the time, put pressure on politicians and eventual political authorities to offer future allocations of public spending according to their priorities and those of the specific sectors of the population that they claim to represent (FUNDAR 2006). Rocha (2005) has also found cases where municipal presidents collect requests for public works and basic infrastructure from the community during electoral campaigns and

draw plans of action based on those requests once they take office. In these cases, 'the groups that are politically more visible are the ones who tend to benefit the most from FAISM' (Rocha 2005: 356).

These mechanisms of political bargaining show the strategic importance that the control of public funds has in local political contexts and how local elites and party affiliates seek to capture resources that, as in the case of FAISM, are aimed to provide basic services to the poorest sectors of the population.

An additional example of how municipal authorities undermine social participation in the decision-making process of the FAISM-financed projects is observed in the role of officials responsible for the departments of public works in the municipalities. According to a study carried out by FUNDAR in 2006 regarding the monitoring of social programs in electoral contexts, mayors, through the Directorates of Public Works, decide which projects will be carried out during their administration. The study shows cases where, despite that some municipalities carries out consultations with the population to include possible petitions from different localities within the community, it is the Council for Municipal Development that determines which projects will be carried out from a list prepared by the Directorate of Public Works (FUNDAR 2006).

The third model explores the determinants of the change in electricity services. In this case, only variables related to state capacity seem to be associated with changes in coverage of this service. Decentralised infrastructure investment through FAISM appears to be positively associated with changes in electricity coverage. My findings are consistent with previous studies that note that 'in the case of electricity, resources seem to be well targeted according to the needs of the municipalities (World Bank 2006a: 72). Thus, municipal governments have shown that they have the capacity to deliver this basic service effectively to their inhabitants.

Regarding the other variables of interest explored in this chapter, the fact that they are not significant determinants of change in electricity service provision might be explained by the high levels of service coverage among different types of

municipalities. In the case of this basic service, even the poorest municipalities of Estado de Mexico have had relatively high levels of coverage since 2000 (in 2000, the first decile of the municipalities had reached 90% coverage). An additional explanation for the lack of association between electoral competition and participation is related to the fact that due to high levels of coverage, local politicians have few incentives to allocate electricity resources as the potential electoral benefits of these allocations could be limited to significantly small sectors of the population.

5.6 Conclusion

FAISM's aim to increase social infrastructure is a key aspect of Mexico's poverty reduction strategy. According to the World Bank (2006b: 169), 'infrastructure plays a role in assuring basic subsistence, as in the case of potable water, and health, in the case of sanitary disposal of waste and electricity for cooking and safe heating. It is also crucial for accessing employment and markets, via transitable roads, and for human development, via roads to access education and health facilities, and electricity to allow these facilities to function adequately'.

To date, Mexico has made important progress in increasing the levels of coverage of basic public services. However, although Mexico's investment and coverage are higher than the Latin American average, there are still important sectors of the population that lack access to basic services or that face serious problems of quality and reliability of infrastructure services.

The analysis carried out in this chapter has explored the factors that are linked to improvements in access to three basic services at the municipal level: water, sewerage and electricity. In particular, I have tested for the effects of state capacity, electoral competition and participation on public service provision. The results suggest that FAISM allocation of public goods presents significant improvements over the previous antipoverty strategies. The results of this study

show that public goods allocations through FAISM have enabled local governments to improve access to basic services to the population.

Despite these advantages, FAISM has important limitations in terms of accountability and monitoring that increase the chances of local authorities to allocate resources to actions that could not be considered as social infrastructure investments. This chapter has shown that *FAISM* resources that were allocated to financing social infrastructure projects in water, sewerage and electricity services (public goods) seemed to have increased the number of people with access to these basic services. Municipal strengthening through the decentralisation of resources and responsibilities seems to have paid off in terms of improving service provision. These findings are a positive sign regarding the prospects of *FAISM* for improving access and quality of basic services providing that the institutional limitations of accountability, monitoring and evaluation are improved in the short term.

According to the World Bank (2006b: 210) one of the main challenges of FAISM is to strengthen accountability 'both upward and downward through systematic evaluation of results [and] monitoring spending efficiency'. The limitations of this fund in this respect might serve to undermine the prospects that more democratic politics at the local level have for service delivery. As mentioned in previous chapters of this dissertation, the political context at the local level has experienced significant changes in Mexico. Today, most municipalities have experienced political alternance. Elections have become free and transparent, and in most cases there is strong competition between two or more political parties. There have been great expectations that these changes would have a positive effect on service provision at the local level.

The analysis of the links between the political variables (electoral competition and participation) and changes in basic service provision shows mixed results. While competition among two or more political parties seems to be associated with increases in basic service provision in water and sewerage services, higher levels of political participation seem to be only significant determinants of increases in

changes in the provision of potable water. These findings indicate that, in the case of sewerage, local politicians are more effective providers of this basic service in municipalities where they face moderate or high levels of political competition.

In the case of sewerage services, it seems that it is that when people participate fewer increases in the provision of this basic service are possible. The fact that lower levels of participation are associated with changes in the provision of sewerage services suggests that in those municipalities where participation is low, some level of improvement to access to basic services is possible. Community participation is a key aspect for the allocation of FAISM funds, however, it seems that when people participate, it is usually the more empowered sectors of the population –that already have access to basic services– who are setting spending priorities, thus excluding the poor from receiving the benefits of basic infrastructure investments.

In sum, it could be argued that basic service provision has improved through pro-poor policy interventions. Apparently, the decisions taken by municipal officials regarding the actual use of social transfers have been effective in improving access to basic services. Despite the fact that significant number of antipoverty transfers have been subject to political manipulation through the allocation of private goods at the local level, public goods spending has been an important factor that has induced improvements in basic service provision.

The statistical analysis in this chapter has shown different patterns of improved service delivery that are shaped, in various ways, by the political dynamics at the local level. In general, although the results are far from conclusive, it can be argued that apart from the beneficial effects of increased pro-poor spending, meaningful elections seem to have beneficial effects in the provision of some basic services.

CHAPTER SIX

CONCLUSION

This dissertation has explained the extent to which a scheme of decentralised disbursements from the centre to municipal governments with pro-poor objectives could serve to provide basic social infrastructure to the poorest communities of the country. This dissertation has also provided an account of how local political institutions determine the final destination of these resources, as well as providing some evidence regarding the impact of these allocations, influenced by political factors, on basic service provision. This section highlights the importance of studying the politics of resource allocation, summarises the most relevant empirical findings, and briefly explores possible research and policy implications.

6.1 Studying the politics of pro-poor policies

The recent social policy transformations in Mexico were expected 'to have the potential to decrease clientelistic practices' (Pérez 2007: 8). In particular the decentralisation of social policy through the creation of FAISM created great expectations that the political manipulation of antipoverty funds would be eradicated since the new formula based system 'appeared to have set the basis for the elimination of rampant presidential discretion in the allocation of resources' (Pérez 2007:8), which had characterised previous poverty alleviation programs.

At the same time, the recent transition to democracy that started at the municipal level in Mexico provided reasons to believe that through transparent and clean elections, citizens would be able to reward or punish the performance of local politicians.

While FAISM represented an instrument to transfer important amounts of resources and provided an opportunity for local governments to get directly

involved in the implementation of social policy, little was known regarding the success of this strategy in improving the living conditions of the population. Moreover, little was known regarding the actual use of the resources and, more importantly, whether they had been subject to political manipulation from local political actors.

This dissertation studied the extent to which FAISM has served to provide basic social infrastructure to more disadvantaged sectors of the population of the municipalities within Estado de Mexico. In doing so, and given the need to consider the role of political institutions in analysing policy implementation and outcomes, this dissertation developed a framework to explore antipoverty spending from the perspective of the political motivations behind the distribution of public funds.

The theoretical discussion offered in this dissertation has explored the incentives that politicians have when choosing between two types of goods: public and private. The characteristics of these two types of public investment and their possible effects on policy outcomes have provided a better picture of the policy choices that local politicians make when deciding how to distribute social spending.

As previously mentioned, antipoverty spending is potentially vulnerable to being used by politicians as an instrument for gaining political support. The examination of FAISM allocations in one Mexican state has offered the opportunity to test various premises regarding the linkages between local political institutions and politically motivated allocations of public.

In particular, the examination of FAISM was an opportunity to engage in a detailed analysis of municipal spending. It allowed for an exploration of the role played by local municipal authorities in the implementation of decentralised antipoverty spending and offered an opportunity to examine the extent to which the decisions taken at this level of government had an impact on the effects of pro-poor policy interventions. This disaggregation and classification of FAISM spending data from 122 municipalities in Estado de Mexico over a nearly ten-year period was the first attempt to create a detailed account of the choices that local politicians make over resources that aim to benefit the poorest sectors of the population; in a country that

has a long tradition of clientelistic relationships between citizens and politicians, and has recently experienced deep democratisation and decentralisation reforms.

The study of political institutions and their effects on policy implementation helps to shed new light on the reasons behind the failure of local governments to improve service delivery. This dissertation has focused on the analysis of the linkages between political variables, decentralised policy making, and implementation in order to shed light on the reasons behind the prevalence of clientelistic practices in Mexico despite recent democratic developments.

6.2 Summary of main findings and contributions

One of the challenges in the process of allocating antipoverty funds is mitigating the risk of their capture by local politicians and subsequent allocation to individuals or specific sectors of the population in ways that can benefit politicians through the exchange of goods and services for votes –clientelism–. As has been shown in this dissertation, the lessons learned from previous antipoverty programs in Mexico, where the distribution of resources was politically motivated raised concerns regarding the effectiveness of these efforts in their fight against poverty. In this context, the creation of FAISM was considered a major reform towards the depoliticisation of decentralised antipoverty spending. However, as this dissertation has shown, an important amount of FAISM disbursements are allocated to private goods –clientelism–. It seems to be the case that local politicians allocate antipoverty funds with political motivations in order to guarantee the political survival of themselves, their party and their political aides.

This dissertation shows how the three major political parties competing in local elections in Estado de Mexico invested a great deal on clientelism as opposed to more programmatic forms of public spending. Clientelism has permeated the political spectrum and is not an exclusive feature of one particular political party. This dissertation has also shown that local politicians have been using government resources to build clientelistic networks particularly in years when elections are

held. It seems that municipal authorities align FAISM disbursements in accordance with the electoral strategy of their political party. This dissertation also confirms what previous studies have found regarding the effects of the level of development on clientelism. In this case, the poorest municipalities of Estado de Mexico spent more on clientelism than more developed ones. Thus, it can be argued that the use of social spending as a vote generating mechanisms is a common practice in contexts with high incidences of poverty and where votes are likely to be bought through the allocation of individualised “cheap” private goods (Perez 2007: 3).

Despite the resilience of clientelism as a political practice in the local Mexican context, this dissertation argues that the allocation of FAISM resources might also be mediated by other factors. Through the analysis of the political determinants of resource allocation it has been found that clientelistic disbursements decrease as the number of political parties participating in local elections increases. The transition towards democratic politics in Mexico, where political parties can effectively compete in free and transparent elections, appears to have a positive effect on undermining the use of antipoverty funds for particularistic ends.

This dissertation has also shed light on the impact of FAISM allocations, influenced by political factors, on changes to the percentage of the population with access to three basic services: water, electricity and sewage. The results show how FAISM disbursements for the provision of public goods have enabled local governments to improve the population’s access to some basic services.

This dissertation has described how the institutional weaknesses of FAISM, in terms of accountability and monitoring, increase the opportunities for local politicians to redirect public funds towards actions that cannot be considered investments to social infrastructure. Yet, despite these institutional limitations, it has been found that when FAISM resources are allocated to financing investments in water, sewerage, and electricity projects, some degree of improvement in the provision of these services can be achieved.

In terms of political variables and their effects on improvements to basic service provision, this dissertation has found that meaningful competition between political parties can induce local governments to spend on the provision of public goods

and thereby increase the population's access to basic services. It is argued in this dissertation that although clientelistic spending continues as a common practice in the allocation of public funds, some level of improvement in service delivery is achieved through public goods investment.

In sum, this dissertation has shed light on the understanding of clientelism, and how this political practice prevails even in contexts that have undergone major political and economic reforms. It confirms the need to explore local political conditions to better understanding why decentralisation has failed to deliver on its promises of effective service provision. This dissertation has also contributed to the debate regarding the impact of democratic politics on the implementation of pro-poor policies and offered a detailed account of the role played by local political institutions in determining the effective allocation of antipoverty funds.

6.3 Research and policy implications

This dissertation provides evidence that clientelism persists as a common political practice across municipalities in Estado de Mexico. It shows how political motivations on the part of local municipal authorities have an impact on the final destination of decentralised antipoverty spending.

The FAISM institutional arrangement 'served to limit the federal Executive's discretion in the allocation of government expenditures' (Perez 2007:14). The formula-based system for allocating FAISM resources to states and municipalities seems to have undermined the political control that the central government previously had to distribute basic social infrastructure investments to poor communities. With the creation of FAISM, decisions over the final destination of antipoverty funds are put in the hands of local municipal authorities.

Unfortunately, the lack of monitoring and accountability mechanisms for the use of FAISM at the municipal level means that local politicians could distribute antipoverty funds with a great deal of autonomy. This autonomy to decide the final destination of FAISM resources, it is argued in this dissertation, suggests that the

political motivations of elected municipal officials and their political aides have a significant impact over the actual use of FAISM. The evidence gathered here illustrates that politicians tend to strategically allocate antipoverty funds with the aim of securing electoral support. The empirical evidence from this research thus confirms that social policy implementation is influenced by the local political system and therefore that political factors determine the final destination of antipoverty funds.

The fact that local municipal authorities use important FAISM resources as a vote seeking mechanism, particularly in contexts with low levels of development, has important implications for policymaking. While the transfer of decision making powers and resources for the provision of basic services can strengthen local governments' capacity to respond to citizen demands, in contexts where 'political institutions of contestation and accountability are lacking and poverty is widespread, social policy [will continue to run] the risk of being used by elected politicians for purposes other than improving the well being of those in greater need.' (Perez 2007: 3). In the absence of accountability and monitoring mechanisms, social policy can potentially be used as a political tool for local authorities to enhance their chances of political success.

A second expectation of decentralising the disbursement of antipoverty funds to lower levels of government is that it will enhance citizen involvement in public affairs. It is expected that citizens will have better opportunities to channel their demands and complaints for better and broader service provision to governments that are closer to the people and directly responsible for the provision of public services. Yet, although further exploration is needed in order to gain better insight into the extent to which citizen involvement in the implementation of FAISM has contributed to better service provision, the results from this dissertation show that, in the case of FAISM, there is no clear link between participation and better service provision. While levels of political participation are associated with improvements in the provision of potable water, it seems that participation has no effect on improvements to the provision of other basic services.

Social policy at the municipal level in Mexico has been greatly understudied. In particular, there is little research on how politics and policy interact at the local level or on how these interactions might affect social policy interventions. This dissertation has offered an account of how social spending decisions are made at this level of government and what the factors are that influence the choices that local politicians make in the distribution of antipoverty funds.

The Mexican experience of decentralised antipoverty spending offers 'a cautionary note on current development practice calling for further decentralisation as a means to make government more responsive and social policy more pro-poor' (Rocha 2005: 357). This research provides new insights regarding the possible limitations of decentralisation to improve local government's performance and, in particular, to produce a more efficient allocation of public funds. As previously mentioned, advocates of decentralisation argue that government performance will improve as soon as local governments are strengthened through the devolution of resources and responsibilities to deliver public services. However, decentralisation does not necessarily translate into more efficient use of resources. Given the evidence shown in this dissertation, policymakers should take into account the possible implications of furthering the decentralisation of social policies to lower levels of government. The recent calls to decentralise other targeted strategies of poverty alleviation should take into consideration that politicians might still use significant resources for political gain, even within contexts of democratic politics.

Focusing exclusively on decentralisation, as a means of improving efficiency of public service provision, neglects a wide variety of relevant development and governance problems. If decentralisation is to be a successful mechanism to improve service delivery, this research has shown that it is essential to incorporate the influence that politics can play in the implementation of social policies at the local level. It shows how apart from a new institutional design for the distribution and allocation of public funds, a more detail account of the political logic behind the actual use of antipoverty funds is key to understand how and when decentralised antipoverty funds could in fact become more efficient mechanisms for the distribution of public goods.

This dissertation has also contributed to the debate regarding the impact of democratic politics on government performance. It is broadly believed that ‘competitive elections (...) stimulate local office holders to improve government performance’ (Grindle 2007: 168). This research has shown that although multiparty competition created incentives to allocate public goods that benefit large sectors of the population, it did not prevent the prevalence of clientelistic bonds between citizens and politicians. With the arrival of democratic politics, there were great expectations that ‘politicians in office [would] try to perform well because they prefer to have their parties win subsequent elections rather than other parties (...) or they [would] want to do well in office because they hope to run for higher level office on the basis of their record of good performance’ (Grindle 2007: 168). However, access to significant amounts of resources⁴⁰ in which municipal authorities have a great deal of autonomy over their use, and the lack of effective accountability and monitoring mechanisms, opened the door for the allocation of public spending with political motivations. As Grindle (2007: 169) notes, winning positions in local governments ‘provided access to important resources to distribute to constituents and clienteles and an opportunity to use local office as a “trampoline” to higher office’.

Finally, this research highlights the need to study social policy from a local perspective and to pay special attention to political dynamics and their effects on policy implementation. As ‘local policy making is embedded in the political system and gets determined by political institutions’ (Perez 2007: 2), much work remains to be done in the search for how politics affect social policy-making and implementation. Further research is needed in the field of local political institutions and their influence on social policy interventions.

⁴⁰ In the period 2000 and 2008, FAISM funds have increased 82% in real terms; (Pardinas & Granados 2010).

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ANNEX

Annex 1. Classification of *FAISM* expenditure by type of good

<i>Programme</i>	<i>Clientelism</i>		<i>Public good</i>	<i>Other</i>
	<i>Private good</i>	<i>Club good</i>		
Trade and distribution			Milk shop; art craft market	
Potable water			Wells; perimeter walls; conduction lines; distribution network; system; tanks; water treatment plant	Payments
Community development	Equipment; food supply		Milk shop; perimeter walls; social assistance centre	
Irrigation		Dam; canal; irrigation system; equipment; materials; fertilizers; soil improvement; productive projects		
Drainage and sewerage			Sewerage; well; drainage	
Public buildings				Payments; public buildings improvement; equipment; vehicles
Electrification			Rural and urban electrification; well electrification	
Basic education support	Scholarships; school meals; food supply			
Projects				Public work plans and projects
Municipal strengthening (institutional capacity)				Capacity building; infrastructure; equipment; vehicles; plans and projects; petrol; technical assistance
Basic education infrastructure			Infant school; primary school; secondary school; TV school programme; sport centre	
Health infrastructure			Perimeter wall; health centre; health clinic; medic units	
Housing improvement	Rural and urban housing		Public lavatories	
Ecology			Latrine; water treatment plant; septic tank; garbage dump	Payments
Public security			Public security unit	
Urbanisation			Street pavement; public lightning; sidewalk; walking path; hydraulic concrete; pedestrian bridge	
Employment	Employment programme			
Transport			Rural roads; highways; pedestrian bridges	

Note: Adapted from Magaloni et al. (2007)