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THE EFFECTS OF GRANT COMPETITION ON CHILEAN MUNICIPALITIES

by

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## ABSTRACT

This thesis explores the effects of grant competition on Chilean Municipalities. I select a mixed method approach to assess this phenomenon from a top-down and bottom-up perspective. The research carries out a statistical analysis of the Fondo Nacional de Desarrollo Regional (FNDR) grant and also collects the views of 21 Chilean local, regional and municipal officers. I establish New Public Management (NPM) as my theoretical lens from which I problematise the formulation, evaluation and final allocation of grants. To integrate my different sources of data I link my quantitative and qualitative data with the contextual particularities of the Chilean institutions to form a synthesis of interconnected findings that shed light onto a relevant but understudied phenomenon in public administration. The first part of this thesis describes and assesses the FNDR, scrutinising the accomplishment of its goals and testing the impact of a municipality's capacity on its success in bidding for funds. With the records of allocation obtained in the quantitative analysis I selected my purposive sample of municipalities and officers to be interviewed. Finally, I have integrated both sources of data, drawing conclusions and establishing an overarching perspective on the effect of grant competition.

The study finds that the FNDR grant has a regressive pattern of allocation in which better-off and more populated municipalities are favoured. Success in bidding for FNDR is positively associated with municipal capacity and this effect gets stronger for municipalities located further from the capital Santiago. This pattern reinforces municipal inequalities, widening the gap between high capacity and low capacity authorities and acting against the goals of the FNDR. This is acknowledged by local officers in poorly-resourced municipalities who feel handicapped in bidding for funds by the high fixed cost of making bids. Central officers exercise their power when evaluating and prioritising bids. The research found that contrary to what the existing theoretical analysis of competitive grants suggests, grant competition in Chile favours central government agendas instead of being driven by local needs. This situation works against the efficiency of the competitive scheme, fostering the shaping of bids to meet central agenda rather than local needs. This centralised orientation of grant allocation is facilitated by a lack of regional and national service standards, together these elements lead to a patchwork of isolated and uneven municipalities unable to set up cooperative agreements to tackle social issues. This study finds that, due to the historical circumstances of the introduction of FNDR, competition has been established among municipalities as the predominant theme of intergovernmental relations. This hampers local collaboration and makes it difficult to respond to regional challenges. The situation has a deep impact on local officers' motivation, leading to frustration and feeling of hopelessness. In their view, competition is seen as being more than just a system to allocate grants and instead reflects a centralists' conception of local government action, where municipalities are passive agents competing for the chance to improve their territories.

This thesis provides a relevant contribution to public administration theory and policy practice by showing the complexities of adopting quasi-market strategies in underdeveloped and unequal contexts. The establishment of NPM reforms in Chile had profound consequences and although more scholarly effort has gone into exploring collaborative forms of governance, in Chile inter-municipal competition is still very much alive. These findings may be informative in considering other countries in similar situations and might contribute to improving the structure of incentives set up in intergovernmental competitions for goods or services. In addition, using a mixed method approach

to assess both extremes of the competitive exchange allowed me to better understand the processes involved and arrive at more robust findings.

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Coming from the Municipal and public policy field the process of becoming an academic was one of the most difficult tasks that I have ever faced. Regardless of the difficulty of the challenge, now that I look back I can appreciate the process in its whole magnitude and it is remarkable how in four years ideas mature and converge.

Given my experience working with municipalities, my initial structure of arguments was founded on practice and I was quite vocal in defending them. The process of doing a PhD taught me that I must always question my beliefs regardless how rooted they are. Only when I was able to incorporate new ideas did I start to enjoy the process. Ultimately, I found myself reading different theories and incorporating points of view that I had never before considered. I believe that is the whole point of doing a PhD.

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This is for you and Sara

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# CHAPTER ONE: INTRODUCTION

## 1. Research aim and focus

It is commonly accepted that competition between firms is a sound strategy for delivering what customers want. In markets, firms cannot afford to ignore customers' needs so competition can ease communication to improve the situation at both ends of the exchange. Public intervention to promote competitiveness in industry is seen widely around the world. Nevertheless, the adoption of competitive market systems in public administration has proved to be more complex than amongst private firms. This arises from the difficulty of measuring public outcomes, and differences between purposes, conditions and tasks between the private and public sectors (Stewart and Walsh, 1992). Private firms and public institutions differ in their goals, so market strategies require a process of adaptation and control to deliver the right incentives in each case.

One notable adoption of a competitive mechanism in the public sector is for the process of central government allocating grants to local government by requiring local authorities to submit competing bids. In such grant competitions, central government institutions acting as grantor establish the rules of competition and evaluate the bids, while local jurisdictions (or other public bodies) acting as grantees construct the bids that will be later assessed by the grantor. Central government then allocates the resources to the best bids until the budget is fully distributed.

Local governments have been commonly scrutinised by scholars analysing the effects of fiscal competition. In this kind of competition sub-central authorities strategically interact with the objective of attracting and retaining mobile tax bases. Much of the academic effort in this area is

devoted to three main sources of strategic fiscal interaction: benefit of spill-overs across jurisdictions, distorting taxes and mobile tax base, and political economy and information asymmetries (Lyytikäinen, 2012).

In contrast, comparatively little has been written on local grant competition, regardless of its use and political appeal (Entwistle et al, 2016). Research in this area has focused on the distributive patterns of the centrally-determined resources through a top-down approach. The research emerging from this literature suggests that central government officers manipulate grants as political spoils to favour preferred local jurisdictions. This finding has been sustained by distributive politics scholars describing the groups targeted by the central government grantor. The second main outcome shows that there can be a bias in favour of better-off jurisdictions and a frequent misalignment between grant objectives and the final allocation of resources. The main consensus in this area is that, despite declared normative equalisation goals, grant competitions have been shaped by central governments to serve other central goals under its role as evaluator-grantor. Declared equalisation goals may therefore fail to be realised.

It is argued in this thesis that much of the research into competitive grants has been limited to cross section statistical analysis limited by the available demographic variables used to categorise the competing jurisdictions. Understood in these terms, grant competition can be seen as being solely about the allocation (or non-allocation) of resources.

This thesis seeks to develop a more complex analysis of grant competition having multiple effects, with the impact of grant competition going beyond the allocation of funds. In this work I have sought to categorise grant competition as a system of processes with local authorities as active and complex entities where expectations, practices and rituals combine and collide.

To frame my research, I use New Public Management (NPM) as the theoretical lens from which I problematise the introduction of competition in the public arena. NPM, although perhaps fading as

a focus of scholarly attention, is still the predominant theory in Chilean public administration. NPM reforms have been commonly studied by looking at the factors easing its emergence and the direct effect of the reforms, but according to L greid (2017): “Far fewer studies have addressed the long-term consequence and effects of the reforms” (p.4).

This study contributes to the literature in the field by implementing a double process of analysis. Firstly, I analyse statistically a major Chilean competitive grant, the Fondo Nacional de Desarrollo Regional (FNDR), looking for tendencies of allocation. Then, from the results, I construct a sample of interviewees and locally collect qualitative data through semi-structured interviews. Finally, I use both the quantitative and qualitative data to construct an overall perspective on the working of this competitive grant system, drawing general conclusions.

This thesis describes how local grant competition in Chile impacts the way jurisdictions think about themselves and their environment. It also reveals how competition has shaped the way centrally determined funds are distributed. Whilst most OECD countries have adopted intermunicipal grant competition systems that include new paradigms of governance, in Chile the adoption of such new paradigms of governance has been hampered by the competitive ethos of intergovernmental relations.

This study reveals how intermunicipal competition has been adopted by local authorities in Chile and how it has transformed their role as service providers by creating a distance between winners and losers. It also demonstrates how competition has influenced central-local relationships, by fostering municipal dependence on centrally decided finance.

## 2. Context

When the Thatcher government came to power in the UK in 1979 the NHS was the largest employer in Western Europe and the welfare state consumed almost a quarter of the UK's GDP (Le Grand, 1991). The development of a welfare state on this scale increased citizens' awareness of their role as consumers of public services and strengthened the role of governments as service providers. Public organisations and their bureaucratic structures were then gradually introduced to market practices to increase efficiency and cut costs.

Developing countries imported these policies from Europe and the US with the hope of a leaner and more efficient government that could better respond to their citizens' needs. These processes were accompanied, in the case of South America, by the overturning of socialist experiments at the hand of military coups. The militaries in power saw clearly how market strategies could increase state efficiency while at the same time depoliticising governmental action. Because of this, they were keen to introduce these practices rapidly at different tiers and levels of government.

Unlike the UK, at the end of the eighties South American public administrations were not sufficiently developed to respond to the pressures of market-based practices. Where they existed, social policies were extremely limited and the state was devoted to consolidating the recently re-implemented democratic system. In the words of Araya and Cerpa (2008), what emerged in South America was a different version of NPM. This new version emerged in contexts where the Weberian model of bureaucracy was incomplete and underdeveloped. Public administrations in these situations were not only required to adapt to the new concepts of NPM but they also had to join the state in its overall goal of improving the democratic system, the seeking of legitimacy in governance and the fostering of economic development and wealth distribution. For these reasons the implementation of NPM and competition in South America had different effects than in other parts

of the world. As research in this topic has been centred to a great extent on western democracies (with some notable exceptions; Polidano, 1999; McCourt, 2002; Manning, 2001; Haque, 2017; Nickson, 2002), the implementation of NPM concepts and strategies in Chile are still largely unexplored.

The empirical section of this study focuses on Chilean municipalities. Municipalities present a relevant case of study due to the importance placed on grant competition to obtain much needed funds.

Chilean municipalities struggle to fund their investment projects due to a myriad reasons. The most documented refers to the lack of local revenues, the central control of locally-collected taxes and the impossibility for municipalities to borrow money (OECD, 2017). Under these conditions, grant competition emerges as the sole source of funds for locally-raised investments, resulting in a manifestation of fierce intermunicipal competition. The importance of local competition is magnified by the general scope of the grant that I selected to scrutinise, the FNDR. This grant does not use any general rules to differentiate between municipalities' bids except their purported relative merit. Therefore, as a researcher, I had the possibility to capture grant competition in one of its purest forms marked by unrestricted inclusion and high participation at the same time.

### 3. Empirical research

In this thesis the overall question that I address is the following:

- What are the effects of grant competition between Chilean municipalities?

This general question is split into three and each one has its own empirical chapter. The three sub questions are:

- How does capacity influence the allocation of competitive grants? (Chapter Six)

- How local and central government officers experience grant competition and how does this reflect the reality of intergovernmental relations? (Chapter Seven)
- What is the current state of grant competitions? Do they respond to local needs in Chile? (Chapter Eight)

My research employs a mixed methods approach to examine the above questions. The framework was intentionally constructed to respond to the challenges of the subject in a rigorous way. Research was designed to following a sequence that could enable my immersion in the phenomenon. I start my account by presenting the contextual features of Chilean history, detailing the role played by local governments and the emergence of NPM and competitive grants. Then, quantitative analysis is used to depict the patterns of distribution of the FNDR, the largest grant competition in Chile. This quantitative analysis estimates the main predictors of funds allocation. The findings from this quantitative work are then used as the starting point for qualitative analysis. This second phase captures the narratives of the main protagonists of grant competition. In choosing a sample for interview, I included successful and unsuccessful jurisdictions, scattered around two different regions. To clarify this process I ran a cluster analysis to group jurisdictions with similar demographics but different success ratios in their bidding experiences.

As revealed in the quantitative section, competition success is dependent on internal capacities. Internal capacities are likely to be subject to economies of scale. Large municipalities will be better able to bear the costs of a bid writing unit. My sample includes large, small and rural municipalities in order to look for this effect. My sampling strategy therefore covered a large number of local jurisdictions, but to widen the scope, I also included regional and central government officers. Altogether a wide range of different municipalities were included as well as different tiers of

government officers. My interview structure was theory-led but left enough space for emergent topics to arise.

The analysis connected different voices interchangeably, composing a fabric of narratives centred on the competitive process. Once the two sources of data were analysed the final empirical chapter condensed the discussions previously assessed. In the following parts of this chapter I link the findings and present some general insights applied to Chile and public administrations in general.

#### 4. Contribution

This thesis provides several insights into an area of public administration that has not been fully explored. Intermunicipal competition represents a rich area of study that has been commonly addressed by two perspectives, firstly by examining the fiscal impact of tax competition among local units and secondly from the distributive politics perspective of funds allocation.

My research is situated between these two topics and scrutinises intermunicipal competition from both local and central perspectives. This approach has allowed me to shed light on a fertile area of local studies.

To set up the background structure of my research this thesis tracks the implementation of grant competition in Chile from a historical and institutional perspective. This analysis depicts how NPM policies were implemented in the South American context, building the foundations from which competition emerged.

As noted, authoritarian regimes across South America were a fertile ground on which NPM policies flourished. In the case of Chile, the Pinochet dictatorship was interested in how market forces could replace the action of political debate to administer the provision of public goods, so he led a transformation that shaped the way local governments were managed. Pinochet and his team of

advisors relied on the market as the force to decide the distribution of services that could be privatised, shrinking the size and capacity of the state. These reforms helped to reduce public spending and balance macroeconomic equilibriums but had a detrimental effect on the role played by public administrations. During this time thousands of officers were dismissed, and the civil service was dramatically dismantled. This situation was especially difficult for local authorities who lost scope for political decision and fiscal capabilities, unable to exercise their authority.

Once Pinochet left office, elections took place and local authorities began to administer their territories. Notwithstanding, the diminishment of the civil service and the inherited inequality in the distribution of wealth took a toll on all subnational authorities and especially among the small, rural and deprived authorities. Originally, and under Pinochet, local grants were centrally designed with zero space for negotiation. Once democracy returned, political leaders were suspicious of devolving powers to municipalities, knowing their impoverishment and lack of administrative and managerial capacities. Instead of establishing a system that could ease subnational convergence inequalities and bridge regional gaps, the older system was kept while allowing jurisdictions to compete for funding for their proposed investment projects. Through these arrangements, central politicians secured that the funds would be allocated only to municipalities with sufficient capacities, whilst at the same time retaining some power of decision over the projects finally funded.

The analysis made above illustrates how market-led policies can have long run effects when there is no system in place to facilitate their results. Competition is a sound strategy to satisfy customers and obtain value for public money. Although, to have that effect, customers must have the capacity to exercise their role. As depicted in my analysis, the award of grants to bids in grant competition is decided by several stakeholders, each one with their own agenda, thus watering down the role played by local authorities. Despite what is declared, municipalities in Chile are not the final customers of

the competitive grants. Competition, as currently set, serves the preferences of central officers instead of representing local needs, undermining the overall objective of the FNDR.

With no alternative funding, municipalities compromise their local vision to accord with central officers' desires. In this situation asymmetries of information arise whereby officers distant from local problems end up deciding policies with a marked local impact.

Empirically, my study presents the patterns of distribution of the FNDR, the largest local grant in Chile. In line with part of the scholarly evidence, I find that competition favours better-off municipalities. Then, to test the impact of geographical location I examine how capacity effects increase as we move away from central and populated regions. Despite being named "the fund of decentralisation" FNDR does a poor job of establishing a regional balance of investments and of mitigating inequalities of investment between municipalities.

Grant competition has put in motion a set of rules, practices and expectations that have not been fully covered by the literature. In this study I research the experiences of the central and local tiers involved in competition to examine how this intergovernmental system is implemented. My aim was to capture the impact of competition within municipalities and between municipalities and central government departments, looking for patterns and discrepancies. The study of grant competition has usually been restricted to the statistical results of who gets what. In this case I use the results of my statistical analysis of grant allocation to construct my sample for interview data collection and explore more deeply the workings of competition.

To structure the analysis, I used the conceptual framework of grant competition identified in the literature as the starting point from which I analysed my qualitative data. Through the connection of local, central and regional narratives I constructed a fabric of different voices that I used to feed the three key attributes of a framework built on that found in the literature. I also added two topics that I purposefully selected and the ones which spontaneously emerged from the analysis. I found that

due to the uneven distribution of wealth many of the attributes of grant competition are not translated to a large group of municipalities. Entry barriers are too high to a significant group of jurisdictions who cannot afford to spend their resources on expensive and lengthy competition with no certainty of success.

Municipalities are viewed in the competitive bidding framework as being the beneficiaries of the FNDR, but success in bidding is decided by a series of higher-tier actors who can exercise veto powers over the municipalities' bids. During the bid assessment, projects not only need to fulfil technical requirements established by law, they also need to convince regional and central government officers of their merit and at risk of being discarded. Deprived, small and rural municipalities have a poor vision of themselves and this feeling is reinforced by competition if their effort and capacities prove to be insufficient to achieve success. The process has been undermining for certain municipalities and some of them have decided to no longer participate, restricting the pool of competitors and the quality of the competition itself.

In Chile, inter-municipal competition has established a yardstick of how municipalities are evaluated by the community and the media. Newspapers play an important role in this conceptualisation, constructing metropolitan rankings where each municipality is assessed, measured and compared. As expected, every year better-off jurisdictions are at the top of these rankings and deprived ones are at the bottom. These ranking-style type of comparisons take demographic variables as a given without addressing their high correlation with wealth-related capacities. Deprived jurisdictions in Chile are destined to underperform, restricted by the chains of a highly centralised system with innumerable operational responsibilities and extremely tight budgets. Without addressing those key differences, rankings and competition reinforce the inequality between municipalities by dividing them into binary classifications such as winners or losers. This has

a significant effect on how municipal officers see themselves, their work and their capacity to make improvements to their territories.

In contrast, central government officers believe that success is a matter of effort and will. To build their case, officers reference stories of self-sacrifice and grit where deprived jurisdictions, despite having all the odds stacked against them, overcome their shortages and change the life of their citizens.

In this study these two discourses are confronted. My aim was to depict how the tensions that emerge from these narratives define the way jurisdictions see their role and administer their territories, by listening to the voices of their protagonists. Doing this, I shed light on a topic that has not been fully explored and has theoretical and practical implications.

## 5. Structure of the thesis

Chapters Two and Three set the conceptual foundations on which the research is based upon. Chapter Three introduces the emergence of New Public Management (NPM) in the public administration field. Following a broad characterisation of the main concepts of NPM, I detail how competition arose as an alternative for cheaper and more efficient public service delivery.

Chapter Three introduces the theoretical discussions about intergovernmental grants. Firstly, I outline the different types of grant, the contexts under which they are used and their effects on recipient jurisdictions. With the context set, I detail the emergence of grant competition and link it to the NPM conceptualisation presented in Chapter Two. I group the discussions into four conceptual

clusters. These concepts are the grant attributes of value for money, local empowerment, innovation/flexibility and partnership.

Chapter Four presents my research and methodological framework. After defining my role as researcher and my epistemological position I detail how these roles informed my choice of a mixed methods strategy. Then, the chapter outlines my sample selection, process of data analysis and the mechanisms to integrate the two different sources of data. I finally finish the chapter by describing the ethical underpinnings of my research.

Chapter Five introduces the Chilean context of subnational governments. The aim is to set out the foundations of municipal governments, unpacking the historical milestones on which they were built. Then, the chapter establishes subnational attributions and regulations detailing how Chilean state-centralism has hampered the development of local authorities. With the historic and socio-political factors set, the focus of the chapter is to present the emergence of competitive grants, placing special attention on the FNDR competitive grant, my subsequent object of study.

Chapters Six, Seven and Eight discuss the findings of my empirical research. Chapter Six is centered on the quantitative analysis of the FNDR and tests its association with wealth-related demographic variables. After a brief description of the data I examine the determinants of the distribution of the fund using ordinary least squares regression.

Chapter Seven is the second phase of the methodological sequence of analysis. Here, after establishing my sample selection, I thematically scrutinise the discourses of my interviewees. Topics are theoretically grouped but allow the emergence of new sections for exploration.

After the presentation of the two data sources, Chapter Eight serves a dual objective. First, it integrates the findings that were independently assessed in the prior two chapters and then establishes a set of general conclusions and particular findings emerged from the Chilean case.

Chapter Nine reviews the sequence of analysis performed, highlighting the contributions made by the research and returning to the original research questions. It also depicts the challenges of the topic and methodology selected, stressing the inherent limitations of mixed methods on the public administration field. The chapter finally ends by identifying some potential areas of future research and recommendations.

# CHAPTER TWO: NEW PUBLIC MANAGEMENT AND COMPETITION FOR PUBLIC FUNDS

## 2.1 Introduction

New Public Management (NPM) has been named one of the most influential paradigms in the public administration field of the twentieth century (McLaughlin et al, 2002). Its relevance may be caused by the fruitful adaptation of managerial practices into the public sphere, the rapid spread of these concepts around the globe or the wide academic interest awakened by it.

The use of market-led strategies into the public field did not start in 1991 with the seminal work of Hood, “A public management for all seasons”, but that article has been commonly cited as the first academic effort to encompass a collection of related policies that could be seen as NPM. As time went on the concept of NPM started to gain traction among scholars from different fields, establishing a common consensus of the policies labelled under this now ubiquitous acronym.

This chapter aims to conceptualise NPM as the paradigm under which competition was theorised and introduced in the provision of public services. After reviewing the origins of NPM the first section lists and defines the concepts and policies commonly grouped under this heading. The second section begins by discussing the plausibility of having philosophically sound paradigms in the social sciences and in public administration particularly. Then, I describe the main scholarly debates around the adoption of private mechanisms in the public field. The third section begins by detailing the role of competition in NPM, establishing the features of competition in comparison with in-house

service provision. After outlining the features of competition, I conclude the section by discussing the relevance of the contexts and regulations to accomplish competition objectives.

NPM is used through this thesis as my theoretical lens. The aim of this chapter is therefore twofold: the first aim is to review debates about this paradigm by listing the main academic discussions. The second is to track how concepts that emerged from NPM influenced the design and administration of the mechanism of intergovernmental grants and in particular, competitive grants. This relation will be then further developed in the following chapter where I assess the objectives and effects of intergovernmental grants.

Once NPM and public-sector competition have been conceptualised, in the next chapter I briefly present a review of the design and effects of intergovernmental grants. This final step is necessary to build the foundations from which I discuss the emergence and development of local grant competition, my final object of enquiry.

## 2.2 New Public Management

### *Origins*

During the late seventies and eighties public service provision was criticised for being inefficient and ineffective. A feeling of doubt emerged among Western nations which questioned the capacities of the bureaucratic system to respond to a welfare state of enormous scale and rising costs (Haque, 2004). In this context, political leaders soon began to blame the public sector for causing budget deficits and contributing to fiscal crisis, leading to a general reconsideration of public sector operation. At the same time, public officers, protected by their unions, lacked strong incentives to improve the quality of the service delivered, worsening the situation and justifying politicians' fears (Dawson and Dargie, 2002).

Osborne and McLaughlin (2002) offered a different take on this matter. For them, critiques of the welfare state were not based on efficiency grounds, but in the rigidity of a standardised service provision. User-citizens, tired of receiving the same public offer, demanded an increasing participation in the design and delivery of services as well as a wider range of alternatives.

Whatever the reason, politicians facing that scenario turned to the private sector to look for answers. The new agenda was set, and the objectives were to reduce costs, increase efficiency and restructure or re-invent public sector administration and government (Osborne and Gaebler, 1992). With its high entry-costs, natural monopolies and incrementalist nature, the public sector was the perfect place to start reinventing government action. Hopes were high and boosted by the belief that private sector practices could be adopted into governmental action. As Dawson and Dargie (2002) blandly state: “Public and private sectors did not have to be organized and managed in fundamentally different ways. Indeed that it would better for the public services if they could be organized and managed as much like the private sector as possible” (p.35).

Suddenly the consensus was that the public sector was inherently inefficient and bureaucrats budget-maximisers. But where did NPM supporters find the theoretical and ideological support to back their measures?.

### *Theoretical background*

Despite its impact, the idea of using economics in public administration was far from new. Years before it was brought up by politicians and leaders alike, Ostrom (1973) argued that the work of contemporary political economists was built on the premise that efficiency was the key criterion of a sound public administration. In his work, he defined efficiency in two concepts, hierarchy organisation and cost calculus, where cost calculus was made under the accomplishment of an objective: “at least cost or a higher level of performance at a given cost” (p.35).

Ostrom's ideas were then brought together and could be seen as being part of public choice, a theory capable of setting a new approach for public administration born long before NPM was even mentioned. For Gruening (2001) the event that marked the institutionalisation of public choice was the foundation of the Thomas Jefferson Centre for Studies at the University of Virginia by James Buchanan and Warren Nutter in 1958.

The Centre founded by these two economists was interested in a society based on individual freedom and choice. They sought to explain social phenomena by aggregating the behaviour of single individuals instead of referring to more ethereal concepts such as society or class. Welfare state social policies were assessed using the public choice framework and, as expected, the critiques were extensive. Regarding bureaucratic organisations the main deficiencies were: "A strong tendency toward the accumulation of tasks and resources, toward excessive conservatism, and toward a law-like inability to accomplish certain tasks" (Gruening, 2001, p.6). As seen, these critiques presaged by many years those set out by NPM scholars.

Based on their analysis, public choice scholars made several recommendations to improve public service delivery. Among them, one of the main measures was the invention of a polycentric administrative system where provision and production of services were separated. This idea of flexibility and decentralisation was then also accompanied by the priority for citizens (as consumers) to be offered choices (Gruening, 2001).

Similar recommendations were advised by the Chicago School of Economics. There, academics had been attacking prevailing notions of public governance since the middle of 1960s. For Lane (2002) the radical nature of NPM served well the purposes of neo-liberal governments in the nineties but, without the academic support of public choice scholars, Chicago and the "heavy artillery" of Nobel Prize winners, governments would have been more reluctant to follow these practices.

These ideas were the ideological underpinnings from which quasi-market strategies were then implemented. NPM supporters activated public choice theories that had been sitting in academic journals for years and put them into practice. The combination of econometric methods of policy assessment with the administrative tools from business management proved to be a successful mix that more and more countries were willing to implement.

Politically the first UK response to this came in the Thatcher government which: “was very much upon market disciplines as the solutions to the ills of the public sector... In this model, marketization was held to promote the efficient and effective provision of public services” (Osborne and MacLaughlin, 2002, p.9). From there, NPM was exported to several nations across the globe.

Part of the NPM international vogue was explained by the institutional support of International Organisations, such as the OECD, APEC, NAFTA and the EU (Haque, 2004). These meta-regional organisations served as advocates of the NPM measures, championing their use in developing countries in Asia, Latin America and Africa.

Major Western countries such as the UK, US, New Zealand, Canada and Australia were the pioneers in the adoption of these reforms but, as soon as they proved to be mildly successful, they were adopted by many countries with different levels of public administration. Since public administration is inherently context-specific any list of general NPM practices will have a single-country focus. Nonetheless I will use the summary made by Osborne (2006) to characterise it.

To Osborne the main elements of NPM are:

- “- An attention to lessons from private-sector management*
- The growth both of hands-on ‘management’ – in its own right and not as offshoot of professionalism – and of ‘arm’s length’ organizations where policy implementation is organizationally distanced from the policy makers (as opposed to the ‘inter-personal’ distancing of the policy – administration split within PA)*
- A focus upon entrepreneurial leadership within public service organizations*

- *An emphasis on inputs and output control and evaluation and upon performance management and audit*
- *The disaggregation of public services to their most basic units and a focus on their cost management*
- *The growth of use of markets, competition and contracts for resource allocation and service delivery within public services” (Osborne, 2006, p.379).*

## *Debates*

Like any other theory, NPM has been subject of critiques with some scholars even questioning its existence as a real paradigm (Ferlie et al, 1996). In this regard, Gruening (2001) poses an interesting question in discussing the plausibility of having a real paradigm in behavioural-administrative sciences. He follows the paradigm definition made by Kuhn (1962) (cited in Gruening, 2001) where: “A paradigm is the disciplinary system of science and consists of laws and definitions, metaphysical orientations, hypothesis, values and concrete examples” (p. 19). To question if such definition can be applied in the public administration field, following Kuhn’s definition, a paradigm will be (at minimum) a set of ideas in which scientists of a given discipline agree and use it to guide their research until some inexplicable anomaly forces them to enter into a crisis, and eventually change it.

The problem here will lie in the agreement of a disciplinary system and the inevitable interplay of personal values. There are too many methodological issues among public administration scholars to allow an agreement about a set of rules or discipline. Therefore, developments such as NPM, which is mostly based in values rather than facts and explanations, are impossible to construct as a real paradigm.

Gruening deepens this idea and argues that in public administration: “There will always be defenders of individual freedom. There will always be technically minded people who seek to order

the world with technique. So there is no hope that some scientific positions will become outdated (like in the natural sciences) and die out...there is no hope for unity—no hope for a new paradigm” (p.20).

Despite these philosophical and epistemological concerns there is a scholarly agreement that something called NPM does actually exist (McCourt, 2001). Apart from the question of its mere existence, other criticisms of NPM concern its context-specific range of applicability and its intra-governmental focus in a world with plural actors and interests (Osborne, 2006).

NPM struggles to include different voices in the design and delivery of public services and for this reason is sometimes seen as disconnected from realities outside institutional hierarchies. Dunn and Miller (2007) argue that NPM is incapable of responding to the challenges faced by developing countries where among other problems, public administrations are plagued by domestic ethnic strife, hyper pluralistic political party systems and weak regulatory systems. The implementation of NPM outside developed Western democracies has been more difficult than it first appeared. This could be in part explained by the NPM focus on policies instead of politics. In the effort to reinvent government, NPM isolates the political contexts and processes on which policies are designed and implemented. Despite the fact that NPM is mostly about government reform, it is difficult to think of a reinvention without considering the political debate in which these reforms will take part. This issue was addressed by Osborne and Plastrik (2000). They recognised that political, legislative and parliamentary reform were needed to ensure the success of NPM reforms. The extent to which government action can be modified without rapidly crossing into the arena of politics is debatable. NPM bypasses this dilemma by focusing its attention on government action, but doubts have arisen about the sustainability of these types of measure. In addition, the lack of political advice to implement these policies leaves an important space for political misinterpretation and possible corruption among fragile democracies trying to join the NPM reinvention.

More generally, public and private institutions are unlikely to share the same objectives, which is why some NPM paradigms cannot be so easily translated. Peters and Pierre (1998) address this situation and argue that: “One substantive problem that arises when competitive dimensions are introduced in the area of public services is that public-sector organizations were never designed with that objective, but rather to ensure legality and equality. Although structural organizational changes—such as decentralization and moving decision making on operative issues downward in the organization—are very common today, the problems associated with changing the culture of the organization are often much more difficult than are the structural changes” (p.230).

This point raised by Peters and Pierre shows that, regardless of the operational similarities, private management practices cannot be perfectly translated into a public administration ethos. There is an important body of knowledge about organisational studies suggesting that deeply rooted norms and values cannot be imposed from a top – down position (Beer, 1990; Molinsky, 1999).

Managerial support is not enough to achieve change in public institutions. Parker and Bradley (2000) examined six Australian organisations encouraged to depart from the old bureaucratic value system to embrace an entrepreneurial one based on values such as efficiency, flexibility and productivity. They found that despite the effort put to change the value system: “Public organizations are fundamentally different from private organizations and will, therefore, remain oriented toward a traditional model of public organizations involving a hierarchical culture, regardless of policy prescriptions designed to achieve organizational change” (p.137). The main reasons for this would be the different goals of the two types of organisations, the divergence in the access of resources and the nature of organisational constraints (economic vs political).

Australian public administration was shown to be unenthusiastic about managerial reinventions, evidencing the difficulty of mixing public and private objectives. NPM does not have a political arm to address public officer motivations outside the discourse of efficiency and budget

control because that was never the intention. Without that substance NPM policies cannot be grounded in the public ethos defined in large part by altruistic motivations such as self-sacrifice.

NPM imported market-style mechanisms into the field of public administration which, according to the critiques, was rooted in standardised managerial practices and undermined by the rising costs and inefficiencies of the welfare state. Despite the epistemological and conceptual discussions, scholars recognise NPM as a movement that changed the way public administration was understood. Public choice academics from the Jefferson Centre and economists from Chicago University were (sometimes without noticing) prolific supporters of NPM measures. Their contribution gave intellectual weight to NPM and eased the exportation of these concepts to different parts of the globe.

However, the translation of market practices into public administration has not been an easy one. The epistemological reservations of establishing a paradigm in public administration casts doubts on the existence of NPM, whilst its intra-governmental focus seems alienated in a field marked by plural actors and hybrid arrangements of public service delivery. Finally, the lack of a political narrative aided the exportation of NPM, making it leaner and scientifically neutral. These features nevertheless, worked against the conceived benefits of installation of its concepts among countries at different levels of development where public administrations were not easily attracted to a sudden change in values.

### 2.3 The case for competition in public administration

After revising the emergence of NPM in the public administration field, this second section is devoted to conceptualising the role of competition in public service provision. Competition was one of the main elements introduced by NPM and in this section I build its case, detailing its operation in

public service delivery. Below, I link the debates on public sector competition with competitive grants, my main subject of enquiry. Then, I discuss how transferable the features of competition are to the allocation of intergovernmental grants, introducing the debates that will be further developed in the following conceptual chapter.

### *Competition in the public field*

For consumers, competition is a critical driver of performance and allows them to choose from an array of products at accessible prices. Competition also forces firms to improve the quality of the services and products offered, fostering innovation and choice (Law, 2016). Due to its large array of benefits it is not surprising that competition has been portrayed as a sound strategy to improve the performance of public bodies.

Competition was one of the core NPM strategies, as the following quote reflects: “Bringing competition into the public service is at the heart of NPM. Without competition there is little point to changing the managerial styles in the public sector”(Peters and Pierre, 1998, p.230).

Regardless of the enthusiasm for NPM it must be recognised that before this others championed the same ideas with more or less success. Tiebout (1956) was one of the first supporters of local competition as an efficient source of service provision. He believed that market competition was the best strategy to determine the quality and quantity of services provided by jurisdictions so, to foster an efficient public service allocation, he saw mobility as being a proxy for market competition.

Later, Ostrom (1973) reinforced the importance of having several units which can compete in service provision arguing that: “Overlapping jurisdictions and fragmentation of authority can facilitate the production of an heterogeneous mix of public goods and services in a public economy” (p.65).

As seen in the previous section, the school of public choice was vocal in championing competition in the public sphere. Supporters of NPM realise this, re-package it and use it as one of its main tools for government service delivery. Public choice generally disbelieves the idea that benevolent public officers guide their acts by abstract notions such as the common good, in part because for them: "Human behaviour is motivated primarily by selfishness rather than altruism. It follows that a pattern of incentives or structure of constraints is required in order to redirect the behaviour of public officials towards the public interest". (Boyne, 1998, p.696).

Competition was one of the structures that public choice suggested be put in place to enhance the public interest. Following this idea, Savas (1982) not only believed that competition enhanced efficiency but that efficiency exists within its limits': "One of the most fundamental determinants of the efficiency of any arrangement is competition; that is, the degree of competition that an arrangement permits will, to a significant degree, determine how efficiently that arrangement will supply a service" (p.80).

Many years after the emergence of public choice, Osborne and Gaebler (1992) recall these ideas, arguing that government administrations were stuck in the past doing business in an unprofessional way. Basically, to increase their efficiency public administrations needed to be more entrepreneurial and less bureaucratic. In this transformation the introduction of competition was key because: "Competition is a fundamental force that leaves the organization no choice but to heighten its productivity" (Osborne and Gaebler, 1992, p.352).

Flynn (2002) on the other hand, introduces a moral argument behind the role of competition in public administration. He definitely erases the line between public and private organisations, championing a system where actors are equally treated. For him: "Industries are subject to intensified competition and are laying off staff, closing plants, restructuring, delayering and asking everyone to work harder and smarter, then public sector workers should do the same. If politicians have close

connections with business, they will be subjected to this moral argument and many will agree with it. The result of the position is that the public institutions should be subject to periods of staff cutting, restructuring, business process re-engineering whatever the impact on productivity or quality” (Flynn, 2002, p.66). Cohen (2001) supports this idea by arguing that organisational waste and inefficiencies are not restricted to a specific type of organisations and originate from monopoly habits.

As noted in this brief revision of ideas, competition is seen to lead to efficiency gains for private firms with a clear benefit for the consumer. This being the case, it is worth asking if these benefits are transferable to public bodies and how the evidence could shed some light into this matter.

### *Competition on public service delivery*

The study of competition is one of the main goals of this thesis, specifically focussed on competition for grants. Between all its possible conceptualisations, this research presents the effects of intermunicipal competition for funds among local authorities. There is a considerable body of knowledge devoted to intermunicipal competition, but this has been mainly focussed on fiscal regulations and the effect of different local tax schemes.

Below I conceptualise intermunicipal competition for central government resources, contracts or any other type of intergovernmental benefit. Some of these schemes are for local authorities only whilst others are also open to private firms. I acknowledge that these two settings could eventually change how the incentives are placed; however, I will discuss them interchangeably to widen the debate.

The main argument to support competition is its capacity to reveal the “true” costs of service provision. Some public services are generally provided in-house because of their high entry costs and

the unwillingness of citizens to pay for them (national security). Beside these, there are several services where officers do not have any incentive to reveal their true costs; on the contrary, acting as budget maximisers, they could try to raise them.

In these circumstances competition acts as a sound strategy to force competing units to reveal the true costs of the services delivered (Niskanen, 1971). Agency theory addresses this matter, arguing that competition aids the principal (government) in two ways. First, it forces bidders to reveal information that they would not reveal in any other case. The logic behind this idea is transparent: “In non-competitive situations, vendors have an incentive to lead the principal to believe that production costs are higher than they actually are in an effort to extract rents. However, this incentive is diminished in competitive procurement environments, since high-priced bids lower the probability of winning contracts. Hence, in the presence of competition, potential vendors can be expected to bid closer to their true production costs” (Lamothe, 2015, p.45).

Secondly, competition allows the replacement of vendors who underperform, thus improving the overall situation. Producers know that a change in quality could represent the end of a contract or the emergence of a better alternative, so, to survive, they must ensure a certain level of quality at a low price. Domberger (1998) supports this and argues that on average competition tends to reduce prices regardless of whether the provider is public or privately owned (p.163).

But as in any other setting, here the context needs to be considered before calculating benefits. Markets of public services are commonly regulated and thus do not follow the relationship of a full competitive model between buyers and sellers. That is why these markets are known as “quasi-markets”, characterised by imperfection and failures. These imperfections need to be considered when calculating benefits and the suitability of competition. Goddart (2015) argues that instead of being ideologically for or against the degree of competition and regulations, critics need to examine specific cases.

Contexts matter. The Office of Health Economics Commission (OHE) report on competition in the NHS (2012) concluded that the desirability of competition depends on the comparative performance of local providers. When analysis of current providers suggests that improvements can be made, and competition seems feasible then it should be promoted.

But how to recognise if the context is appropriate? The literature on public sector competition addresses this issue from two angles: first, regarding the number of competitors involved (supply side) and then the role of central government (demand side). From the supply side there are different theories about the number of bidders needed to ensure quality. A low number of competitors could allow collusion between providers, raising the price for the previously agreed winner (Krishna, 2002). Competitors thinking in their best interest can collaborate to keep prices high, so government would be well advised to disincentivise this practice.

Lamothe (2015) on the other hand suggests that the quality of the bids is more relevant than their quantity. He found evidence that even with just two acceptable bidders, the loser may well be of high enough quality to serve as a replacement.

From the demand side, Cooper and Menzel (2013) suggests that competition is not enough to ensure quality, and that management matters. Governments without the necessary capacity to maintain a working relationship with their contractors will not be able to get the best deal for the public. Governments therefore need to be prepared to assist them and go beyond the simple monitoring process.

Moving away from its role in cost transparency, a second attribute of public sector competition revolves around the disentanglement of provision and production of public services. As seen in the previous section, this was one of the main arguments of public choice scholars against the omnipresent welfare state. Scholars considered that specialisation eases efficiency and client responsiveness. The separation of purchasers and providers improves client responsiveness and

results in giving greater weight to client needs instead of supplier interests. This separation also allows specialisation on one side of the exchange, increasing the quality of the service provided. Central governments are unlikely to efficiently design and implement the vast amount of public services delivered, so focusing their effort on the production side would improve the quality of the policies. This was one of the ideas championed by the NPM, stressing the need for governments to “steer not row”, making policies but utilising other actors to implement them (Osborne and Gaebler, 1992). For NPM supporters, the separation of demand and supply increases the quality of projects at the two extremes, saving costs and reducing the capture of government decision-making by rent seekers.

This vision was nevertheless contested by classic public administration literature. Scholars like Barlow and Röber (1996) stressed the idea that steering and rowing were influenced by political values and politics, so any form of disentanglement was obliged to recognise this in a broader theoretical approach. Peters (2011), on the other hand, argues that steering in contexts with such diversity of goals as in today’s governance arrangements is extremely difficult. For him, when different outcomes are produced to respond to different goals the distinction between steering and rowing appears to be less viable than commonly assessed.

A third benefit of using competition in public administration is the establishment of a set of comprehensive and meaningful service specifications to respond to governments’ goals. The economics literature had established that competition for contracts could overcome some of the principal-agent problems. A careful contract design with correct incentives and close monitoring could prevent agents’ opportunistically using their information advantage and expertise, securing a performance according to the principal’s (government’s) specifications. Brown et al (2006) reviewed the management of public service contracts and established a difference between three types of possible vendors: private firms, non-profits and other governments. Governmental units acting as

vendors seem to have a better alignment with contracting governments' values and could also share similar public missions. Regardless of this, intergovernmental contracts do less than private ones to solve inefficiencies, lack innovation and would present other bureaucratic ills (Niskanen, 1971).

For Brown et al (2006), more important than the type of vendor is how competitive markets are. Low transaction costs diminish the risk that service providers become monopolies, allowing the measurement of performance and enforcement of contract requirements.

Following contract specifications requires discipline to adapt to clients' needs. During competition, bidders internalise their specifications and as a result the process of resource allocation not only becomes more efficient but also more fair and transparent. Setting specifications permits the comparison between projects and competing units by establishing a benchmark of success based in known metrics.

Finally, the last element in this conceptualisation of public sector competition is performance monitoring. Evidence suggests that contracting brings greater emphasis on explicit inspection and maintenance of services, increasing their quality and encouraging accountability and performance (Domberger, 1998). According to Mayne (2017) effective monitoring of government services is essential to successful public sector reform. In times of increasingly complex social and economic situations, what Mayne calls "gut feel" is insufficient to respond appropriately. Public servants are called to focus on results rather than procedures and for that to happen they need reliable sources of information. Without performance information empowered managers and public officers are forced to follow procedures that hamper their capacity to improve service delivery.

Also, facing high level of taxes, monitoring performance may be one of the most reliable sources to inform citizens what they are getting. To sum up, monitoring performance seems to be central not only in competition but also in the administration of public services. Nevertheless, it needs to be acknowledged that, contrary to private firms, measuring public performance is a complicated

endeavour. As Kearney and Berman (2018) discuss: “Many private sector applications emphasize only efficiency, but a distinguishing feature of public performance is that it is guided and assessed by multiple, equally important standards of effectiveness, efficiency, and equity” (p.2).

## 2.4 Conclusions

NPM emerged in the public administration field as a transformative force with the promise of increasing the efficiency of the old Weberian system of bureaucracy. NPM was aided in this project by the academic underpinnings of public choice scholars who, sometimes unknowingly, helped to introduce market-style practices into public administration.

This “reinvention of government” was promoted by international organisations and western political leaders alike, allowing its adoption by public administrations around the world. Nevertheless, the process of adaptation to the NPM measures was not as smooth as initially believed. Public officers were reluctant to change their value systems, which along with the lack of a political narrative to implement the measures, resulted in mixed experiences and deep questioning.

One of the most influential measures proposed by NPM was the unravelling of the hierarchical organisation of service production, establishing a separation between provision and production of public services. This separation encouraged the competitive search for cheaper and more efficient public services, opening the bureaucratic “black box” of policy implementation to different actors, better alternatives and more transparent processes.

Competition emerged as a strong mechanism to reveal the preferences of consumers, reaching the point where even the threat of competition can provide powerful incentives to discover least cost methods of producing goods and services (Rimmer, 1994). Because of this, the use of

competition to select public service providers has proved to have some clear advantages in comparison with in-house delivery. The establishment of a contract between central government and service providers fosters transparency by incorporating clear metrics and rules of competition. This also professionalises central government work, allowing it to focus on policy design instead of policy implementation, moving from rowing to steering. The process of competition also forces vendors to reveal more about the true features of their bids than they might otherwise do, increasing the efficiency of the system.

All these elements in conjunction build a strong case for the introduction of competition in public services, but the academic support has not been unanimous. Competitive allocation of goods and services has been challenged on the basis of the relevance of contexts and regulations to achieve success. To reduce transaction costs, the number of suppliers must be high, and information costs must be low (Boyne, 2003), so when the opposite conditions apply, in-house provision could appear as a better alternative (Blank, 2000). Competition by itself would not deliver the promised benefits, so governments need to be willing to invest in management capacities and effective monitoring processes if efficiency is to be achieved.

Most of the research on this topic is built on single case studies, making it difficult to draw generalisations across units or countries. Regardless of this, the theoretical appeal of competition has made it internationally adopted as a mechanism of public service delivery.

The next chapter is a conceptual continuation of the debates here presented. Having set up NPM as my theoretical lens and defined competition as the measure to be examined, I narrow my focus to competition as a mechanism for allocating intergovernmental grants.

The next chapter therefore examines main goals and effects intergovernmental grants. Then, the conceptual section of the thesis finishes by debating about local grant competition.

# CHAPTER THREE: CONCEPTUALISING GRANTS AND PROCESSES OF ALLOCATION

## 3.1 Introduction

The aim of the previous chapter was to review the debates about NPM reforms detailing how competition was developed in public service delivery. This chapter comprises the second and final part of the conceptual debate, examining the main debates found in the literature regarding intergovernmental and competitive grants.

Despite being a public funds allocation mechanism, grants put into play a range of themes across several bodies of knowledge. For that reason, the review is constructed around economics, public administration, urban and political science theories.

The first section of this chapter serves as an entry point to the debate, reviewing the different types of grants and their effects on subnational levels of government. At the end of this section I discuss some issues regarding the agency problems of centrally designed grants to introduce the second section. The second section is devoted to reviewing the main theoretical debates on local grant competition. Here, I conceptualise how bids are constructed locally and then judged by central government, looking at tensions manifested in the process of bid formulation, evaluation and final allocation. This section is built upon four pivotal concepts found in the literature that will later be used to frame my analysis, namely, efficiency or value for money, local empowerment, innovation and political salience of grant competition.

Despite being subject to previous analyses, competitive grant research has been restricted to a few specific areas such as the political targeting of public monies. This could be due the lack of data, the contextual determination of competition or the switch into new governance theories. Moreover, and despite being used extensively, local grant competition in South American countries has not attracted scholarly attention. In Chile, grant competition is not just an administrative practice, it is deeply rooted in the Chilean ethos shaping the way municipalities both deliver services and understand their relationship with central government and other jurisdictions. Because of this, this study will shed some light on a relevant but unexplored area of local government studies.

## 3.2 Intergovernmental grants

This first section reviews the debates on the definition, types and main effects of intergovernmental grants. My aim here is to contextualise my research and track how competition could have emerged as an influential strategy to change the way grants were centrally designed and administered.

### 3.2.1 Definition

Grants have been the object of study of public administration scholars for many years. According to King (1984) the main distinction between revenue sources for sub-central authorities is between independent sources, such as charges, taxes and loans, and sources dependent on other government bodies commonly defined as grants.

Grants play an important role, allocating resources where sub-central sources are insufficient to fund or maintain a certain standard of service across jurisdictions (Beam and Conlan, 2002). In a

hypothetical and totally centralised system, grants would not be necessary since every service and policy would be covered by the central government budget as the only provider and administrator. Grants appear when decentralised units are not capable of funding their service costs, thus putting at risk an equal service provision across jurisdictions.

According to the classic work of Oates (1972) and Tiebout (1956) the decentralisation of spending powers improves the efficiency of public investment, increasing the matching of provision to differing public preferences. Local governments, because of their closeness to local communities, are believed to have a better knowledge of local circumstances and preferences, lowering the costs of service provision and tailoring their offer to specific local priorities.

This efficiency of decentralised spending is however not replicated on the revenue side of the government budget because unwanted effects could appear if local governments are in charge of the revenue collection. In this regard Smart (2007) argues that: “The potential for tax competition among local governments, for tax exportation to local non-residents, and a variety of other fiscal externalities reinforces the commonly-held notion that revenue-raising authority should be more centralized in a federation than expenditure authority” (p.2).

Local governments are therefore usually responsible for policy implementation and service delivery without having the power to raise all the necessary revenues. This situation creates a vertical fiscal imbalance that needs to be corrected via grant transfers.

For Beam and Conlan (2002) grants are: “payments from a donor government to a recipient organization (typically public or non-profit) or an individual. More specifically, they are a gift that has the aim of either ‘stimulating’ or ‘supporting’ some sort of service or activity by the recipient, whether it be a new activity or an ongoing one. Through this device, a governmental agency (the grantor) participates in the provision of a service, while leaving to another entity (the grantee) the task of actual performance”(p.341). As seen in the previous chapter, the disentanglement of service

provision and performance may carry beneficial consequences to the grantor, who can focus on steering instead of rowing.

Grants traditionally have been classified based on the spending guidelines made by the grantor. In the following section I will set out this classification and analyse the effect and incentives generated by the system.

### 3.2.2 Classification

Grant rules or guidelines determine how free the local authority is when it comes to spending the funds received from the grantor. Following King's classification (1984) the first distinction can be made between specific and general grants (Figure 1). Specific grants have also been known as "conditional", "selective grants" or "earmarked" and as their name suggests they need to be spent in some specific activity decided by the grantor. General grants, (also known as "unconditional") by contrast may be spent in the area selected by the grantee.

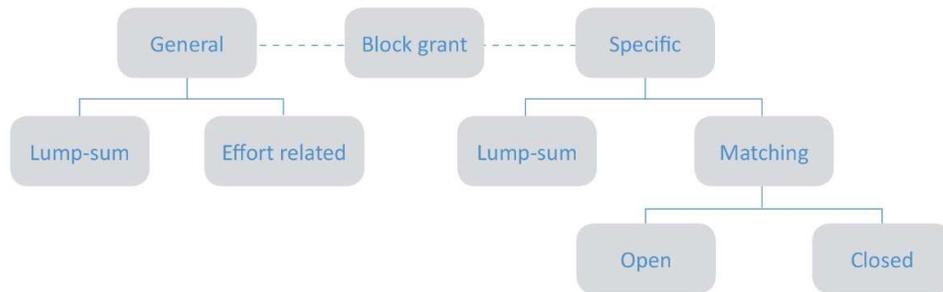
Shah (2006) argues that between the specific and general there is another kind of grant, namely the block grant and this one: "Falls in the grey area between general-purpose and specific-purpose transfers, as they provide budget support with no strings attached in a broad but specific area of subnational expenditures" (p.129).

General grants can take two forms: if the amount transferred is fixed it is a lump-sum general grant and if the amount depends on the actions of the grantee it is called an effort-related general grant. Specific grants also differ based on how much of their own revenue the grantee spends on the service concerned. If the grantee receives a fixed sum of money the grant is called a lump-sum specific grant and if the sum depends on the grantee's effort it is called matching specific grant.

King (1984) also made a final distinction between matching specific grants according to the value covered by the grantor. On a closed matching specific grant, the grant is established subject to

an upper limit whereas on the open matching specific grant the grant covers a certain percentage of expenditure no matter how high that is.

FIGURE 1 – Different types of grants



Source: Author's design based in King (1984)

### 3.2.3 Effects

Having categorised the different types of grants I review their effects and objectives and look at the central debates. Due to its relevance among scholars, below I briefly analyse one of the central debates on the effects of general grants on public spending. After that I develop the main discussion regarding conditional and matching grants.

#### *General grants, veil hypothesis Vs Flypaper effect*

General purpose lump-sum grants have been at the centre of the academic debate due to their effect on public expenditure. One line of thought, presented by Bradford and Oates (1971), states that grants to local governments are equivalent to an equal increment of community income. This idea works under the assumption that politicians act in a benevolent way and in a setting of perfect information and political competition. This result is known as the veil hypothesis because it

suggests that intergovernmental transfers are simply a veil for central government tax rebates (Oates, 1999).

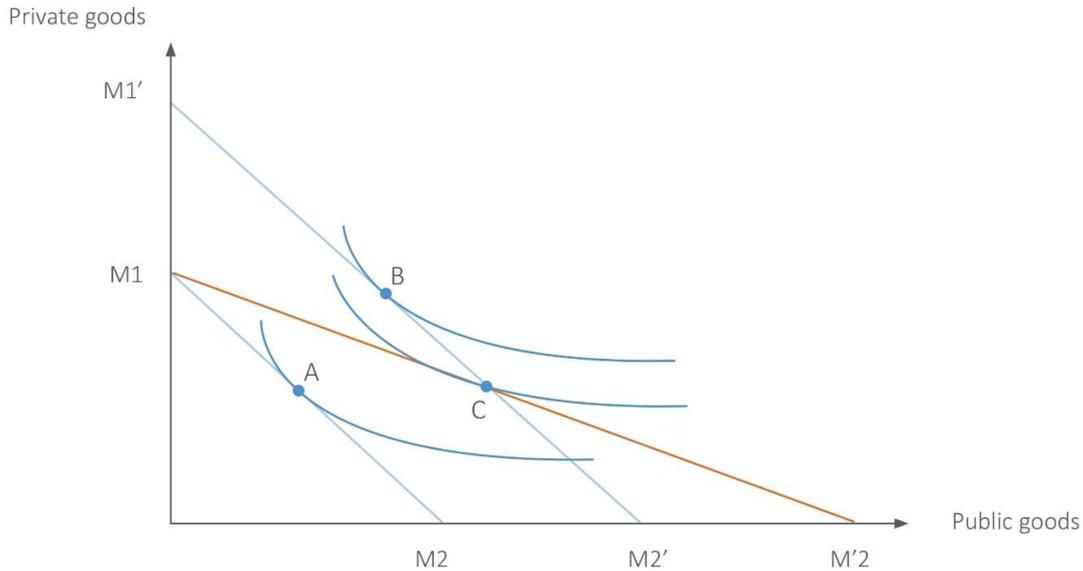
The veil hypothesis has been consistently debated by the literature, as it conflicts with empirical evidence that the stimulus of local public expenditure from general purpose lump-sum grants largely exceeds the effect of what would be an equivalent increase in private income (Gramlich, 1977; Hines and Thaler, 1995; Bailey and Connolly, 1998).

The above Bradford and Oates (1971) logic argues that general purpose lump-sum grants would simply increase grantee resources (an income effect) without affecting relative prices of goods and services (King, 1984; Shah, 2006; Ahmad, 1997). However, according to Shah (2006) this kind of grant: “tends to stick where it first lands, leaving a smaller than expected fraction available to tax relief, a phenomenon referred to as the “flypaper effect”... grants to local governments tend to result in more local spending than they would had the same transfer made directly to local residents” (p.130).

To illustrate this, consider Figure 2 where the indifference curves represent the median voter’s preferences over a private and a public good. In this situation the initial optimal choice is A subject to a budget constraint line M1 to M2. According to Oates, if a general grant is given to a local government the median voter’s new budget constraint changes from M1-M2 to M1’-M2’ and he chooses local expenditures at the level of B. The median voter’s share of the general grant is equivalent to an increase in his income of the same amount (income effect) with relative prices not changing. In contrast, the flypaper effect sees local public expenditure as increasing by more than from A to B. One way of explaining this is that the median voter may incorrectly perceive the local tax price of local expenditure as having gone down as a result of the grant. The median voter might perceive not the actual marginal tax price but a fraction of total costs covered by local tax collections, called an average tax price. Given this, after the general grant the median voter perceived tax price

would move the perceived budget line from  $M1-M2$  to  $M1-M'2$  which is called tax price illusion (Bae and Feiock, 2004). Under this situation the illusion makes the voter think the budget constraint changed from  $M1-M2$  to  $M1-M'2$  and the optimal choice changes from A to C.

FIGURE 2 – The Flypaper effect



Source: Adapted from Bae and Feiock (2004)

Arthur Okun has been attributed as the first to use the metaphor of the flypaper effect based on the work of Courant et al (1979) on the stimulative effects of intergovernmental grants. In his article, Courant explains why an intergovernmental grant stimulates more spending than an equal increase in local resources, an idea that contradicts the theoretical prediction. According to Courant, the rationale behind the effect is that: “In order to for the nonmatching grant neutrality to hold, local officials must take the grant into account in computing tax shares, an action that seems quite unlikely. If this is not done, there will be a relative price effect for nonmatching grants which will stimulate expenditures more than private income increases” (p.29). Since Courant’s paper, the flypaper effect

has been the object of study for many theorists (Gamkhar and Shah, 2007). Schwartz (2005) reviewed the subsequent debates in the topic and found that most of the empirical explanations relate to probable grant miscategorisations, misspecified models or omitted variables. She concluded that despite the many revisits, as yet there is no clear consensus about the flypaper effect. This debate has raised many questions not only for how it is calculated but also for the question of how the role of public officers is modelled. Different debates arise if public officers are framed as benevolent agents in search of the common good or contrastingly as selfish budget maximisers. Different points of departure in this matter may arrive at different conclusions. I argue that given the possibility of either using nonmatching grant money to reduce tax levels or using it to finance local public spending, local bureaucrats would probably opt for the second, thus affecting the technical neutrality of the nonmatching grant.

### *General grants - Tax effort*

Ahmad (1997) considers that general purpose or “gap-filling” grants discourage own tax collection efforts by sub national jurisdictions without creating any incentive for efficient expenditure. He also argues that with this kind of transfer: “macroeconomic balances are jeopardized, and inefficient outcomes are virtually assured, with sub national governments regularly engaging in strategic games with the central government” (p.7). Shah (2007) and Bravo (2014) also believe that formula based general-purpose transfers induce municipalities to underutilise their own tax bases or fall under “soft budget constraints”. Deprived jurisdictions do not have an incentive to spend their grant money efficiently if this could lead them to be seen as less needy and thus receive a smaller share of grant money.

Rajamar and Vasishta (2000) analysed the impact of general purpose grants on the tax effort of local governments in India and found that a grant increase of one rupee reduced own tax revenues

in 12 of 14 districts by more than one rupee and in eight of these by more than two rupees. These findings are in line with a more recent research carried by Mogues and Benin (2012) in Ghanaian local governments. Sanogo and Brun (2016) provide a different point of view on this matter: looking at the effect of central government grants on Cote d'Ivoire municipalities, they found that central grants had a positive effect on local mobilisation of tax and non-tax revenue. They argue that fiscal decentralisation policies could have a different impact on local jurisdictions as well as the scope of local government's revenue assignment and their discretion to set their tax bases.

Oates (1999) on the other hand, made a case for unconditional-general grants arguing that they are "the appropriate vehicle for the purpose of fiscal equalization" (p.1127), and they should be based on a formula that measures fiscal needs and fiscal capacities. General grants are generally recommended to be designed to deliver an equal standard of service provision among jurisdictions trying to avoid the "poor chasing rich" phenomenon. This phenomenon, also known as "musical chairs", occurs when: "jurisdictions with high-income households face the threat of low-income households choosing to move into the jurisdiction and free riding on the contributions to the public good made by the wealthy. This can potentially lead to an empty result due to the "musical chairs" phenomenon of the poor chasing the rich who then relocate only to be chased again" (Epple and Nechyba, 2004, p.2448). In this context a compensation (or grant) is expected to be paid to jurisdictions with high expenditure need, small tax base or where central government will usually try to restrain the level of local taxes (Bailey, 1999); this debate will be further analysed below.

### *Conditional and matching grants*

Specific or conditional grants are designed to promote specific programmes or services that central government wants to encourage and where local government provision seems to be insufficient. Based on the restrictions imposed by the grantor, conditional transfers may be input-

based, specifying the type of expenditure that can be financed, or output-based where a certain attainment of results is required. According to Shah (2007) output-based conditionality is less intrusive than input-based conditionality. It could also advance grantors' objectives, preserving local autonomy, and in his own words: "grant recipients prefer unconditional nonmatching transfers, which provide them with maximum flexibility to pursue their own objectives...grantors, however, may be prepared to sacrifice some recipient satisfaction to ensure that the funds are directed toward expenditures on which they place a priority" (p.132).

Ahmad (1997) anticipates three administrative costs of using conditional or special-purpose transfers. He argues that this type of grant presupposes that central government has the capacity to ensure that the funds are not being used for other purposes, that the funds were used in the stipulated manner and they do not substitute resources which have been allocated otherwise.

The literature recommends the use of open matching specific grants when the benefits of local services spill over to other jurisdictions, producing positive externalities. So, in order to have an adequate level of service provision without reducing the local offer it is expected that central government covers the costs of these spill-overs. According to Oates (1999): "The rationale here is simply the usual Pigouvian one for subsidies that induce individuals (in this case policy-makers or the electorate) to incorporate spillover benefits into their decision-making calculus. The magnitude of the matching-shares, in such instances, should reflect the extent of the spillovers" (p.1127).

Despite the flypaper effect some scholars argue that matching grants would be more efficient in stimulating the spending on a given service than general grants. This would be because they have not only an income but also a substitution effect. Matching grants give the community more resources (income effect) and also reduce the relative price of the output, encouraging consumption (substitution effect) (Bailey, 1999).

Ahmad (1997) believes that matching grants could lead to lower expenditures on other services provided by the jurisdiction so additional provisions should be taken to prevent this situation. He is also suspicious about the effect of matching grants in countries with wide variations of local fiscal capacities because: "Poorer regions would be faced with severe resource constraints and may not be able to meet the matching requirements to fully utilize the grant, whereas the richer regions would generally be able to meet the matching criteria with little difficulty. Thus the matching requirements could add to the horizontal imbalances" (p.7). Shah (2006) supports this idea and argues that: "matching grants can correct inefficiencies from spillovers, but they do not address uneven or inadequate fiscal capacities across state and local governments.... States with limited fiscal capacities may be unable to match federal funds and therefore fail to obtain as much assistance, even though their expenditure needs may be equal to or greater than those of wealthier states" (p.134).

Grantors usually decide to use closed matching grants because having a limit allows them to have some control over spending. Furthermore, empirical studies by Gramlich (1977); Shah (2007) and Ghamkar and Shah (2007) find that closed-ended grants stimulate expenditures on the subsidised service more than open-ended ones.

Grants are an indispensable mechanism to correct fiscal disparities across jurisdictions but despite being used thoroughly there is little agreement about their effects in the literature. Contextual and institutional differences across countries and regions mean that most of the research in this area is conducted under single case studies, impeding the extrapolation of most of their findings. Nevertheless, there is some agreement about the discouraging effect of unconditional general grants on tax collection and the stimulative effect of public against private income increases. Conditional or matching grants are recommended to correct the costs of positive spill-overs but need to consider local capacities to avoid increasing local disparities.

As discussed above, many of the complexities of selecting and administering a grant revolve around the fact that they are generally considered a gift by the grantees (Beam and Conlan, 2002). The literature shows that to accomplish grant objectives, grantors must place incentives accordingly, so grantees are encouraged to reveal their real preferences without over representing their needs. Below I discuss how NPM tried to tackle this situation by introducing market-style practices in the public administration field.

### 3.3 Competitive grants

After reviewing the effects and types of grants, this section aims to cover the scholarly debate on local grant competition. I selected local competitive grants as the embodiment of NPM strategies and in this section I conceptualise its main attributes and theoretical discussions.

As described above, intergovernmental grants can take different forms depending on the objective that the grantor intends them to accomplish. General grants usually aim to equalise horizontal fiscal imbalances when local fiscal capacities differ across jurisdictions whereas matching grants seek to encourage the spending on a specific public good that would be otherwise under-supplied. Competitive grants (or challenge funds) cannot be easily classified within this scheme because despite having a matching element (represented by the bid preparation costs) the uncertain returns of the competition make this grant different from the rest.

Policymakers had to reach a complex balance of direct and conditional incentives in the design of local grants. This situation was facilitated by the emergence of NPM reforms which, among other measures, promoted the use of competition as source of efficiency. The literature addressed this topic by depicting how NPM influenced the way grants were designed and then distributed not only

amongst public but also third sector organisations (Irvine et al, 2009; Enjolras, 2018). The strategy has a clear appeal since competition for finite pots of money leaves local authorities no other alternative than to reveal their requirements, easing central government agency problems.

Below, I review the main conceptual debates around this subject. The review is composed of five subsections. After defining what competitive grants are and how they are decided, I review the core ideas following the evidence found in the literature and grouped into four main topics, these are: value for money, autonomy/local empowerment, innovation and political salience.

### 3.3.1 Definition

Competitive grants are a scheme of fund distribution in which a central government agency evaluates and selects the best locally-constructed bids for funding. The amount, objectives and number of bids selected varies across countries and government institutions but in all cases, there are fewer resources than projects looking to be funded, which is where competition emerges.

John and Ward (2005) argued that grant competition represent a quasi-market because: “It replaces the allocation of resources on a formula basis with one where the government agency invites organizations to submit bids and chooses them accordingly, ensuring that the most ‘fit’ win. However, it is a special case of a quasi-market because the position of the buyer and the seller are reversed: the buyer is the central agency, and the micro organizations... compete for scarce funds. The competitive edge is provided by the bidding groups that compete and seek out more innovative projects. The market is enforced by the central agency that scrutinizes the bids for service quality, making the agency the main guarantor of competition” (p.72). As seen in section 2.2, quasi-markets were implemented by NPM supporters to improve the quality of the public offer. During grant competition jurisdictions involved require a specific set of skills and must be capable of firstly ‘selling’ a policy to the agency in charge and then implement it correctly, outlining a special type of exchange.

Foley (1999) goes a little bit further in his analysis and, using a concept first developed by Hogget (1996), refers to grant competition not as a quasi-market but as a situation without markets. Foley argues that unlike competition within a producers' market (where potential contractors compete to supply goods and services to government agencies) or competition within a consumers' market (where contractors compete to supply services to individual purchasers) competitive grants are developed in a system without markets. For Foley this situation is unique even within quasi-markets because of the incongruous notion of competing in areas without markets.

The disarticulation of service provision and production was one of the key concepts of NPM to attract better and cheaper alternatives to consumers. In that respect, grant competition goes further and alleviates the task of contract formulation at the expense of the competing bidders who are the ones in charge of writing the contract. This change nevertheless carries the unwanted effect of indirectly exposing the capacity of the contestants to invest in preparing their bid.

Grant competition, or challenge funds, are also well known in international development where this mechanism has frequently been used by agencies (or charities) in charge of distributing funds across the globe following specific guidelines. Copestake and O'Riordan (2013) in their study of challenge funds in international development provide a definition based on seven principles: "A challenge fund: (1) provides grants or subsidies (2) with an explicit public purpose (3) between independent agencies (4) with grant recipients selected competitively (5) on the basis of advertised rules and processes (6) who retain significant discretion over formulation and execution of their proposals and (7) share risks with the grant provider" (p.3).

Due to its different nature and objectives the concepts revised in this thesis do not consider international development grants and focus on intergovernmental grant competition instead. After setting out a definition, below I discuss grant competition process and features.

## *Process and features*

Regarding its process of allocation, grant competition is commonly run in a standard way and follows a similar rubric. First, organisations apply for their projects through bids that are evaluated and ranked by an agency and then: “Funding is allocated to proposals that are most highly ranked until the funding is exhausted” (Collins and Gerber, 2008, p.1131). The funds distributed through grant competition varies across countries and agencies. In some cases, there is a cap on the funds available to request in each round whereas in others every organisation set its own budget.

The benefits of using competition as a source of grant allocation are multiple. Section 2.3 of this thesis, above, set out some of the advantages of competition in comparison with in-house provision. In this subsection I link these advantages to the case of grant competition.

As previously seen, one of the best advantages of adopting competition to decide the allocation of public funds is the incentive it provides to reveal information that competitors would not otherwise reveal. Through competition, under the threat of the grant not being awarded grantees have an incentive to present their true needs and the most efficient solution. The free flow of information between grantor and grantee would also alleviate one of the issues of intergovernmental fund allocation, the contract design and enforcement.

Foley (1999) develops this idea further, arguing that: “The bidding stage of challenge funding requires the contractor to define the contract and the conditions that are to govern the contract (i.e. expenditure, outputs, timespan and monitoring arrangements) ... The relationship is still largely contract driven, but it is the prospective contractor who draws up the contract not the client. This relieves the client of many of the problems... that arise in defining detailed contract requirements” (p.814).

The disentanglement of production and provision of public services was championed by public choice scholars and then incorporated into NPM measures. This idea was exploited in grant

competition where central government exercises the role of judge-evaluator and passes on the responsibility of policy implementation to the jurisdictions awarded. The benefits of this measure are twofold: first, through competition, central government can concentrate their efforts and resources on planning and developing the big picture (steering not rowing). Second, the local decisions on the bid formulation may allow localities to cater to their specific needs instead of implementing a one-size-fits-all kind of policy. The UK Treasury recognised the potential of grant competition to increase new and hands-on solutions and described the 'bidding culture' as being: "Open to organisations fulfilling certain criteria to determine where available funds can be allocated to best effect, thus allowing bidders to decide how the aims of the funding body can be best achieved to improve levels of service provision. Winners therefore take ownership of both the problem and the solution, usually in partnership with other appropriate service organisations, either local or international, and/or the private sector" (HM Treasury, 1996, p.2).

The use of guidelines and contract specifications may secure the accomplishment of grant objectives at lower costs. According to Ray, Coulson and Harrop (2001) competitive grants might deliver better results than other need-indicator formulas because they feature: "less bureaucracy, cost savings, better value for money, more innovative, enterprising and imaginative proposals, sharper strategies, greater flexibility, more local choice and enhanced responsiveness as well as greater policy integration through partnership" (p.189).

In the UK and other European countries, partnerships between local agents are bid requirements to secure funding. This feature may have been introduced to attenuate the potential self-centred mentality that might be induced by competition or to widen the scope of the funds allocated. For Loader (2002) this requirement represents a step forward in the local governance arrangements. For her, partnerships bring together groups that normally would not meet, generating new and innovative ideas which impact the integration of programmes and the overall strategy.

Among the different competitive grant conceptualisations, the one carried by Brennan et al (1998) briefly synthesises the main arguments to use a challenge-fund-led strategy in four points. They propose that grant competition gives value for money, promotes a more ‘hands-off’ approach by central government, and allows local involvement through partnerships and fosters innovation. This list of attributes is set out below to frame the scholarly discussions on grant competition.

### *Relevant examples*

Due to the intensive use of grant competitions in the US and UK during the nineties, most of the research on local grant competition has been focussed on two specific policies: the City Challenge in the UK and the Non Entitlement Community Development Block Grant in the US.

The City Challenge initiative was launched in 1991 and its aim was the: “Releasing of development potential, understood in terms of both economic development and property development, with the targeting of the residents of ‘areas of concentrated disadvantage’, to improve their access to opportunities, primarily conceived in terms of access to the mainstream economy” (DoE, 1991, p.80). Under this initiative, local partnerships could bid for funding, proposing strategies to tackle local issues on a large scale. In 1995 it was succeeded by the Single Regeneration Budget who ran under a similar scheme until 2001.

In the USA, since 1981 the Non-Entitlement Community Development Block Grant enabled state governments to allocate federal funding to eligible small cities and counties. It provided block grants to cities with less than 50,000 inhabitants and counties with less than 200,000 residents. Under this scheme, funds were most commonly used for local infrastructure such as economic development and housing (Collins and Gerber, 2004) and it is still under operation.

### *The structure of the following section*

After sketching the definition and procedures of grant competition and briefly describing two examples, below I outline the main academic discussions about the effects of grant competition. I structure the debates by following the four features of grant competition identified above, namely, efficiency seeking (or value for money), local empowerment, innovation and political salience. These four features are discrete categories which cover most of the literature on this topic and these categories will be used later as the theoretical foundation for my instrument and subsequent grid of analysis.

#### 3.3.2 Value for money and efficiency seeking

In the literature of grant competition, efficiency is the value that attracts the greatest scholarly attention. This should come as no surprise since the declared goal of NPM policies is to improve the efficiency of government action. A group of scholars have assessed how effective grant competition has been in its goal of increasing efficiency and the results are presented below.

The evidence on this matter seems to question the idea that competition improves efficiency and in the following subsections I review the main discussions found in the literature. Due to its large range of topics, this subsection is divided into seven main themes. First, I review the relation between grant competition and transaction costs; then, I analyse the trade-off between equity and efficiency; following that I assess the impact of municipal capacity on competition. The fourth theme discusses the suitability of auction theories in grant competition whilst the fifth analyses the influence of the bid appraisal mechanism. Finally, the sixth and seventh themes are the impacts of competition on the quality of projects, and the costs of competition.

### *Competition and transaction costs*

It is argued that competition should increase the level of performance and accountability because it forces grant applicants to reveal information that would mitigate agency problems (Collins and Gerber, 2008). Under the threat of their bid being unsuccessful and not matching the quality of others' bids competitors have a clear incentive to reveal their true preferences and keep costs of service provision low.

This idea was investigated theoretically by Milgrom and Roberts (1986) who concluded that competition was a necessary but insufficient condition for grantees to reveal the truth. Since interested parties do not know what type of information favours them they may unwittingly withhold it. In this context, a rational and sceptical decision-maker could achieve a full information disclosure by inducing one party to reveal information even if it is damaging to its interests.

Without competition and with poorly-informed buyers (or grantors) decisions can be at the mercy of unscrupulous sellers (grantees) so buyers need to be well informed or count on laws and regulations that can create a liability for the competitors withholding information (Milgrom, 2008). In the process of grant competition, information flows from both sides, saving resources to the grantees and the grantor. This situation has been illustrated by a previous research of Collin and Gerber (2006). In this they argue that the competitive processes induce local governments to generate and share detailed information about the resources needed to develop a project in case they are selected. Local governments would also save resources under a competitive scheme because in each round they receive sound feedback from central government that they can later use to improve their bids. For the authors this exchange of information incentivises local governments to focus on bids with higher chances of selection, reducing transaction costs and creating an information-rich environment on both sides.

Since bidders are responsible for planning and developing proposed projects they must carefully consider costs to ensure they are feasible for delivery. For Foley (1999) cost reduction is at the heart of competition, establishing a policy shift from equity to cost and efficiency. This change would also represent a paradigm shift in control strategies moving from inputs to outputs combined with a strong managerial surveillance. Central government control would vertically oversee policy results giving more flexibility to the authorities in charge of the project implementation (Kirkpatrick and Martinez-Lucio, 1995).

### *Equity and efficiency*

One of the most debated elements of grant competition has been its change of policy priorities. As seen above, competition and most NPM measures switch policy goals from equity to cost efficiency. This change or 'retreat from social needs' (Stanton, 1996) brought back a trade-off that has been present in the literature since the appearance of the seminal work of Okun (1975), "Equality and Efficiency, the Big Trade-Off".

In his book, Okun argues that the blind pursuit of efficiency would inevitably lead to disparities between individuals, transferring wealth to some while leaving others disadvantaged with less government assistance. For Okun, the United States lives under a double standard where the constitution embraces the equality of every citizen while market forces allow the emergence of disparities of wealth among individuals sometimes by talent or sometimes by plain luck. According to Okun, the disparities raised by the market need to be offset by rights, transfers and payments; he also believes that competition and greed are not intrinsically bad if that does not lead to a zero-sum game and a less than decent standard of living for the underprivileged.

Okun argues that the market needs a place and needs to be kept in that place. Among the things that market does well, Okun lists: "it limits the power of the bureaucracy and helps to protect

our freedom against transgression by the state. So long as a reasonable degree of competition is ensured, it responds reliably to the signals transmitted by consumers and producers. It permits decentralized management and encourages experiment and innovation. Most important, the prizes in the marketplace provide the incentives for work and productive contribution” (p.115).

But Okun also warns about the so called “tyranny of the dollar”, where: “Given the chance [to the market] it would sweep away all other values, and establish a vending-machine society. The rights and powers that money should not buy must be protected with detailed regulations and sanctions, and with countervailing aids to those with low income. Once those rights are protected and economy deprivation is ended, I believe that our society would be more willing to let the competitive market have its place” (p.116).

Harrow (2002) on the other hand, brings a relevant point to this discussion, questioning the incapability of NPM to incorporate equity goals. Without ignoring the tension between efficiency and equity he argues that NPM is still capable of including social justice aims. According to him, it would be unfair to blame NPM for pre-existing extensive inequities and even though competition may have relegated social justice, it is by the virtue of efficiency that other equity goals are able to be incorporated in government agendas.

Harrow explains that NPM could act as an empty signifier that reflects society’s values via citizens’ responsiveness, so an erosion of equity values may be explained: “in terms of an altered shift in preference among citizens generally toward competitive behaviour and individualistic responsibility” (p.147).

Citizens’ involvement, along with the emergence of choice and participation in the policy process, have also delivered a more transparent governmental procedure, exposing what was called by Barberis (1998) an “accountability gap” in public institutions. In today’s context multiple actors

and periodic evaluations could result in a more transparent environment where competition acts as a catalyst of information flow between government and citizens.

Piña (2017) contributes to the debate of equity and efficiency by assessing the allocation of the homeless prevention and rapid re-housing programme in the US. He found that: “Decisions that emphasize a more equal distribution of funds through the use of formulas are associated with higher levels of equity and access. In other words, as states decide to screen out potential providers through the use of competition, they are less likely to achieve an equal allocation of federal funds across their jurisdiction. At the same time, the more extensive the use of formula allocations instead of competition is also associated with lower implementation performance, revealing a fundamental trade-off in the intergovernmental grant system” (p.27).

The tension between equity and efficiency is not easy to disentangle. Okun warned about the tyranny of the dollar where efficiency seeking authorities could swap out any other value and thus the rights and powers of the underprivileged need to be protected. These rights are difficult to assess and fund without placing incentives for local governments to over-represent need. Grant competition seems to act against equity values by rewarding quality instead of need; nevertheless, competition may foster transparency, incentivise participation and secure a better use of tax-payers’ money. The above idea suggests that competition would be better suited to environments where competing actors shared similar rights and powers and grants were allocated based on bid merit. The next subsection develops this topic in greater depth, assessing the relevance of capacity and need in grant competition.

### *Great needs – great disadvantages*

The funding outcomes of grant competition are decided by officers with personal tastes and agendas. For Collins and Gerber (2008) this trivial but relevant truth has a deep impact on the social

equity performance of competition. Analysing the non-entitlement element of the Community Development Block Grant in the US (CDBG) they found that to avoid problems: “[managers] have incentives to reward organizations that invest in administration rather than closely matching funding to needs in a socially equitable manner. Consequently, jurisdictions with great needs but little capacity are likely to suffer funding disadvantages” (2008, p.1137).

In their study they provide evidence that competition for funds negatively affects needy and understaffed authorities. They argue that if social equity is part of the policy goal, administrators would rather move from a pure competition to a hybrid model of grant allocation.

In a previous work, Collins and Gerber (2006) conceptualise CDBG grant as setting up contracts between state and local governments where transaction costs critically affect the final allocation. What they found is that only local governments with the capacity to absorb the, sometimes considerable, contracting costs will be able to secure federal funds. They argue that in CDBG competition: “Some organizations may lack the administrative capacity to obtain grants. Consequently, some local governments may not have the capacity to engage in successful grant contracting and are therefore excluded from accessing federal funds for their constituents” (p.616).

The consequences of this also have some redistributive impact among constituencies because: “If administrative capacity is related to the wealth of a government’s constituents, then the constituents more in need are likely to have limited access the redistributive benefits awarded via grants” (p.618). This situation is especially relevant if grant competition was set in place to foster horizontal equity. Due to its mechanism of bid appraisal, competition may be worsening the original situation, increasing the gap between needy and wealthy jurisdictions.

For Beam and Conlan (2002) local capacity to endure competition is non-trivial and especially complex because applicants need to: “spell out a sufficiently interesting approach to the problem being addressed by the program to win the competition for a grant award and must “sell” itself to

the administering agency as capable partner committed to the goals of the program and able to carry it out effectively” (2002, p.357). This, according to the authors, requires specific “grantsmanship” obtained by the experience of a team capable of “psyching out” priorities and preferences of the programme administrators.

The findings made by Collin and Gerber and Beam and Conlan have been supported by several studies scrutinising how capacity affects grant allocation under competitive schemes. Carley et al (2015), looking at the American Recovery and Reinvestment Act, found that capacity and guidance were the two main reasons why local authorities were able to win and implement the policy programmes. Capacity, according to the authors, consisted of human capital and relevant policy experience, and both in conjunction increased the chances of implementing the policy locally.

In further research, Collins et al (2016) analysed whether the use of a grant-contracting system affected the equitable access to CDBG funding among local governments. Contrary to their earlier findings the authors did not find a statistical association between local capacity and grant allocation. Nevertheless, they did find that need was negatively associated with the amount of grant received. They also found that municipalities who reported obstacles to finding, contracting with and monitoring vendors, received fewer grants than those without such obstacles. According to the authors, municipalities may restrict their participation in grant competition if they perceive that the complications of implementation might be too high.

In a similar trend, Hall (2008) found an association between the number of public sector employees and the federal funding allocated per jurisdiction. Moreover, in a later study (2010) Hall arrived at the conclusion that an increase in need decreased the targeting of federal funds. This idea is also supported by John, Ward and Dowding (2004) who argued that the costs of bid formulation represented a natural barrier to deprived and under-staffed authorities. More recently, Robinson

(2017) backs Hall's conclusion. After exploring the distribution of local environmental grants in thirteen Californian cities Robinson concluded that wealthier cities are more likely to be funded.

Unlike the debate in the earlier section about equity versus efficiency, literature converges on the view that local capacity is associated with larger grant transfers. Bid costs are a natural barrier to needy and deprived municipalities. If the costs of bid-formulation are not paid for by the grantor, there is the risk that the authorities funded will be those with enough resources to absorb these costs more effortlessly. This situation would be especially critical in areas where municipalities differed greatly in their abilities to generate local revenue.

### *Central appraisal mechanism*

Another element commonly examined by the literature on grant competition is the role played by central government as bid evaluators. As previously stated, central government may have well founded reasons to participate in the decision-making process instead of the implementation of local policies. Being the decision-maker, central government places the responsibility of policy design and implementation on bidders who have a better knowledge of local needs. Additionally, with this scheme, grantors can ensure that resources will be well spent and according to known metrics and measurements.

Most scholarly research disputes the above idea of neutral and precise evaluations carried by efficient central agencies (Keating and Midwinter, 1994; Foley, 1999; Wunsch, 2001). Unlike private settings where profits are easily measured, the goals of public institutions are multiple and much more complex to assess. Central officers in charge of bid evaluation, due to their distance from the local bidder, are unable to know all the required information to establish a sound judgement. For Stanton (1996) this represent a serious issue because: "Such assessments might be possible in a commercial setting where investment options can legitimately be reduced to one financial

dimension. But the multiple outputs from local public investments will not lie on a common scale. Efficient choice requires a very rich array of information about net costs/returns on component projects, available only in close proximity to them” (p.196).

This argument is supported by John, Ward and Dowding (2004) claiming that, despite a few limited cases such as waste disposal, the complexity of measuring local services could affect the accuracy of the evaluation process. They assess the urban regeneration grant and argue that: “the government (the judge) has many aims, allowing a wide interpretation in the nature of what bidders might offer and making objective assessments of the quality of the bids problematic” (p.406).

The match between central aims and local proposals can represent a difficult challenge at both extremes. Manna and Ryan (2011) assess the US programme *Race to the Top* and found that evaluations: “can become complex in competitions that invite diverse range of applicants who may have tremendously different ideas about how to accomplish the grant program objectives” (p.532).

There seems to be a trade-off between the scope and the measurability of proposed bids created by the evaluation mechanism. The wider and broader grant aims are, the less rigorous and more ambiguous the evaluation may be. Grantees are likely to favour general and loose guidelines able to be adapted to their local requirements. The competition rubric is therefore likely to be wide enough to capture all sort of bids, increasing its subjectivity and difficulty of being understood by grantees. On the other hand, narrow and clear grant aims may restrict local freedom but would be easier to understand and win by most of the jurisdictions.

### *Grant competition auction theories*

There are some cases in the literature where grant competition has been assessed as a special type of auction (Baik, et al, 2001). Particularly in all-pay auctions models, agents compete by making irreversible investments before the outcome of the competition is finally known (Siegel, 2009). This

situation has been compared with grant competition where a municipality can be seen as making an irreversible investment of resources in a bid for funding which may or may not be successful.

In this study I will follow the argument made by Ward and John (2008) regarding the relevance of these models. For them, classic auction theory models cannot be extrapolated to grant competition because of the extra costs of delivering the proposed projects. They argue that: “the analogy with all-pay auction breaks down because competition may force those who do get funding to pay an additional price: carrying through a project which is not what they exactly wanted to do. As far as we know auction theory does not deal with situations where the number of prizes depend on a budget constraint and the bids made, and is endogenous to the game-equilibrium, not determined in advance” (p.48).

Following central government guidelines can, and probably does, affect the incentives of the competitors as well as the uncertainty in the number of prizes to be delivered. These arguments make a strong case against the adoption of all-pay auction models and their ability to empirically predict the competition incentives and competitors’ behaviour. I agree with the case against such models made by Ward and John, and consider that using an all-pay auction model would considerably over-stretch its original idea, leading to wrong conclusions about the grantor and grantees.

In the last two subsections I review the debates on grant competition and its capacity to enhance the quality of projects quality and review the cases where the actual costs of competing were assessed. In conjunction these two subsections seek to test empirically the attributes previously discussed and serve as conclusion to the conceptualisation of the efficiency of grant competition.

### *Competition and quality of projects*

As seen in the first subsection of this chapter, fund allocation mechanisms based on need (or unconditional lump-sum transfers) do not incentivise efficient expenditures. Without appropriate

incentives, officers may act as budget maximisers (or rent seekers) affecting the overall quality and quantity of investment projects. In this context, competing for a finite pot of money appears to be an inexpensive measure to assure a certain level of quality at a given budget.

Quality or policy efficiency are concepts difficult to measure due to the multidimensionality of public goals. Despite this, some studies have tried to assess it with mixed results. John and Ward (2005) analysed the Single Regeneration Budget Program and found that the overall social efficiency gains through competition were, at best, small. They argue that: “real competition only exists at the margins where groups that would not otherwise get funded may move away from the sort of project they most wanted” (p.71). Central government guidelines pushed local authorities to evaluate how far they could adapt their ideal project and found that the increase in quality was only observable among a small fraction situated at the mid-quality point. They found that projects that government found valuable did not need to adjust proposals to compete successfully because they would be funded anyway. For the authors, the same happened with low quality bidders who saw benefits solely in participation; they will never compromise their ideal project to fit central government standards. Consequently, they concluded that the small increases in project quality may be lower than the transaction costs of competition negating its overall benefits.

This idea is reintroduced later by the same authors (Ward and John, 2008). Using Monte Carlo simulations, they showed that many bidding groups are not under competitive pressure. They argue that the grantor uses a relatively efficient algorithm to select winning bids and given this assumption: “the theoretical results and simulations suggest that competition will be confined to groups whose ideal projects are neither too near what the agency wants or too far away” (p.61).

In this regard, Tullock (1975) poses a relevant question addressing the appraisal mechanism of competitive grant systems. For him, central government guidelines, constructed to enhance efficiency, could act as a deterrent because: “The government grants to a local community are

normally accompanied by special requirements, and that the community's behaviour is to a considerable extent adjusted to the desirability of obtaining these grants, means that the grants are always worth less to the community than their cost to the central government. Once again, competition among communities for these grants may lead to a very large costs to the community and the nation" (p.50).

Local authorities need to adapt their needs to externally-decided guidelines and because of this, the project finally implemented will always be worth less for them than its actual cost for central government. In this situation competing jurisdictions could deliberately limit their effort to follow central guidelines if they are too distant from their needs, impacting the competitiveness of the process and the quality of the bids.

Competition protocols and rubrics cannot exactly match local authorities' needs so the efficiency gains will always be debatable. Competition might also be limited by authorities unwilling to compromise their ideal projects and by compliant authorities that would be funded regardless of the competition.

### *The costs of competition*

The last theme of this subsection outlines the costs of competition. During grant competition the free flow of information between grantee and grantor can be argued to allow the revelation of true needs and their costs. To test this assumption a group of authors examined the monetary costs incurred by jurisdictions during competition. Oatley (1995) synthesised the different costs into three headings: the costs related to the preparation of the documentation of the bid, the opportunity costs of officers' time and the costs of public consultations and consultancies for economic analysis. He calculated that the average cost of a Single Regeneration Budget bid was £114,080. Multiplying that

figure by the number of unsuccessful authorities (44) he found that nearly five million pounds were spent by “loser” authorities.

Before that, in the US, Gilbert and Specht (1974) analysed the Planning Grant Review Project (PGRP) and realised that despite the high costs incurred the returns were modest. They calculated that given the ratio of applicants, one third of them would have been chosen anyway by random selection. They also stated that: “The employment of inexpensive and simply-constructed measures of the cities’ prior experience would have produced estimates of performance generally equivalent to those that emerged from the array of qualitative judgements employed in the PGRP decisions” (p.572).

The department of Land Economy at Cambridge (1996) also analysed the costs of bid formulation for the Single Regeneration Budget but their calculations were much more conservative. They calculated the costs of ten unsuccessful bids and found that: “On average unsuccessful bidders had invested about sixteen man weeks in preparing their SRB bids which might be valued at about £10,000. However some bids had taken 40 man weeks of preparation at a cost of £23,000” (p.28).

In a more recent examination Localis (2014) calculated the costs of the competitive funding process in the UK by looking at four funds from the UK and the EU and concluded that the average costs (not including staff time) ranged approximately from £20,000 to £30,000. Interviewing local officers they found that: “local areas are firmly of the view that, due to the timescales and costs of competitive funding processes, such processes can only make up a proportion of growth-related funding. Indeed, nearly half of our respondents suggested that competitive elements should comprise only 25% of growth funding” (p.23).

Loader (2002) on the other hand questions the costs calculations, arguing that they are extremely difficult to assess, so most of the authorities usually under report them. The hours spent by officers who are not solely dedicated to grant management are hard to count and usually squeezed

within the normal workload of officers across the local authority. Loader exemplifies this by: “A one off assessment exercise, for a specific bid was carried out by one department surveyed. It estimated that the resources devoted to the exercise could be valued at £70,000. The only cost recognised by the authority’s finance system was approximately £5,000 paid for work carried out by consultants. The £65,000 difference reflects the resources devoted by the department” (p.570).

Besides the men/hour calculus of formulating a bid there is another cost that scholars have taken into consideration. This one could be referred as the “morale” cost of losing. Grant competitions usually demand several weeks of officers’ time and could involve the local community in the process. Because of this, the effects of not being selected could be deep and have several consequences. Oatley (1995) addresses this situation and argues that: “Failure may actually have negative effects in how people work together – recriminations may set in or demoralisation may lead people to conclude that their effort should be directed elsewhere. It cannot be assumed that failure will lead people to work harder together in order to overcome adversity” (p.11).

Stanton (1996), on the other hand, has referred to this as an “institutional cost”. He argues that losing could damage team morale and have negative effects not only within but also between competing authorities. Losing can also discourage local authorities from being part of future competition. Harrop et al (2002) analysed the situation of the funding of local authority archives and states that: “For those services unable to take advantage of the rich opportunities on offer, a vicious circle of diminishing resources, leading to inability to bid, leading to further impoverishment, is occurring”(p.45).

Finally, for Edwards (1997) local needs should not be decided through competition because: “what is being competed for is something which, if not won, will result in continued suffering or unmet need. It is not on a par with the consequences of losing other competitions such as for the

best-kept village or the prettiest peripheral housing state”(p.837). Edward believes that because of its nature, failure in this type of situations can cause real hardship for the team in charge of the bid.

### 3.3.3 Autonomy / local empowerment

In conjunction with value for money, local autonomy has been seen as another powerful attribute of intermunicipal grant competition. During competition, competing authorities receive valuable feedback about their bids which may improve quality. This process aids the implementation of technically-sound projects that incorporate the local needs collected by the municipal authorities.

A study conducted by the University of Bath (2014) found that challenge funds were the right vehicle for central government agencies to engage with smaller and less well-known local organisations. They found that grant competition was an instance to: “demonstrate the advantages in joining a mechanism in which they (grantees) control project design and implementation, and which supports capacity building and learning to promote best practices” (p.3). They also found that this type of scheme can strengthen performance management, institutional learning and accountability by devolving influence over resources administration.

In grant competition grantees become those ultimately responsible for projects’ implementation so to respond accordingly they must to be able to improve their performance. Through competition authorities also have a chance to decide locally the projects that better suit their necessities, bringing local projects closer to satisfying local needs. Finally, local ownership increases processes of co-responsibility where local authorities are more deeply involved during formulation and implementation of local initiatives (De Valk et al, 2005).

Foley (1999) rebuts the above idea arguing that grant competition and the ‘contractual culture’ brought by it has created a paradox of policy decision making where local units are: “subject

to more centralization and decentralization at the same time; centralization of policy and the setting of parameters within which the system works, and decentralization of operational management” (p.824).

Oatley (1995) also has reservations about the role played by central government and how influential its participation may be. He analysed the City Challenge and argued that: “City Challenge can be seen as a more subtle approach by central government to achieve its political aims for local government, namely, the continued dilution of local government powers and the increased involvement of the private sector in local governance, together with the promotion of an enterprise culture via competitive bidding” (p.3).

It is debatable how empowered local jurisdictions may be in a system where the final decision is taken by a central agency far from the source of need. For Stanton (1996) grant competition was used as a tool by the Conservative government to hide budget cuts. He suggests that immersion in the competitive game rhetoric imparts a message that only players (or bids) can be inadequate not the resource, so competition acts as a platform to legitimise central policy transformations.

Grant competition has the capacity to improve local performance and accountability but could also serve as a strategic mechanism to cut resources and focus public offer according to a centrally decided agenda. In the next section I enrich the debate by addressing the role played by officers during this process.

### *Bureaucratic assessment*

Tullock (1975) assessed the role of central government bureaucrats in charge of grant evaluations. He examined how evaluators’ interests could shape the competition process and found that: “[evaluators] are likely to develop standards for delivery of these funds which in part are an expression of their own tastes, and in part are designed to reduce their decision problem.

Bureaucrats in general, although they like power, normally do not like the business of finally turning down applicants. Thus, the introduction of essentially arbitrary requirements in the review process by reducing the number of applicants is an improvement in the well-being of the bureaucrats” (p.50).

Bid restrictions and rubrics could be designed to decrease the number of applications to be evaluated and hence to make life easier for the bureaucrat in charge of the appraisal. This could have negative consequences during the appraisal calculations and also disincentivise participation.

As seen previously, officers face a difficult job in trying to capture all the complexities of a local project through a typology of finite measurements. Complexities arrive when standardised measurements are imposed onto ecosystems characterised by their heterogeneity, as Scott (1998) theorised: “The more static, standardized, and uniform a population or social space is, the more legible it is, and the more amenable it is to techniques of state officials...many state activities aim at transforming the population, space and nature under their jurisdiction into the closed systems that offer no surprise and that can best be observed and controlled.” (p.82).

The power of population data and categorisation, according to Scott, revolves around their capacity to shape the way state-created institutions structure daily life experiences. Despite its intrinsic limitations, officers make sense of their work using categorisations not only as “means to make their environment legible; they are an authoritative tune to which most of the population must dance” (p.83). The main issue would be that once these categories are set they operate unavoidably: “as if all similarly classified cases were in fact homogeneous and uniform” (p.81).

Kirchgassner and Pommerehne (1993) defined as low-cost decisions those where the outcome is indifferent to the decision maker. They argue that to avoid negligence, decision makers need to have a good system of incentives constructed by career considerations or (a more intangible) sense of peer pressure. Therefore, autonomy can be under threat when external officers do not have the correct incentives to act accordingly and weigh the local impact of their decision.

Officers guide their decisions based on facts of a simplified version of society. This situation, according to Chambers (1988), acts against the diversity of local conditions and permits a tendency for officials to neglect poor areas and poor people in diverse environments.

Autonomy and local empowerment seems to be enhanced in authorities which can effectively adapt to a competitive environment. Competition can also foster local accountability, making jurisdictions co-responsible for the delivery of their bids. Nevertheless, the fact that a central agency oversees the bid appraisal raises some doubts about its role and influence. Finally, officers facing low-cost decisions may set arbitrary requirements or be guided by their personal interests. Their role is especially complex given the standardised measures used to assess multiple and diverse local realities.

#### 3.3.4 Innovation / flexibility

It has been argued that innovation has been one of the elements fostered by competition. Loader (2002) supports this idea but in his analysis, innovation has come from the required partnership agreement and not from the competition itself. Oatley (1995), on the other hand, suggests that competition changed the way in which local authorities operate to become more entrepreneurial and open, but he does not establish whether this has been solely caused by competition or whether there were other contextual factors intervening as well.

John, Ward and Dowding (2004) argue that what, externally, could be seen as innovation is internally just more of the same procedures strategically adapted. In their own words: "Bidding creates strategic opportunities for the bidders. They can easily learn the new language of government aims and objectives in order to disguise old programmes and policies as though they are vibrant new ideas." (p.406).

The University of Bath (2014) found that challenge funds enhanced innovation by two means: first, stimulating responses to complex problems for which there is no standard solution, and second, fostering responses: “to a problem that need to be tailored to diverse contextual factors, by tapping into local knowledge and creative capacity to develop context-specific responses” (p.3).

### *Innovation in standardised environments*

The following theme is the capacity of grant competition to promote innovation and stimulate flexibility in the solution of locally-raised needs. As seen in the first subsection, direct transfers or formulas calculated by need may not incentivise the search for new and better solutions. According to John and Ward (2005) policy makers acknowledge this situation and consider that prior to competition urban projects: “were unimaginative and organizations such as local authorities put together standard schemes ‘off the shelf’ and repackaged them for the funding regime of the moment” (p.73).

In these circumstances, competition puts pressure on local authorities by forcing them to design better projects to receive funding, setting up a virtuous circle that leaves no other option but improve the quality of the public offer.

Foley (1999) once again puts forward this idea, arguing that it is difficult for innovation to flourish in bureaucratic environments used to standardisation and following of procedures. Innovation, he argues, demands experimentation and, more importantly, raises the possibility of failure and uncertainty about the possible outcomes. Noticeably, failure would be the exact opposite of what grant competition tends to encourage. Local officers do not have any incentive to promise something that they may not deliver, thus a strong barrier against failure is built and therefore, a barrier against innovation. Besides this, Foley argues that: “The high levels of contract control exerted over challenge schemes (which would cause winners to adhere to output guessed for innovative

projects) and the lack of flexibility or difficulties in altering outputs or budgets after winning a bid may cause many to be more conservative and avoid innovative bids” (Foley, 1999, p.827).

In line with the latter argument, Ward (1997) suggests that grant competition could hinder innovation to ensure instead limited but certain outcomes. According to him: “Bids which confront problems of a particularly wide or serious nature and where success cannot be guaranteed are unlikely to be selected in preference to a site where ‘success’ is more certain. These riskier bids are usually rejected at a pre-bid stage locally in internal competitions” (p.80).

The point raised by Ward is especially compelling considering how safe bets or easier problems could overcome more demanding issues where public action is expected to be taken. Boyne (1996) makes a point similar to Ward and Foley arguing that: “innovation and diversity is suppressed by strong central controls on local discretion” (p.718).

Due to its iterative process commonly comprised of yearly rounds of allocation, it would be expected to see innovative bids during the first rounds. At the beginning, no one knows well enough the appraisal mechanisms, neither the rules nor the previously selected projects, which opens a space for experimentation. After the first rounds, local officers would have probably learned from their mistakes (unsuccessful bids) and understood how to read through bid invitations. With this expertise, officers and bids would converge into a specific and standard kind of proposal. In consequence, grant competition sustained on a periodic basis with no alterations would soon reach a point of diminishing returns in terms of innovation. This would be fostered by an ecosystem composed by risk averse officers whose first aim is to secure funding rather than to be innovative.

Pompa (2013) shed some light onto this matter. For him, to promote innovation among converging proposals, expectations need to be explicitly stated by the grantor. He proposes that this could be achieved by three means: prioritising innovation in the scoring criteria, through the creation of a special innovation chapter or giving more time to declared innovative proposals.

Innovation is unlikely to emerge in contexts where policy predictability is rewarded. Risk averse officers therefore need a clear and specific impetus to propose innovative solutions to public problems. Without guidelines to promote innovation, grants could rapidly converge into similar solutions and easy-to-solve issues hampering innovation and avoiding complicated local issues.

### 3.3.5 Political salience

The final topic reviewed in this chapter is the political salience of grant competition. In the last 30 years the field of distributive politics has built a body of knowledge assessing the potential electoral benefits of the allocation of government goods and services. Despite the common point of departure (intergovernmental allocation of resources) the approach taken by distributive politics makes it differ from the aims of the present study.

Distributive politics uses a top-down approach to analyse how central governments target their resources and services. Under this view, grants are treated as political spoils, without establishing a distinction as to whether they were directly or competitively allocated. Because of the approach used the conceptual debate set by this field of research is partially relevant to the objective of this chapter. Despite the lack of a local perspective, the question of central government targeting of grants is still relevant when seeking to understand the big picture of my phenomenon of study so below I briefly synthesise its main debates.

#### *Core versus swing voters*

The theoretical question that concentrates most of the attention in distributive politics is whether politicians distribute their resources among core constituents or swing voters. According to Dixit and Londregan's model (1996) political parties compete for the undecided voters who can "swing" from one to another preference in the ballot. This model suggests that, compared with the

strong party supporters, swing voters are more easily convinced. Along with this, the model also suggest that poor voters would require smaller transfers to change their vote due to several multiple needs. On the other hand, Cox and McCubbins (1986) argue that politicians are risk averse and not willing to waste their resources on undecided constituents so they would target their goods to their core supporters.

For Golden and Min (2013) regardless of swing and core voters, information is the key factor when it comes to distribution of goods and in their own words: “When politicians have enough information about voters that they can target transfers with few deadweight losses, the Dixit and Londregan model produces the same results as an earlier analysis of transfer to core voters by Cox and McCubbins.” (p.79).

Politicians may not have a specific strategy of distribution but a certain amount of information that they can use to decide how to focus their resources. If the environment is rich in information and core voters are well-identified and sufficient in number, politicians will focus their resources on them; otherwise, they will look to invest in swing voters.

There have been more than 150 case studies of distributive politics conducted in the last 20 years. But, due to the inherent differences in political culture and institutions, it is difficult to derive definitive conclusions. Nevertheless, Golden and Min’s review would suggest a mildly pro swing voter tendency overall. Party institutionalisation and grassroots support are good predictors of election success and they might also influence the amount of risks political parties are willing to take to win an election. Institutionalised systems such as the Chilean one incentivise the pursuit of swing voters because core voter support is relatively secure.

To conclude this section, it can be argued that the interplay of grantees’ decisions and grantors guidelines establishes a tension between policy goals that is difficult to settle. Most of the academic effort in this area has been focussed on assessing how grant competition could deliver

value for money. Competition incentivises the revelation of local needs, enhancing a reduction in transactional costs. This process nevertheless can indirectly favour local jurisdictions with more capacity to the detriment of equity goals. Central mechanisms of bid evaluation may secure a neutral and transparent assessment of local needs but, due to the multiple needs experienced locally, bid evaluations are destined to standardise and limit local scope of action.

Bids that do not match local needs could motivate suboptimal expenditures of central government monies. Nonetheless, competition would only be seen among authorities willing to adapt their ideal project to centrally-decided guidelines, limiting the overall effect of competition. In terms of costs, local jurisdictions invest not only time and resources, but they also incur institutional costs when bids are unsuccessful.

Co-responsibility and ownership of local projects can be fostered by competition but the role and agendas of officers in charge of the evaluations need to be closely considered in order to deliver the desired results. Similarly, competition seems to be an insufficient ingredient to generate local innovation and may work against it. In contexts characterised by standards and procedures and led by risk-averse officers innovation needs to be a direct requirement to flourish.

### 3.4 Conclusions

This chapter was set out as a continuation of the conceptual discussion begun in Chapter Two. I began in Chapter Two by analysing the role of intergovernmental grants and their effects to lay the foundations for this chapter. The literature in this respect is rich and pays special attention to how different grants could minimise the horizontal and vertical fiscal imbalances produced by the uneven distribution of taxable resources. I found that to be successful in this task, grants require the achievement of a complex balance between needs and incentives. Self-revenue can be decreased by

general grants, but a matching component due to their costs could hinder poor jurisdictions' engagement. In this situation, the NPM reforms, and competition in particular, seem like a sound strategy to diminish central government agency problems and allow a better provision of local grants.

As reviewed in Chapter Two, NPM was vocal in the support of competition as a strategy to decide among service providers. The general appeal of competition also eased its incorporation into the design of local grants and was promoted by NPM supporters as fostering efficiency in the allocation of public resources.

The second and final section of this chapter was devoted to the research on competitive grants. The review here was theoretically-driven and examined under four main headings. Competition between jurisdictions was implemented to increase efficiency and reduce costs. It has been advocated under the belief that this mechanism means that jurisdictions have no other alternative than increase their productivity. Nevertheless, the literature showed that to accomplish this, competition is subject to the multiple and complex contexts in which public organisations operate and is also subject to central government's role in the process.

The main tension seen in the literature is between equity and efficiency as policy objectives but there are other areas where tensions emerge. The bid appraisal mechanism might seem to be neutral and transparent but could be impaired by centrally determined agendas and officers' limitations in assessing local priorities. Competition could also increase co-responsibility and ownership but for that to occur the correct incentives need to be in place.

The literature on this matter considers a series of trade-offs between the attributes of competition (which have been mainly studied in private settings) and the management of public administrations. It is in this interplay of political and economic incentives that grant competition has developed as a small but relevant topic of study. This topic, despite its relevance, has not been fully explored so below I present the gaps found in the literature and how I plan to bridge them.

### *Gaps found in the literature*

After reviewing the literature, it is noticeable how most of the scholarly debate on local competition is centred on tax schemes and competitive tendering of public services (waste management as the most recurrent example). In comparison, the studies devoted to intergovernmental competition for funds seem to be modest in number and less recent.

Scholarly interest in this topic diminished when grants were subject to new and hybrid governance arrangements of service delivery or when grant competition systems were discontinued. When examined in the literature, local grant competition is mainly studied from a central government perspective, looking at the overall patterns of allocation. Under this framework jurisdictions are portrayed as passive recipients of the public offer without any internalisation of the processes experienced locally. The role played by intermediate agents such as evaluators or regional officers has also been underdeveloped in the literature despite their key part in the process.

NPM reforms, on the other hand, have received less academic attention with the appearance of new forms of public service design and delivery such as co-production and networking. Despite this, NPM prevails as one of the core concepts in public administrations across Latin America so its study is still relevant and academically appealing.

My research bridges these gaps by including both a top-down and bottom-up approach of investigation as set out below. This has allowed me to capture not only the distributional patterns of grant competition but also capture its effect on officers from central, regional and local tiers of government. In this thesis, the patterns of grant allocation serve as an entry point to my research, but they are not an end in themselves. The triangulation of different sources of data enabled me to provide a clearer picture of the effects of grant competition and deliver a more robust contribution to the field.

The effects of grant competition do not finish once the funds are allocated: there is a complex set of emotions, expectations and policy implications triggered by the competition that has not been completely covered. My aim is to bridge this gap analysing how officers behave under these circumstances and what would be the effects of competing for funds.

Conceptually, grant competition may seem to foster efficiency by giving customers what they want. An important issue raised by the literature is the non-trivial question of who is the final customer in grant competition and also, who would be benefited by the efficiency gained in this process. The literature recognises a tension between the role of central and local officers in grant competition, but this issue is never fully addressed, leaving an open question that I aim to tackle in the empirical work below.

Finally, although the intense academic focus may have shifted away from NPM reforms somewhat, these reforms are still a vivid force in Latin American countries. The impact of NPM in public administration such as in the Chilean case, marked at first by strong dictatorships and an inherited centralism, can shed a different light onto this subject. Grant competition in Chile has been sustained for nearly 30 years and during this time many issues have been raised and developed by public administrations, providing a fruitful field to explore.

## CHAPTER FOUR: METHODOLOGY

### 4.1 Introduction

In this chapter, I present my reflection and choices in building up a methodological approach to the empirical study of competitive local grants. Below, I outline my analytical and epistemological reasons to select a mixed methods design. Then, I discuss the strengths and limitations of this strategy to assess the effect of FNDR grant competition.

This chapter describes the reasons behind my decision as well as the two methods of data collection and analysis. The first section of this chapter describes my position as a researcher. Then, I present my epistemological approach and research framework, discussing the theoretical advantages and disadvantages of a sequential explanatory design.

The second section presents the first phase of analysis detailing the procedures followed in the quantitative assessment of grant competition. Subsequently, the third section is devoted to the second phase of analysis. After listing my sample procedures, in this section I inform the reader about my strategies to conduct the qualitative analysis and integrate my sources of data. Finally, in the fourth section I analyse the ethical underpinning of my research and how data was collected and stored.

## 4.2 Mixed methods and grant competition

Not so long ago qualitative and quantitative methods were believed to represent two completely opposite paradigms in social sciences (Rossman and Wilson, 1994). This belief was sustained in the idea that, more than being methodological views, these two approaches represented incompatible assumptions about the world. Quantitative methods were linked with post-positivist assumptions about reality. In this vision, cause and effect could be disentangled, and a researcher could separate himself from his object of study. In contrast, qualitative methods were deemed fit for research based on a constructivist world view. Under this view personal perceptions are constructed, meaning that there is no objective reality and no distance between the researcher and his object of study (Savaya and Waysman, 2005).

These beliefs were sustained by groups of researchers titled “purists” who argued that epistemological and ontological assumptions were linked with specific methodological traditions, these being qualitative or quantitative (Biesta, 2010). According to purists, there are two different paradigms in social science, each one with its own “cluster” or “package” of methodological assumptions. Under this position incommensurability of paradigms is assumed, and research must be conducted within the guidelines established by each individual method (Teddly and Tashakory, 2010).

The used of mixed methods emerged in this context as a new approach seeking to increase the internal validity of a construct by merging two different sources of data. The use of different approaches in the same research rejected the direct link between method and instruments, questioning the rigidity of the prior epistemological assumptions. As expected, this stance was controversial among purist researchers who questioned the suitability of merging different epistemological positions. Unlike prior traditions, mixed methods was not conceptualised as a holistic

assessment of reality; instead decisions were pragmatically assessed and based on particular considerations about the object of study (Johnson and Gray, 2010).

Mixed method avoids the binary conceptualisation of reality in an effort to assess a multi-faceted reality. After their introduction at the end of the 1980s, mixed methodologies have spread among fields of research gaining a position among different bodies of knowledge such as education, management, sociology, evaluation and health sciences (Creswell, 2010).

### *My take on this debate*

As a researcher, I tend to disagree with the binding relation between epistemological world views and the use of specific methods to address them. Coming from the public policy and municipal world I have witnessed how single method approaches fell short in the construction of a sometimes much more complex reality. Competition, understood as a public policy, put into play a set of practices, operations and expectations that cannot be captured only by the allocative associations based on demographic variables or categories. At the same time, narratives from public officers could be incomplete or biased without knowledge of the quantitative context of funds allocation. I therefore argue that a single method of data collection will prove insufficient to fully describe it.

Mixed method scholars adhere to philosophical foundations of pragmatism to build their case. This current of thought is based in the work of Pierce (1878), James (1995) and Dewey (1948). As revised by Johnson and Onwuegbuzie (2004), these three authors were interested in the practical and empirical consequences when judging the world and the actions that should be taken to better understand social phenomena.

Pragmatism rejects traditional dualism in its aim to find the best way to tackle social phenomena. To do this, pragmatism replaces the distinction between subject and external object with a process-oriented transaction between an organism and its environment (Johnson and

Onwuegbuzie, 2004). However, the instrumental use of different approaches has been criticised by purist scholars who believe that two methods can not be rigorously used together. In the same vein, another question has been raised about the aim of mixed methods and who would be benefited by its pragmatic solution, the research or the researcher (Mertens, 2003).

My view in the paradigm debate is rooted in the contextual particularities of my research question. Grant competitions are pragmatic mechanisms to allocate public funds. Funds comprise finite units of public resources that can be measured and ordered according to allocative patterns and demographic categories. Along the years, the distribution of these funds had involved practices and routines where the actors involved (grantor and grantees) have been in constant interplay. Thus, to capture the effects of competition I have aimed to integrate the outcomes of competition as well as the experiences of protagonists.

This approach is pragmatic by its design and may be conceptualised as a sequential movement from a post-positivist perspective (quantitative analysis) to a constructivist one (qualitative analysis). After reviewing the epistemological underpinnings of my research, below I present a brief typology of mixed methods strategies in support of my methodological approach.

#### 4.2.1 Mixed method strategies

In recent years scholars have developed several typologies to classify mixed methods strategies (Morse, 2003). Below I present the three more frequently used typologies and then, based on the conceptualisation of my research question, set out my approach.

As seen above, mixed methods are defined by their flexibility to incorporate different approaches into the research inquiry. According to Greene et al (1989) the main premise of using different methods is that given that all methods have limitations the use of only one to address a phenomenon: “will inevitably yield biases and limited results. However, when two or more methods

that have offsetting biases are used to assess a given phenomenon and the results of these methods converge or corroborate one another then the validity of inquiry findings is enhanced” (Greene et al, 1989, p.256).

Among the many variations of this approach three strategies have attracted the most scholarly interest. These three strategies are: the convergent, the exploratory and the explanatory sequential design.

The convergent (or concurrent) parallel design uses the same variables in both methods to confirm or disconfirm each other method based on the assumption that traits can be better assessed by gathering different forms of data (Creswell, 2014).

The remaining two strategies comprise a two-phase project but differ in their order and research objectives. The first exploratory sequential strategy begins with a qualitative phase to then proceed to a quantitative phase. The aim of this strategy is to gather information from a few respondents to develop a better instrument that can then be used in a large-N sample design. Due to its initial exploratory phase, the use of this strategy is advisable when a researcher’s aim is to understand a social phenomenon before establishing generalisations to large sample populations.

Finally, a second explanatory sequential strategy begins with quantitative data collection large-N analysis (LNA) and then moves to a qualitative small-N analysis (SNA). Here, quantitative results are used to inform the researcher about the participants and aid the purposeful design of the sample for the subsequent qualitative phase. Below I present this last method and detail how it fits with my research.

#### 4.2.2 Building the case for a sequential explanatory design

As informed by the literature review, grant competitions have been commonly assessed from a distributive politics framework scrutinising the allocation of public monies between subnational

authorities. This strategy has been fruitful in capturing the political agendas behind grant allocations but has not covered the role of grantees as agents of competition.

My decision to use a sequential explanatory design is based on my aim to address this theoretical gap and is based on the good fit between the strategy and my research question. For Liberman (2005) the first stage of this design, the LNA, serves and feeds the second-stage qualitative SNA. He argues that the payoff of using two methods is more than the sum of its parts because: “Each step of the analysis provides direction for approaching the next step. Most prominently, LNA provides insights about rival explanations and helps to motivate case selection strategies for SNA” (Liberman, 2005, p.436).

In the case of grant competition, the preliminary use of a quantitative analysis allows me to have a clearer idea of the allocative patterns and to scrutinise the role played by municipalities. According to Brannen (2017) quantitative methods derived from secondary or large-scale data sets could serve to provide background data in which to contextualise small scale intensive studies. To begin with a quantitative analysis would also strengthen the sample selection of the following qualitative stage of research. Despite all these strengths this strategy has some limitations, which are presented below.

#### 4.2.3 Limitations

As any other framework of analysis, the sequential explanatory design has a series of limitations that need to be addressed. The first one is the difficulty of managing two different sources of data rigorously. Due to the linear identification of epistemological schools and methods, researchers are mostly educated in one specific cluster, namely post-positivist or social-constructivist. This being the case, researchers often learn how to handle two different sources of data in academic environments where single schools are commonly followed. To Creswell et al (2003)

this situation is particularly demanding in circumstances where researchers ignore how to resolve discrepancies that could arise in integrating the results. To date, little has been written about how to guide the process of data integration, so researchers must find the answers by themselves.

Once the rationale behind my method selection has been presented, in the next section I detail the processes that I follow during each of the two phases. The presentation begins with the quantitative (phase one) to then move into the qualitative phase (phase two).

### 4.3 Phase one

The objectives of this phase are twofold: the first is to seek to understand the patterns of allocation across jurisdictions, depicting which variables are associated with larger FNDR transfers. The second is to guide the sampling selection process used to decide which municipal actors would be interviewed during the second phase. In the next subsections I present my reasoning for case selection beginning with Chile, then move into Chilean municipalities and finally the FNDR, my case of grant competition.

#### 4.3.1 Case Selection - Chile

As recognised by the literature, the term “case study” encompasses multiple types of research design (Thomas, 2011). In some of these designs the researcher selects a small number of cases (or sample) to be analysed, and then extrapolates the findings obtained to a much larger universe or population. In these cases, the link between sample and population involves a rigorous mechanism to secure the process of causal inference.

Since my research objective is to elucidate the features of a specific case, the complexity of case selection is minimised (Seawright and Gerring, 2008). Although my research goal is eminently descriptive, the relevance of my analysed phenomenon allows me to contribute to the field mapping practices and realities experienced by other public administrations.

According to my research objective my meta case of study is Chile and within Chile I performed different sampling techniques in each strata to finally select the municipalities (and officers) to be analysed. All these techniques are detailed below.

### *Case Selection - Chilean municipalities*

Chilean municipalities present a rich case of grant competition due to the institutional and historical setting in which competition takes place. Municipalities are almost forced to compete for funds because only a small number have enough resources to invest (Section 5.3.2 provides an overview). To exemplify this, a recent study conducted by the OECD (2017) found that on average only eight percent of the yearly municipal budget is spent on local investment whilst the remaining budget is used to cover current expenses.

This lack of self-revenues fosters municipal dependence on centrally controlled sources of finance. According to the World Bank (2013) one of the metrics to measure decentralisation across countries is the comparison of subnational own-source revenues against the total national revenues. In highly decentralised countries like Finland, Sweden and Singapore this figure exceeds 30% whereas among decentralised countries like United States, Japan and Germany it is above 20%. Those around 15% are still considered to have an adequate level of decentralisation: here we find countries like Spain, Colombia and Costa Rica. Finally, cases with a figure close to 10% are classified as only slightly decentralised. Chile has only a 6% of subnational own-source revenues, ranking as one of the lowest in the international comparison.

This would be one of the main reasons why nearly 70% of municipalities in Chile encounter severe funding problems (Bernstein and Inostroza, 2009). The acute need for funding motivates fierce competition. This need has allowed me as a researcher to capture the effect of competition between municipalities. Added to this, my personal experience and knowledge of Chilean municipalities contributes to making my data collection easier and aids access to key stakeholders.

#### 4.3.2 FNDR selection

Having established the relevance of local grant competition among Chilean municipalities, and after reviewing the main grant competitions around the world, the Chilean FNDR stood out for two reasons. First, the FNDR scheme has the freedom to fund almost any locally-run project of investment. In the words of a municipal officer, the FNDR can be described as the “do or die” in local investment. Thus, analysing this grant has increased my chances of capturing the essence of grant competition. The second reason was linked to the data availability. To be funded by the FNDR, projects need to be entered into an electronic platform dependant on the Ministry of Social Development which oversees this process. This data is available upon request by Chilean transparency law, enabling easy access to it.

#### 4.3.3 Data analysis

Once my case study and grant were selected I started the construction of my data base for the quantitative analysis. To begin, I requested that the Ministry of Social Development provide the list with all the bids submitted to the FNDR by local authorities between the years 2008 to 2014 with their corresponding scoring and amount allocated (if any).

I decided to select the 2008 to 2014 time frame for two reasons. First, prior to 2007 the Chilean territory was divided in thirteen regions instead of the current fifteen. So, to establish equivalent comparisons across years, I decided to analyse competition taking place after the addition of the last two regions. Second, this time frame was long enough to include one presidential and two local elections, allowing me to control for political variables.

My request was returned in an Excel file with more than 26.000 observations, where each one represented a locally submitted bid. Bearing in mind the vast amount of data available, I decided to start with a descriptive analysis of the FNDR to establish a base-line that could serve as a foundation of my research.

To run the descriptive analysis, I added observations for the municipal demographic variables which I had downloaded from the Service of Municipal Information. Then, I added the municipal election results requested from the Electoral National Service. Once the data was set up I exported it to STATA to begin the analysis.

In the descriptive analysis I split my sample by municipal size (measured by the mean 2008 to 2014 of each municipal population) and poverty (measured by the percentage of people living above the poverty line). Once the data was categorised I presented some general statistics about the number of projects submitted by each subcategory and the FNDR funds allocated locally.

The descriptive analysis suggested that municipalities with more poor citizens tended to perform worse than those that were less poor. This fact works against the FNDR equity objective and is a burden to deprived municipalities. To test this further, I decided to examine which were the main predictors of FNDR payment per head and to assess if there was any association between FNDR success, and a set of local capacity-related variables and controls.

Because of the nature of the local landscape in Chile, I hypothesised that municipalities with better capacities and resources would be more successful than the ones with less, and that this effect

would intensify in regions far from Santiago (the capital). Due to its mechanism of allocation, in which several stages relied on the municipal capacity to write a bid, I expected to see a positive relationship between local capacity and FNDR funds allocation per capita.

In this relation the outcome and dependent variable is the FNDR amount per capita allocated yearly in Chilean pesos and the independent variables are the municipal capacity measured by five indicators: percentage of affluent citizens, municipal budget per capita, investment budget, common fund dependence and percentage of skilled staff. These are seen as positive indicators of capacity, apart from common fund dependence which is seen as a negative indicator of capacity.

I choose to run a linear regression to calculate the association between municipal capacities and funds allocation (Johnston and DiNardo, 1972). I also included a set of control variables to include the effect of some variables that could influence success in FNDR funding. These were: area in square kilometres of the municipality, distance to the regional capital and the match between the party of the Mayor and that of the President.

For the regression model the units of analysis were the 342 Chilean municipalities that engaged in FNDR competition during my studied period. After running a model for all 342 municipalities I decided to split my observations between central and peripheral regions. This division responds to the demographic composition of Chile where roughly 70% of the population lives in one of the 6 central regions (as depicted in figure 7). I then ran separate models using the same variables for municipalities in the central set and in the peripheral set.

Through a Chow Test I examined if the single national model had a better fit than the separate central and regional subsamples. The test indicated that the two-model solution had a better fit than the single one, so the central and peripheral models were incorporated into the analysis and discussion.

Once the statistical analysis had been carried out, I moved to the second phase. To compose my purposive sample of municipalities, I listed the ones with the best and worst records during competition. That information, in conjunction with the set of demographic variables previously requested, comprised the data from which I selected the municipalities to analyse in the second phase. These second phase procedures are detailed below.

#### 4.4 Phase Two

A conclusion from the literature review was that there was a gap in the study of competitive grants that I wanted to bridge (Entwistle et al, 2016). Most studies of grant competition tend to put their analytical emphasis solely on determinants of grant payment without acknowledging contextual or institutional factors. While distribution depicts a key part of grant competition I argue that there are still other areas with potential to be explored. The FNDR allocative patterns were used to guide the selection of my purposive sample. By doing this I was able to assess municipalities with both successful and unsuccessful grant outcomes, looking for particularities in their narratives and examining the causes behind the allocations.

In the course of my sample selection I also wanted to cover another gap in the literature by structuring a cross-institutional approach. My aim was to understand the vision of FNDR grant competition by including the voice not only of local but also regional and central officers. Having all those voices I aimed to open the procedural black-box and look for commonalities and discrepancies between different governmental tiers. The objective of having different groups of interviewees also complies with a quest for multiple understandings of the competitive process and operation.

#### 4.4.1 Semi-structured Interview

To collect my qualitative data I decided to use semi-structured interviews. The questionnaire was designed to capture the procedural elements of the project-bid formulation and to capture the interviewees' personal opinions and feelings about the competitive process and the other protagonists. My aim was not only to understand the protocols of competition but also to examine the pre-conceptions and beliefs present in the central-local relationship embodied by the scheme.

For these purposes the use of semi structured interviews was the best strategy, because it gave me some flexibility with the emerging topics. According to Van Manen (1984): "The point of phenomenological research is to borrow other people's experiences in order to understand the deeper meaning of it in the context of the whole human experience. Most interpretations of the phenomenological method "borrow" this experience by eliciting descriptions of it from informants in non-structured or semi-structured interviews"(p.62).

Qualitative methods are generally selected by researchers looking for inductively-discovered themes or topics where the researcher is immersed in the data without any preconceived theory. That is the main goal of methods such as grounded theory where codes are open and naturally interconnected, fostering an exploratory scrutiny of the data (Strauss and Corbin, 1994).

Due to the nature of my research question, I decided to set up a conceptual base from which I could built my questionnaire. Grounded theory recommends an immersion in the social phenomenon with no preconceptions, but given the nature of my research and my prior knowledge, this idea seemed unsuitable. Instead, my instrument was based on the NPM attributes of grant competition. That was my point of departure and from which I expanded my analysis to new attributes that I wanted to explore and some emerging topics.

As seen in the literature review, NPM is composed of a myriad practices instead of a formal paradigm, although scholars have concurred that, at least normatively, grant competition has four

main attributes (Brennan et al, 1998). According to these attributes, grant competition would: give best value for money, foster innovation, increase local empowerment and foster public-private partnerships. From these four attributes the first three were used to structure my interviews whereas the last one (partnership) was left out. That final topic was not included in the questionnaire because in Chile, as in many other countries, forming partnerships is not a formal bid requirement.

Along with those three attributes I also incorporated two other concepts that I wanted to explore: the perceived fairness of the system and the effect of competition on inter-municipal relations. Altogether these five concepts build the foundation from which I aimed to capture my interviewees’ perceptions of grant competition, leaving also enough room to new concepts that may appear (Both selections can be seen in Table 1).

TABLE 1 – NPM Attributes and my selection

GRANT COMPETITION ATTRIBUTES		MY SELECTION	
1.	Give value for money (efficiency)	1.	Give value for money (efficiency)
2.	Foster innovation	2.	Foster innovation
3.	Increase local empowerment	3.	Increase local empowerment
4.	Foster public -private partnerships	5.	Fairness
		6.	Intermunicipal collaboration

Source: Author’s design based on Brennan et al (1998)

#### 4.4.2 Pilot stage

Before going into the data collection stage, during December of 2015 I piloted my interview instrument in Chile. The main idea was to test interviewees’ understanding of questions and identify

any problems with its phrasing or meaning. For the pilot I interviewed a central and a local officer, both with considerable experience of the FNDR grants system.

During interviews competition was found to be a difficult concept for public officers, so I had to consider how to ask about it in simple terms. I used both interviews to test several questions and also take field notes that later were used to construct my topic selection and final questionnaire.

The pilot made me realise that officers were keener to talk about the operating systems part of the questionnaire as opposed to the more conceptual and less concrete areas. The process of bid construction was a topic where officers had more to say due to their familiarity with the scheme. Acknowledging this, I decided to start with a section devoted to the procedures, where respondents felt more comfortable, before going into more complex and abstract questions.

With the knowledge gained through the pilot I decided to modify the phrasing of some of my questions to ease understanding. Finally, once the questionnaire was finished I moved into the case selection stages; these processes are detailed below.

#### 4.4.3 Case selection

Given the characteristics of the Chilean local landscape, the ideal setting would have captured the 15 regions and 346 municipalities scattered around the territory. However, the geographical distance, time and budget constraints impeded such distribution, so I had to limit my selection according to my resources.

Given the purposeful selection of my interviewees I did not have to select a large sample to make it representative. Instead I decided to interview 16 municipal and 5 regional officers. By doing so I could round my corpus of analysis to 20 interviews of one hour each. That seemed enough to capture the narratives across the competitive practices and leave space for new and unexplored topics. My sampling procedures are detailed below

## *Regions*

Regions were the first strata of my selection. I selected two of the 15 Chilean regions to spread the sample as much as possible. The ones selected were the Metropolitan (XIII) and Bio-Bio regions (VIII).

The Metropolitan region has 52 municipalities and Bio-Bio has 54; together, they account for nearly one third of the total municipalities in Chile (106/346). That proportion gave me enough room to make my selection and replace any drop-outs. At the same time, given their number, I could choose a mixed sample of municipalities with different characteristics, needs and realities. Finally, there was the potential that the large number of jurisdictions within each region would entail fierce competition for grants.

## *Municipalities*

Once the two regions were selected I moved into the municipalities strata. Unlike the regional strata where regions were purposefully chosen, this selection was led by the data obtained in Chapter Six. For this, I used the record of municipal success in FNDR competition and the previously collected set of demographic variables to guide the selection.

Competition can be seen as binary, defined by its results between successful and unsuccessful bidders. I aimed to incorporate both groups into the analysis to widen the scope of my findings. To avoid a selection bias, I decided to choose municipalities similar in every demographic aspect, except their FNDR grant per capita. In doing so, I would explicitly isolate contextual features from competition results.

Since I had several demographic variables to control for, there were two statistical techniques that could serve my purpose: cluster and factor analysis. A description of each one and my selection is depicted below.

### *Factor and cluster analysis*

Factor and cluster analysis are used for data reduction and segmentation but differ in their overall objective. Factor analysis aims to describe the covariate relationships between several variables in terms of a few underlying but unobserved quantities called factors (Kline, 2014). In this method, factors represent underlying constructs responsible for the correlations between variables, echoing a theoretically prescribed structure.

On the other hand, the aim of cluster analysis is to group objects (variables or items) based on certain measures or distances between variables. According to Johnson and Wichern (2004) in cluster analysis no assumptions are made about the number of groups or underlying structures and grouping is done based on the similarities or distance (dissimilarities) between observations.

In cluster analysis, the inputs required are similarity measures or data from which similarities can be computed. In this regard Johnson and Wichern (2004) argue that: "In most practical applications of cluster analysis, the investigator knows enough about the problem to distinguish "good" groupings from "bad" groupings. Why not enumerate all possible groupings and select the "best" ones for further study" (p.671).

Based on the rationale behind both techniques, I decide to run a cluster analysis to group my municipalities and select my sample of interviewees. I anticipated that the knowledge gained by the previous statistical analysis may help me to differentiate between clusters and select the ones that better serve my overall purpose.

Using the 22 version of SPSS package, I ran a cluster analysis in each region, grouping municipalities according to their population, budget per capita, percentage of poor citizens and dependence on the common municipal fund. Normally, the number of clusters is freely decided based on the grouping method; in my case I decided to fix the number of clusters deliberately at seven. By doing so, I ensured that my sample was not over spread into several small clusters, allowing

me to have enough cases in each cluster and enough clusters to select and replace in case of drop outs.

Once I ran the analysis I selected the municipalities with the largest and smallest FNDR grant per capita in each cluster. By doing that I sought to isolate as far as possible all the confounding variables that could impact the municipal success ratio. Whenever possible, I also selected adjoining municipalities to indirectly control for their geographical location.

In the Metropolitan and Bio-Bio regions from the initial seven clusters I selected four to be contacted and interviewed following the method of “best” cluster selection. The selection was guided by the homogeneity of the demographics, the contrast in the FNDR funds per capita and the distance from where I was based. In each cluster I decided to contact the ones with the best and the worst FNDR records. When this was not possible I expanded my selection to the next jurisdiction listed in each cluster. Finally, in six out of the eight clusters selected I was able to contact the jurisdictions at each extreme of the FNDR allocation (successful and unsuccessful). Only one cluster per region was represented by successful jurisdictions solely. The clusters and municipalities selected can be seen in Table 2.

TABLE 2 – Clusters and municipalities interviewed in each Region

BIO-BIO REGION			METROPOLITAN REGION		
MUNICIPALITY	FNDR GRANT PER CAPITA (CLP)	CLUSTER	MUNICIPALITY	FNDR GRANT PER CAPITA (CLP)	CLUSTER
San Carlos	13	1	Maria Pinto	54	1
Lota	132	1	Isla de Maipo	56	1
Ninhue	22	3	Alhue	310	1
Ranquil	52	3	Pirque	379	1
Antuco	52	3	Huechuraba	17	2
Contulmo	615	3	Quinta Normal	40	2
Treguaco	615	3	Talagante	134	2
Portezuelo	750	3	La Cisterna	143	2
El Carmen	3	5	Lampa	157	2
Mulchen	9	5	Ñuñoa	20	3
Pinto	29	5	Lo Barnechea	24	3
Tucapel	219	5	Lo Prado	107	3
Tirua	499	5	La Granja	112	3
Quirihue	223.2018	5	Quilicura	0.5	4
Bulnes	11.20415	6	El Bosque	36	4
Santa Juana	47.36119	6	Santiago	79	4
Lebu	202.6241	6			
Negrete	258.8318	6			
Nacimiento	335.9745	6			

Interviewed
  Non Interviewed

Source: Author's calculations

### *Participant selection – local and regional officers*

Once the clusters were set and the municipalities selected I had to choose my interviewees in each municipality. My aim was to capture the practices and narratives created around grant competition, so I had to restrict my search to officers with at least four years of experience working

with the FNDR. Locally, this task was usually carried out by officers working in the planning department of the municipalities or SECPLA in Spanish. Given the difference between jurisdictions, planning offices had staff numbers varying from just a few officers to a team of more than 30. Among them I decided to select the most experienced officers.

To establish the first contact, I wrote a letter in which I presented myself and my research objectives. The letter had the logo of the University of Birmingham and the Chilean Ministry of Education as the heading, and it was professionally designed by a graphic designer. The letter was attached as an image in the body of an email and it was sent to all the potential municipalities to be interviewed to an email address listed on their web page (It can be seen in Appendix 1).

The email proved to be reasonably successful and allowed me to arrange three interviews in the Metropolitan region but none in the Bio-Bio region. The lack of response came as no surprise given the large amount of emails daily received by local officers and my previous experience working with municipalities. To overcome this problem, I called all municipalities who had a phone number on their web page, referencing the email previously sent. The email gave me a cue from which I started conversations with municipal officers and their secretaries, who proved to be key to access to an officer's schedule. After several calls, secretaries began to recognise my voice and research objectives, allowing the setting up of interviews.

After two months and several phone calls, emails and visits I was able to interview 16 local officers from 15 different municipalities.

To contact regional and central government officers I had to use a different approach. Since these officers do not usually meet the public they were harder to contact. In these cases, I relied on local officers help to establish the first contact. Municipal officers were extremely valuable in this situation and acted as gate-keepers to the inner bureaucratic mechanisms of the FNDR. Thanks to their help, I was able to contact and arrange meetings with five senior executives from different

departments. All of them had overseen FNDR competition for at least four years and had deep knowledge about the competitive mechanism of fund allocation. The questionnaire used in these interviews was a shorter version than the original one. Since this group of officers were not involved in local bid formulations only the second section of the questionnaire was needed.

#### 4.4.4 Interviews

Before interviews took place, I presented my research objectives and questions. A verbal consent form was read, agreed and recorded in every case. Interviews ranged from 30 to 90 minutes and were recorded and stored using a mobile software designed for that purpose (Coggi). Interviews were held at officers' personal offices or common rooms within the municipality.

Based in my pilot interview experience, all interviews started with some warm-up questions associated with procedural practices and administrative responsibilities. Those topics were normally used to introduce the subject and make respondents more comfortable with the research objective and myself as interviewer. After that introductory section, I led the discussion into abstract perception of competitions to capture their underlying feelings and reflections.

Officers were comfortable talking about procedures and their role in the competitions but sometimes struggled to evaluate the system's effects and goals. Under these circumstances the semi-structured questionnaire proved to be a good instrument to allow the exchange of information to shift from concrete facts to personal opinions and feelings.

#### *Data analysis*

Once the interviews were transcribed, I performed a thematic analysis to aggregate and analyse the topics that emerged. Thematic analysis is one of the most frequently used techniques to analyse qualitative data and its main objective is to find patterns or traits of meaning in a given

dataset (Joffe, 2012). My semi-structured interview was constructed based on five topics, three of which were theory driven while two were chosen based on my personal experience. From there I expanded some of the ideas that appeared throughout the interviews.

Epistemologically, my analysis was pragmatic and followed a mixed approach in congruence with my research framework. Following the dichotomy made by Braun and Clarke (2006), I combined essential/realist<sup>1</sup> and constructionist approaches. For Braun and Clarke (2006) within the realist approach: “you can theorize motivations, experiences and meaning in a straightforward way, because a simple, largely unidirectional relationship is assumed between meaning and experience and language” (p.85). One of the objectives of the interviews was to understand the practicalities of the competition process (times, procedures and incentives) and for that purpose a realist approach clearly served my plan, revealing the inner mechanisms of the project design and appraisal.

On the other hand, in the constructivist approach: “meaning and experience are socially produced and reproduced, rather than inhering within individuals. Therefore, thematic analysis conducted within a constructionist framework cannot and does not seek to focus on motivation or individual psychologies, but instead seeks to theorize the sociocultural contexts, and structural conditions, that enable the individual accounts that are provided” (Braun and Clarke, 2006, p.85). My conceptualisation of grant competition was also linked to a constructionist approach because I aimed to identify how grant competition was part of a bigger conception of the central-local relationship. The stories and narratives articulated by the interviewees indirectly revealed their level of local ownership and depicted the relation between the different governmental tiers. In Chile municipalities have historically been framed as the less powerful among governmental institutions. My interviews tried to test whether that feeling permeated grant competition processes and how that feeling impacted officers’ visions toward the competition and local development more generally.

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<sup>1</sup> Braun and Clark refer to the post-positivist approach as realist or essential

Since only the second section of the questionnaire was administered to central and regional officers the analysis was slightly different. Without the procedural part, the analysis was focused on the effects of competition and their reflections about it. During the analysis, I differentiated between officers' tiers to contrast their narratives and look for similitudes and differences.

The qualitative analysis was initially framed under the three attributes of grant competition identified in the literature; value for money, local empowerment and innovation (Brennan et al, 1998). These three attributes were used as meta-coding structures and composed of several subtopics. Within the topics, local, regional and central perspectives were mixed in a grid of multiple voices, where successful and unsuccessful jurisdictions were interlocked. Besides these three attributes, I purposefully include two more topics that I wanted to test; the fairness of the system and its impact in local collaborations. Finally, I built another code rooted in several emerging topics (Topics and sub-topics can be seen in Table 3). This new code represented the local appropriation of the concept and grouped the subtopics that diverged from the prior five topics.

TABLE 3 – Topics and sub-topics

1.	VALUE FOR MONEY (EFFICIENCY)	3.	INNOVATION
	Capacity		Less bureaucracy
	The appraisal mechanism		Innovation under uncertainty
	Size matters but needs do not		
2.	LOCAL EMPOWERMENT	4.	FAIRNESS
	Grantsmanship	5.	INTER-MUNICIPAL COLLABORATION
	The role of the evaluator	6.	EMERGING TOPICS
	A matter of trust		Are we competing?
	Market signals		Intramunicipal competition
	Help		Politics of the visible

Source: Author's design

#### 4.4.5 Analysis Chapter

Once the quantitative and qualitative data were analysed, Chapter Eight presents the final stage of the analysis commonly denominated in the literature as data integration.

This idea of fleshing out the relation between the two data sources is supported by Cresswell (2014) who argues that: “After the researcher presents the general quantitative and then qualitative results, a discussion should follow that specifies how the qualitative results help to expand or explain the quantitative results” (p.225).

As previously seen, the quantitative analysis fed my sample selection and stressed some of the topics that were later included in the questionnaire. This kind of integration occurred within the data analysis and facilitated a more robust approach to the phenomenon studied. Nevertheless, the link between the two sources of data still left space available to explore. Because of that, I devote the last analytical chapter to integrating the contextual, quantitative and qualitative chapters of the

analysis into one independent unit. According to Creswell et al (2003) the most common case of integration is the one that occurs at the analysis and interpretation stage after both sources of data have been collected.

In Chapter Eight, the links between findings are grouped by themes; in them I present how allocative patterns could be understood in terms of practices and conceptions of competition. I also incorporate historical and institutional elements to compose my reflections and give an overarching perspective.

Chapter Eight follows a general order of ideas beginning with conceptions of grant competition to then move into an NPM conceptualisation and finishes with the particularities of the Chilean case. In this phase of the analysis I link my different sources of data to present interconnected findings. This process proved to be a fruitful one, contributing to the articulation of ideas about grants, competition and local government administration.

## 4.5 Research ethics

Conducting ethical research demands a reflection about the role taken by the researcher, interviewees, the data gathering process and the protocols followed to ensure privacy. Below, I present the steps that I followed to secure an ethically informed research.

The contextual and quantitative chapters of this research were composed by reference to secondary sources of public data, so they did not raise any ethical considerations. In contrast, in the qualitative phase I had to take measures to secure the confidentiality of my interviewees. While my subject of study was not especially sensitive, the continuous reference to other figures of a public organisation or the public organisation itself made me aware of the importance of privacy.

At an early stage the project received the ethical approval from the University of Birmingham Humanities and Social Sciences Ethical Review Committee, showing that my research procedures were in conformance with the strict rules determined by the University and the Department (Appendix 2).

From the first contact via email or phone, to the face-to-face interviews I followed the same protocol when presenting myself and my research objectives. Before interviews took place, I allowed a few minutes to introduce my role as student-researcher and my objectives. Then, I verbally gained informed consent from each one of my interviewees. The consent was recorded and stored as the first section of each interview. According to Traianau (2014): “When informed consent is judged to be a requirement, the researcher must reflect on how this can be best secured: what is needed if people are to be properly informed ... and how can one be sure that people are in a position to freely consent or decline to be involved in the research?” (p.64).

After gaining consent I left a space of time to respond to any query before interviews began. I also informed respondents that they could withdraw at any time and were not required to respond to any question if they found it especially sensitive or they just did not want to be recorded.

Once the data was collected, responses were anonymised in all the analyses. Personal names were deleted, and all the quotes incorporated in the analysis were referenced by the officer’s position and the tier ascribed; local, regional or central without any other recognisable feature. Finally, in the application for the ethical approval I detailed how interviews as well as other sources of data were securely stored in case they were needed at any point in time.

## 4.6 Conclusions

The objective of this chapter was to outline my methodological approach and its capacity to fit my research goals. In this chapter I have explained how pragmatism was used as my epistemological standpoint from which I selected my methods and research framework. Pragmatism, despite not being as grounded in theory as post-positivism or constructivism, has been able to build a case for research designs where multiple methods of data collection are available. This approach was adequate to assess grant competition where different tiers of government are interchangeably involved. The capacity to incorporate allocative patterns as well as personal narratives allowed me to deliver better insights and arguments.

The sequential approach of methodological phases allowed me to incorporate the quantitative analysis (phase one) into the qualitative section (phase two). The integration of the sources of data was then reinforced in the last analytical chapter where these findings were linked with the Chilean contextual setting described in Chapter Five.

Following that, the data analysis processes were depicted, fleshing out the connection between linear regression results and the sample design. Finally, I presented the steps followed to ensure an ethical treatment of the data and the privacy of my interviewees

# CHAPTER FIVE: THE LOCAL CONTEXT IN CHILE – A HISTORY OF CENTRALISATION

## 5.1 Introduction

The aim of this chapter is to set the thesis within a historic and institutional framework. According to White and Adam (1995) understanding the context is essential to capture fully the scope of a research subject. Thus, in the following sections I present the actors, policies and institutions involved in the process of local grant competition in Chile.

The chapter begins with a brief characterisation of the political milestones on which Chilean municipalities were built. The ideas presented are non-exhaustive and were purposefully selected to shed light on the overall objectives of the thesis. I place special attention on the origins of subnational authorities (regional and local), tracing their performance across different periods of time.

Once the historical background is set, the second section defines the role of municipalities, describing their organisation, legal attributes and main responsibilities. Here, I detail the sources of local funding, addressing the main fiscal issues experienced by municipalities as local administrators and service providers.

The third and final section is devoted to the role played by grants at the municipal level. Here I introduce the reader to the FNDR, the main source of local investment and my subject of enquiry. Once I flesh out the operational processes of the FNDR I present the main scholarly debates about its distribution and effects.

## 5.2 A brief history of Chilean Municipalities

The aim of this section is to address the facts and ideas that historically defined the way municipalities work and administer their jurisdictions. The subsections below are chronologically ordered and were selected to frame my research questions. Below, I depict the establishment of regional and local governments in Chile reviewing their administrative role and interplay with central government.

### 5.2.1 The origins

Santiago, the capital of the General Captaincy of Chile, was founded on the 12th February in the year 1541 by the Spaniard Diego de Almagro. Since then, it has been the centre of commerce and administration of the Chilean territory. Despite its geographical characteristics, marked by a 4,000 kilometre coast line and the Andes mountain range, by the year 1834 only 9.6% of its one million population was living in Santiago (Gobierno de Chile, 1835).

According to Hevia (2015) it was not until the middle of the twentieth century when country-city migration (largely fostered by industrialisation processes) started to overcrowd Santiago. By the year 1970, nearly 40% of the total population was concentrated in Santiago, defining a pattern that has been sustained in a relatively stable way until today.

Although there were other futile efforts, the first formal constitution that built the basis of the Chilean nation was written in the year 1833 by the jurist Mariano Egaña. This constitution gave clear predominance to the figure of the President who had the ambition to eliminate the emerging

“provincial assemblies”<sup>2</sup> and concentrate all the functions on the executive power (Campos, 1983). The constitution of 1833 had a clear Borbonic influence and resembled the eminent figure of the Spaniard monarch who was the sole sovereign and ruler above any popular will.

Diego Portales, the main ideologist behind the 1833 constitution, played a significant role in the institutional configuration of Chile. Among several reforms, he decided to delegate to the presidentially appointed figures of the Intendentes, the central government voice in the newly formed regions. According to Boisier (2000) Portales was the historical figure who: “consolidated the Chilean state as centralist, this influence would extend from 1833 to 1891, but its intellectual influence would last until the constitution of 1980. Portales made Intendentes the central piece of centralism, making them direct agents of the President, appointed by him, responsible to him and committed to execute his orders in the territory under their command” (p.83).

Municipalities in the constitution of 1833 were responsible for primary public education, health and public infrastructure among other remits. Their administration and management was nevertheless decided by centrally appointed officers and responded to the interests of the Intendentes. So, it was not until 1891, when the law of the Autonomous Comuna (municipality) was passed, that popularly elected mayors were designated responsible for the administration of local jurisdictions.

### *The beginning of the twentieth century*

The second milestone in the configuration of Chilean municipalities was the constitution of 1925. Here, we find the first section is devoted to the decentralised administration of the Chilean territory. Although the section was merely normative and without any specific arrangements, it

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<sup>2</sup> These assemblies were held for a short period of time (1825 – 1831) in the regions of Coquimbo, Concepcion and Santiago. They embodied a federalist will of self-determination that lost influence with the emergence of a centralised estate (Arias, 2010).

included the first subdivision of the territory into provinces and comunas<sup>3</sup>. The configuration of the constitution was led by the President Alessandri-Palma and aimed to eliminate any sign of the parliamentarist movement initiated at the beginning of the twentieth century. For that reason, the constitution had a clear centralist ethos.

According to Hevia (2015), the constitution of 1925 played an important role in defining the municipal scope of action dividing jurisdictions' administration (exercised by the municipality) from their political management and decision-making (led by the Intendente and the executive power). The division between local government and administration was decisive and marked a disjunction that defined the role of local authorities through history.

Infante (1973) argued that under the 1925 constitution, Intendentes were entitled to act as "small local presidents" overseeing every important decision. The Intendentes' power was so decisive that they could even veto municipal mayors in office and appoint mayors in municipalities with more than 100,000 inhabitants. The control they exercised diminished the authority of the municipal mayors, who were commonly seen as mere executors of central decisions.

Between the constitution of 1925 and the military coup of 1973, local development was driven by the industrialisation of the thirteen newly-formed regions and the first efforts to execute a national plan of development. This period of industrialisation began during the years following the Second World War and aimed to expand the capacities of each region. In that respect, some of the policies implemented enjoyed relative success, such as the nationalisation of the copper mines, the construction of industrial hubs and land reform (Hevia, 2015).

Since regions were the main subject of the industrial reforms, during this time local governments were to a large extent left out of the debate. For Boisier (1984), the process of

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<sup>3</sup> Comuna refers to the geographical space comprised by each jurisdiction whereas municipality refers to the institution that led the local authority

decentralisation was economically driven and with a decided top-down perspective unheeding of the geographical heterogeneity of the country. Moreover, the concentration of investment in a few regional capitals fostered country-city migrations, widening the differences between jurisdictions. This was especially acute considering the lack of means that municipalities had to respond to the influx of citizens coming from the country.

### 5.2.2 The military coup of 1973

The morning of the 11th September 1973, General Pinochet, allied with the generals of the remaining armed forces overthrew the government of the socialist President Salvador Allende through a military coup. From the beginning of his regime Pinochet wanted to re-shape the way Chile was territorially governed to secure its control. Therefore, one of the first measures taken was the fusion and centralisation of the municipal administration and political decision-making. Pinochet and the other generals established what they called a Doctrine of National Security on which municipalities were one more link in the hierarchical structure of command.

Pinochet dismissed the Congress and all the political parties in what has been described as the biggest concentration of power ever seen in Chilean history (Diaz, 1993). According to Angell et al (2001): "The intentions of the military regime were to strengthen, not weaken, central control by incorporating regions and municipalities into a hierarchical system of authoritarian domination" (p.79).

After seven years in power and with increasing international pressure, Pinochet decided to legitimise his regime through a new constitution. Its impact and consequences are explored below.

### *The role of municipalities during the dictatorship*

The Generals wanted to de-politicise the role of public administration, setting a system where the rules of market were responsible for the delivery of goods and services (Hevia, 2015). This process was finally embodied in the constitution of 1980. This constitution, written by the initiators of the coup, aimed to secure the legacy of the regime and relieve some of the international pressure raised by the documented violations of human rights.

In this new constitution Pinochet imposed deep neoliberal reforms on the economy and public administration fields. Among these reforms he decided to transfer several responsibilities to local authorities. According to Vergara et al (1999) the delegation of administrative powers to lower tiers of government responded to an instrumental vision of local authorities where: “The global plan of the neoliberal model imposed by the coup, did not mind about the causes of social issues and only cared about the return to the investment made. In this sense the socio-political management of municipalities responded to an efficiency seek of the investment made by the state instead of fulfilling a democratic objective. That could explain the technocratic structure given to the municipalities” (p.104).

During this time, municipalities also began to be responsible for (among other functions) primary health and public education, local planning, urban regulation and social assistance. Despite the relevance of these tasks, municipalities were mere executors of decisions taken higher up in the chain of command without enough resources or real possibilities to influence their implementation.

For Eaton (2004) transferring responsibilities without the adequate resources to pay for the services: “was part and parcel of Pinochet’s attempt to shrink the size and relevance of the central state and encourage the privatization of social services” (p.230).

For Valdivia (2015) the delegation of these functions responded to a strategy to isolate and atomise the social demands, giving them voice but no vote in a context where municipalities had

almost no institutional relevance. One famous quote of General Pinochet embodies this matter succinctly: “The administration can be decentralized, the power...never” (Boisier, 2011, p.7).

During these years, municipalities received resources based on the number of citizens enrolled and eligible to receive centrally designed services. This system provided two benefits to the military regime. First, central government had total compliance from municipalities, who did not have any other alternative to fund their services and respond to social demands. Second, the data locally captured was centrally collected and managed as a source of surveillance and control.

The central transfers devoted to public services were decided by the number of beneficiaries registered in each case, so they were not part of the municipal own-budget (were not considered self-revenues). Thus, in terms of fiscal reform, the regime designed three different funding mechanisms. First, municipalities received a fraction of the land tax, business tax and vehicle tax registered in their jurisdiction. Second, all local authorities were part of a horizontal equity fund called the Common Municipal Fund. This fund was composed of a fraction of the local tax revenues and each year the funds were collected, pooled together and divided by a formula based in the municipal poverty level and other demographic variables (this will be analysed further in section 5.3.2). Finally, municipalities competed for several funds like the FNDR (this will be explained in section 5.4.2).

### *Pinochet's legacy*

The constitution of 1980 established that eight years after its enactment a national referendum would be held to decide the future of the regime. In this year – 1988 – a majority voted against Pinochet's regime, so it was decided that for the first time after 17 years, democratic elections would take place in the year 1990. In those elections Patricio Aylwin, the candidate opposing Pinochet, defeated Hernan Buchi (Pinochet's representative), establishing the return of Chilean democracy.

The legacy of the Pinochet dictatorship has been largely debated by academics. For some, the measures taken by the dictator were the key to taking Chile out of economic stagnation and paved the way to building the so called “Chilean miracle” of growth. This current of thought has been supported by economists such as David Hojman, Barry Boswirth and Raul Laban among others. For them, Chilean growth can be explained due to Pinochet’s adherence to the classical economic development doctrine based on liberalisation, free trade and limited state size (Richards, 1997). Macroeconomic data may support the above idea. According to Servén and Solimano (1993) after the exchange rate-base was stabilised in 1984, Chile experienced six years of expansion with moderate inflation and reduction of the debt ratios. This translated into an annual growth rate of GDP of 6.3 percent between 1984 and 1989 (Servén and Solimano, 1993). This set of macroeconomic policies was then continued once democracy returned in 1990. Until the Asian financial crisis of 1997, Chile had 18 years of continuous economic expansion helping to build the legend of its economic success (Valenzuela, 1997).

Nevertheless this current of thought has been also highly contested by scholars arguing that the liberalisation and market-led policies implemented by Pinochet had detrimental effects among different groups of the society. Drake and Frank (2004) studied the human underside of the Chilean miracle and stressed the harsh inequalities that persisted beyond the growth and low inflation figures highlighted under Pinochet’s regime. Drake and Frank use the concept of “Two Chiles” to embody the representation of a society segmented by class, where just a few were able to see the fruits of economic growth whilst workers’ real wages stagnated and labour rights faltered.

Indigenous people were also affected during the Pinochet regime. A study led by Richards (2013) found that during reforms, the Mapuches (an Indigenous group from the south of Chile) suffered political persecution, economic exploitation and racial oppression. Richards argues that most of the neoliberal reforms benefited local elites and corporations who damaged the soil and

drained the water sources used by the Mapuches. Schneider (1993) also rebuts the shared enthusiasm about the economic model implemented by Pinochet. She argues that despite the ability of the Chilean economy to yield high economic growth, for most of the working poor the model was not miraculous at all. Deepening this idea Schneider (1993) argues that during Pinochet's regime: "The relative inequality of income between the top and bottom fifths of the population increased dramatically since the implementation of the new economic model. In 1969 the income share of the wealthiest fifth of the population was 44.5% as compared with 7.6% for the poorest fifth. By 1988 that ratio was 54.6% to 4.4%" (p.5).

Pinochet's dictatorship is one of the most controversial topics in recent Chilean history. Along with the horrible and systematic violations to human rights, Pinochet's dictatorship must be recalled as the period where Chile's institutional configuration was set. The economic development of the last years of the regime built the foundations for the most successful period in Chilean history. These accomplishments, nevertheless, have been overshadowed by the rising inequality and regional underdevelopment that emerged as a side effect of the forcefully implemented reforms (Works, 2003; Gonzalez and Van Treek, 2018).

### *The return to democracy*

After Pinochet's defeat in the 1988 referendum and the subsequent election of Patricio Aylwin in 1990, Chile finally returned to democracy. Nevertheless the transition was accompanied by the close supervision of the armed forces that, before leaving power, established a system to secure their legacy and legal impunity<sup>4</sup>. The reinstalled political parties fought to make several amendments

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<sup>4</sup> Despite several attempts to bring him to justice, Pinochet was never judged by a Chilean court and died in 2006 as a free man

to the constitution of 1980, trying to unblock the authoritarian ties left by the coup. Local administration nevertheless was one of the areas which remained mostly unaltered.

One of the first constitutional amendments that was passed, established that mayors would be democratically elected instead of being appointed by the President. Along with this, Regional Governments were subject to several modifications. As previously noted, the figure of the Intendente has been present in the Chilean administration as far as 1833. During the dictatorship Intendentes were installed as the presidential voice in the regions.

In the democratic re-installment the Intendente was maintained as the government representative of the region, leaving the new regional council as the region's administrators. This reform had a deep impact on the institutional framework. Orellana et al (2016) argues that Intendentes act as presidential representatives with no incentive to act for the benefit of the region if this could entail a problem with Santiago. De-coupling political management from regional administration restricts municipalities in their capacity to raise local issues to a regional scale.

During the negotiations of the constitutional reforms, the regional and local governmental tiers were stripped of any power to levy their own taxes, or even modify the tax rates decided centrally. According to Hevia (2015) this restriction was made by the Congress while they were working on the constitutional amendments. As Hevia puts it (2015): "One of the reforms sent by the executive power to the congress established that within the legal frameworks, certain taxes could be levied by regional and local authorities. But in the law finally approved, the word **levied** was change by the word **applied**. This change was made with the clear purpose of making them passive tax recipients, fostering an administrative decentralization and impeding a political decentralization" (p. 50).

For Boisier (2011) the Chilean political establishment have never been in favour of political decentralisation, if it means the decentralisation of decision-making power. He argues that the

arrangements made after Pinochet have been devoted to oiling the administrative machinery without questioning who is the one behind the wheel. Moreover, the lack of political and fiscal powers makes subnational authorities unable to establish their own models of growth and constrains them to follow centrally-constructed and standardised plans.

The last milestone analysed in this section is the reform implemented by President Michelle Bachelet on 2009. This package of reforms was the fruit of nearly nine years of political negotiation in Congress but regardless of this long time frame, it did not dramatically change the situation previously presented (Hevia, 2015). Besides some minor modifications the key aspect of these reforms was the democratic election of the regional councillors. Regional councillors represent the administrative arm of the regional government. They play an important role allocating FNDR funds and discussing the regional plans of development with the Intendente and the local mayors. But, due to the “symbolic” relevance of the regional plan, the role of regional councillors is restricted to the FNDR allocation. The effects of this limited action are described in section 7.2.3.

### 5.2.3 Chile and NPM

After this brief review of the history that shaped local governments, in this next section I describe how NPM was adopted by Chilean public administration. I argue that because of its structural and historical characteristics, Chilean public administration installed NPM as one of its main paradigms, strengthening the role of competition across jurisdictions.

Under General Pinochet’s rule, the Chilean territory was divided into thirteen regions to enable their control and surveillance. As contradictory as it may sound, Pinochet transferred central functions to regions and municipalities to enhance central planning and control. Under this system each administrative level was seen as a link in the strict chain of command (McGinn and Street, 1986).

The reforms implemented during the eighties by Pinochet's regime had a strong economic and financial component aimed at dismantling the role played by the state during the socialist government of Salvador Allende. This set of reforms had an enormous impact on the public administration system: reducing its size, redefining its fields of action and diminishing its impact. Consequently, public administration found itself in second place compared with the role played by the market and the forces of privatised services (Araya and Cerpa, 2008).

Pinochet's regime established the idea that the state was inefficient and politically dangerous, so little effort was put into increasing its performance or capacity. According to Olavarria et al (2011) the priority of the military regime was to reduce the size and role played by the state. Subsequently, they relied on the advice of a group of young economists recently graduated from the Chicago school of Economics to lead the reforms.

The group of scholars, colloquially called the "Chicago Boys", were inspired by Milton Friedman and advocated the privatisation of the state and the reduction of its size and scope. As seen in section 2.2 of this thesis, the Chicago school of Economics was a main hub for rational choice theorists and NPM supporters. This probably permeated the decisions made by the Chicago Boys and the following implementation of the first NPM reforms in Chile.

During these years, Pinochet privatised most of the services delivered by the state and opened Chile to the global market. He also enacted the municipalisation of primary education and health, shifting state responsibilities from central government to the recently-created municipalities (Diaz, 1993). As expected, deprived and small municipalities were economically incapable of administering the devolved services, so they usually had to rely on central government transfers to avoid declaring bankruptcy. Since then, municipalities have been often seen prejudicially as being bad administrators and are considered to be incapable of administering external funds to central government standards.

Once democracy was re-installed the Chilean political elite, probably inspired by their years living in exile, decided to replicate Thatcher's initiatives to modernise public administration. According to Armijo (2000) the influence of NPM and the UK experience was clearly visible in Chile where: "The processes experienced since 1994 seek to introduce new logics in the way public institutions act, emphasising a managerial character in detriment of a procedural one including efficiency and quality as the main guidelines" (p.19).

This adaptation nevertheless was not as smooth as the senior officers predicted it would be. The years of relegation and the dismantlement of civil service careers had had an important effect on Chilean public administration. According to the World Bank, (2003) when they are not carefully implemented NPM reforms in developing countries may impose high transaction costs that may outweigh efficiency gains. The World Bank (2003) proposed that the problem with NPM is not deciding the objectives to achieve but how to actually get there. For them the solution for this issue would be: "choosing and sequencing public sector reforms carefully, in line with initial capacities, to create firmer ground for further reform. Pragmatic, incremental reforms in weak institutional environments— strategic incrementalism—can alleviate, if not fully resolve, accountability problems while creating the conditions for deeper change by modifying incentives and building capacity to respond to the next stage of reforms" (World Bank, 2003, p.194).

The danger of implementing NPM reforms in weak administrative systems is that they could increase efficiency at the cost of equity (World Bank, 2003). As Haldenwag (2005) suggests, NPM measures do not improve efficiency by themselves; they need more changes in the incentive structure to be successful. Olavarria et al (2011) argues that NPM reforms in Chile were introduced after the period of President Aylwin (1990-1994) and were led by a group of enthusiastic senior officers that influenced the institutionalisation of the reforms under the rule of President Frei. However, these reforms were steered by an elite group but never rooted in the public administration

system or shared with the political parties or other stakeholders. Therefore, after the period of President Frei (1994-2000), NPM reforms lost traction in the political agenda, hampering their consolidation, and remained as a system of single and disconnected measures. This situation according to Olavarria et al (2011): “shows that in the Chilean case there wasn’t a high rationality in the efforts to modernize (public administration) but instead they were led by the circumstances, making us think that the reforms were not following a plan” (p.76).

To sum up, NPM reforms in Chile were introduced by force. Then, these reforms were led by senior officers unable to install a comprehensive plan without stakeholders’ support and based on a weakened public administrative system. Under these conditions, competition was installed and has become one of the main paradigms of Chilean public administration.

The aim of the previous subsections has been to explain briefly the development of subnational authorities in Chile. Due to the vast quantity of data I purposely selected the topics that could shed light onto the configuration of local authorities. This first section of this chapter has served as an introduction to the thesis featuring some of the theoretical debates that will be discussed later on.

Since its origins, Chile has been defined as a centralist country. This is in part explained by the Spanish-Borbonic legacy of a central and monolithic figure of power embodied by a sole and absolute ruler. The Spanish influence was absorbed by the political figures of the time and translated into the constitution of 1833, trying to bring order into an institutional chaos.

The influence of 1833 constitution was deep and institutionalised the role of the Intendente as the regional advisor and sole deputy of the political power to the detriment of local authorities. The dissociation between government and administration, despite being installed long ago, was never reversed, leaving local authorities without a significant voice.

The efforts made to industrialise and deconcentrate the economic development fell short under the Pinochet dictatorship. The Junta installed a mixed model where government was centralised, and service delivery was decentralised among local authorities. This model of management was then influenced by NPM and served to fulfil the goals of the military Junta who wanted to delegate operation whilst maintaining control.

The model implemented by the Junta was so impeccably designed that even after 30 years of democratic governments it has not suffered severe changes (Garreton and Antonio, 1999). Moreover, until today, National Congress and the executive power do not have any incentive to increase local powers and change the current set of regulations if that could diminish their local functions, so institutional asymmetry prevails.

### 5.3 Local authorities and their (lack of) fiscal powers

As seen above, the contextual particularities of Chilean history are important in understanding the role of local authorities. Following that line of thought, the objective of this next section is to detail municipal functions and responsibilities and to flesh out the relation between the different tiers of government. The section begins by describing the Chilean subnational framework comprised of regional and local tiers of government; it then moves into the fiscal capacities exercised by local governments and their different sources of funding. Due to its relevance, I also detail the role played by the horizontal equity fund (Common Municipal fund). Finally, I briefly describe the current financial situation of local authorities and their main challenges.

### 5.3.1 Local Powers

Municipalities in Chile are recognised as self-governing entities, autonomous and with their own legal personality and assets/resources. According to Law Nr 18.695 local governments in Chile have several statutory competences which can be broadly divided between exclusive competences and non-exclusive competences. Among exclusive competences we can find municipal zoning plans, local development, local transport regulation, urbanism and construction norms and hygiene; in all these, municipalities are solely responsible. Non-exclusive competences are shared responsibilities where municipalities act as agents of central government. These responsibilities include: public health, primary and secondary education, social housing, sanitary infrastructure, citizen safety, training and economic development, traffic regulations, tourism and culture (Ministerio del Interior, 2006).

As well as these, new tasks are often given to municipalities, increasing their already tight workload. In this regard the OECD (2017) argues: “Municipalities are sometimes identified as ‘service supermarkets’. This situation tends to increase the burden on municipalities as they do not have adequate human, technical and financial resources, raising questions about the efficiency and quality of the municipal services” (p. 15).

Chilean municipalities are tied to the territory they govern, commonly referred to as “comunas” (a loose translation of county). Each municipality is governed by an elected body composed of a Mayor and a council; both are renewable after a period of four years. The local council is composed of six, eight or ten councillors, depending on the number of inhabitants living in the comuna. As discussed in the previous section, after Pinochet’s regime, the first elections where mayors and councillors were democratically elected was held in 1992.

Mayors in Chile are the executive body of the municipality and lead the plan of territorial development. Councillors on the other hand, are a collegiate body in charge of overseeing the

performance of Mayors and approve the annual municipal budget as one of their main responsibilities.

### *The regional government GORE*

The regional government (known as GORE by its initials in Spanish) is the second tier of the Chilean public administration. It is composed of the Intendente, who acts as its president, and the collegiate regional council who represent the territorial interests. The Intendente is appointed by the President whereas the regional council has been democratically elected since 2013 for a renewable four-year period. Previously councillors were appointed by the municipal council.

The Intendentes play a double role as heads of the regional governments and representative of the national government in each region, but as Martelli and Valenzuela (1999) suggest: “when these two roles come into conflict, it is the latter that tends to prevail” (p. 12). One of the main particularities of the regional government is that they do not have independent tax raising powers and instead must rely entirely on the funds that are budgeted for them in the centrally decided annual budgeting process (Eaton, 2004).

GOREs are responsible for the creation of two plans. The Regional Development Strategy which defines socio-economic objectives and the Regional Urban Development Plan that describes the land use for each region. Despite their normative importance none of these plans is legally binding for subordinate land use of local planning (OECD, 2017).

According to the OECD (2017) GORES in Chile have very limited autonomy and act mainly as vehicles of central transfers to municipalities. In these transfers, national ministries control the specific orientation and technical aspects whilst GORES are involved in how and where to locate the resources (OECD, 2009). Among the four different sources of funding that GORES can regionally

administer the FNDR represents 65% of the total (OECD, 2009). Due its importance the FNDR will be analysed independently in the last subsection of this chapter.

### 5.3.2 Local funding sources

In this section I describe the different local funding sources. Some parts of the section are more developed than others according to their relevance to the thesis.

Despite being the only subnational tier of government allowed to tax its residents and charge for services, municipal capacities to define rates and introduce new taxes is almost non-existent. As in many other countries the main source of local tax revenue is the property tax. This tax is levied at a centrally determined rate and has several tax rebates and surcharges which limit local decision. The second local tax is levied on car licenses. This tax is detached from the owner's residence, so it can be paid in any municipality, increasing the competition to attract new tax payers.

The third source of revenue comes from local charges. Business licenses are paid by commercial activities undertaken in the comuna and represent the second main source of local funding. Along with these, local authorities can charge for services of garbage collection, urbanisation and construction permits, advertising publicly displayed, transfers of vehicles and many other minor sources.

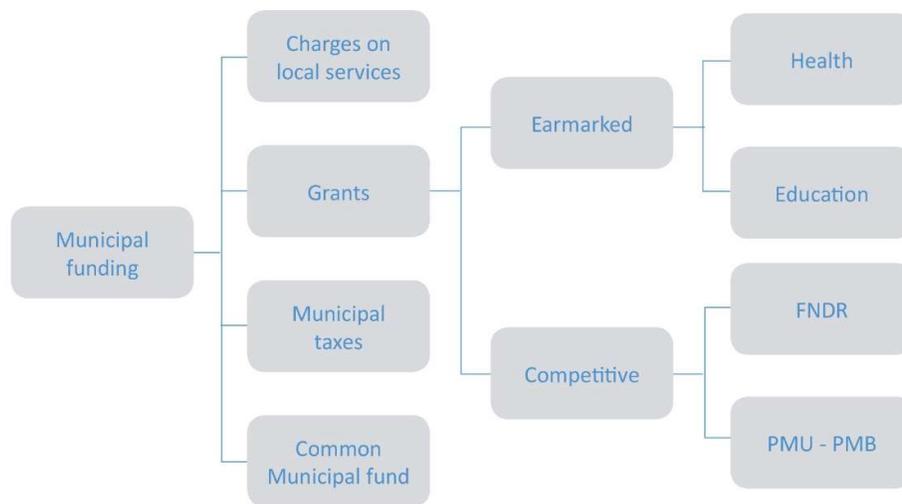
The fourth source is the locally collected tax called the Common Municipal Fund. This fund acts as a horizontal equity scheme that redistributes revenues from rich to poor municipalities and it is financed by a proportion of the revenues obtained by local taxes. The operation of this fund is detailed at the end of this subsection.

The final source of local funding is constituted by grants and transfers from central government. These come in two types: firstly, earmarked grants, which are paid based on the number of citizens enrolled in public schools (primary and secondary) and primary health institutions. These

funds are subject to multiple increases depending on the risk factors that citizens/customers may present.

The second type is centrally allocated grants. These are commonly divided regarding their magnitude. The Programme for Urban Improvement (PMU) and the Programme for Neighbourhood Improvement (PMB) are small grants designed to tackle infrastructure and water deficits. Finally, the National Fund for Regional Development (FNDR) is responsible for funding all local investment projects of middle and large scale. All different sources are depicted below in Figure 3.

FIGURE 3 – Municipal funding sources



Source: Authors' design

### *Main debates on local funding*

Having set out the sources of local funding, I discuss below the main debates on subnational expenditures. For simplicity, I address the core debates in two parts: first I describe subnational expenditures and then analyse their effects on local jurisdictions.

Chile's municipal expenditure per capita is among the lowest of the OECD countries, standing at USD 648, which is nearly ten times less than all the 32 remaining countries (OECD, 2017). Looking at this figure as a percentage of total public expenditure and GDP sheds more light on this matter. While the average of the OECD subnational expenditure accounts for 40% of the total public expenditure and 16% of the GDP, in Chile it reached 13.3% of the total and just 3% of the GDP. This could be due the lack of regional tax capacities and the local dependence on centrally decided funding. As a result, the OECD in 2017 reported that Chile was one of the most centralised countries in the world.

Regionalisation policies implemented in the second half of the twentieth century fostered the emergence of two main poles of development, one located close to the copper mines in the north and another located near the political and administrative power at the centre. Despite their effect, none of the measures taken has been able to moderate these historical differences so they have remained stable.

Locally speaking, Chile has been commonly defined as uneven; this can be explained by the geographical physiognomy of the territory and the irregular distribution of resources. In terms of magnitude, in 51 of the 345 municipalities in Chile the population is more than 100,000 whereas in 47 it is less than 5,000. Regarding poverty we can find municipalities with poverty rates ranging from 0.3% (Vitacura) to almost 60% (Alto Bio-Bio) and overall, one out of five jurisdictions have a poverty rate over 30%. In 39 municipalities, the per capita expenditure is 800 USD or more whereas in others this sum is less than 150 USD. Despite these differences, and according to the law, all municipalities share the same responsibilities and follow the same norms.

Part of these differences can be explained by the local funding mechanisms, which rely on the taxation of wealth-related assets such as properties, cars and businesses. Municipalities generate their own revenue (outside grants) through business licenses (34% of the total), property taxes (32%)

and car licenses (11%) (OECD, 2013). The dependence on these assets for revenue generation reinforces the income gap between municipalities with rich and poor citizens.

### *Local tax collection*

Among scholars the local tax system has been characterised as rigid, centrally determined and insufficiently developed (Pineda et al, 2018; OECD, 2017). Locally, municipalities have almost no capacity to influence tax bases and set tax rates so their autonomy is highly questionable.

The territorial tax is a clear example of the latter. Municipalities in Chile cannot set the rate of this tax, nor can they influence the long list of total and partial exonerations that are provided by central government. In 273 out of the 346 municipalities 95% of the households are exempted from paying the territorial tax and overall only 22% of the households are subject to it (Razmilic, 2014).

Households of an assessed value of less than £23,000 are exempt from the territorial tax, eroding the capacity of the municipalities to collect revenues and resulting in a loss of over one third of the potential tax collection (OECD, 2017). Thus, the households exempt from the land tax are concentrated in the poorest comunas of Chile, which affects these comunas' capacity to deliver their much-needed services.

The disconnection of tax agreement driven by the tax exemptions also has a political effect, as the OECD (2017) suggests: "The tax is not only a matter of financial tools; it is also a vital link between citizens and the community... the disappearance of the fiscal link (via exemptions) dilutes the tax agreement, a prerequisite to the proper functioning of a modern and developed society" (p.27).

The transfers from central government are insufficient to cover the loss of the exempted properties so municipalities with the poorest citizens and greatest needs have the smallest tax bases from which to generate revenue.

Regarding the business tax the situation follows a similar path. In this case municipalities can set the rate between the 2.5 – 5% of the value of the company's capital which is centrally recorded. But despite this, local authorities have little space to operate and there is no incentive in place to prompt an even distribution. Because of this, nearly 80% of income from municipal business permits is concentrated in municipalities mainly located in Santiago (OECD, 2017).

Vehicle tax is nationally determined so there is no local variation. Regardless of this, more than two thirds of the revenues are redistributed via the Common Municipal Fund. The remaining fees and services tend to be modest and concentrated in major urban municipalities.

### *The Common Municipal Fund*

The Common Municipal Fund functions as a redistributive source of locally collected revenues. In it, all jurisdictions contribute with part of their revenues (between 50 and 60%) that are then redistributed nationally according to poverty indexes. The contribution of central government is modest (around 4% of the total) so the fund is almost entirely locally-raised.

The variables that compose the distribution formula of the fund do not incorporate any tax-effort or capacity related variables so there is a lack of incentive to stimulate tax collection or fiscal responsibility (Bravo, 2014). According to their contribution, municipalities can be classified as donors or recipients depending on their net balance once the funds are distributed. Whilst 13 municipalities are defined as donors there are 317 who fall under the category of recipients. The significance of this fund varies according to the size and revenue capacities of each municipality. According to Ropert (2011) in 77% of the municipalities this fund represents more than 50% of their annual revenues whereas in 44 municipalities this proportion goes up to 80% or more.

Finally, in the Chilean municipal system there is an over-reliance on the transfers of grants and subsidies which represent 51% of the total municipal revenue (OECD, 2017).

The central government transfers are shown to be insufficient to cover the costs, so municipalities have been forced to cover the gaps. According to the Service of Municipal Information these transfers covered 8.4% of the total expenditures in local education and 15% of the health sector expenditures<sup>5</sup>.

Not surprisingly, municipalities have little resources to invest. Since debt is forbidden by law municipalities must rely on their own revenue generation, but as noted above this option is quite limited. In the year 2015, from the total local expenditures only 6% was direct investment whereas 93.4% was spent on current expenditure. This figure could also be smaller because it includes direct investments that could be channelled through ministries. The OECD (2017) acknowledges this situation and states: “The insufficient level of own-source revenues, resulting from a poor municipal taxation power, do not allow municipalities to generate self-financing revenue for investment. As a result, in a context where municipalities are prohibited from contracting long-term borrowing, municipalities have to rely almost entirely on capital transfers and subsidies for their investments, which are largely insufficient and lack coordination across sectors and actors” (p.158).

Municipalities must respond to several responsibilities but have little room to adapt. This is especially relevant in a system so diverse and uneven. Due to its shortages, municipalities must rely on central government assistance to fulfil their local plans of development. This situation favours central and large jurisdictions with enough electoral leverage to build their case. On the other hand, the low capacity to levy and collect local taxes has a deep impact on local authorities, making them closely dependent on central government grants. In the next and final section of this chapter I explore the role played by competitive grants with a special focus on the FNDR, my main phenomenon of study.

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<sup>5</sup> Data for year 2015, retrieved from <http://www.sinim.gov.cl/>

## 5.4 Chilean competitive grants

Having presented the historical context and fiscal situation of subnational authorities, the purpose of this final section is to examine the theoretical discussions on local competition and competitive grants in Chile.

As previously reviewed, Chile has a diverse local context with capacities and resources unevenly distributed. The lack of resources and service standards forces municipalities to act as single units trying to balance their overstretched budgets with the necessity to compete for central government funds.

According to Orellana (2009) the local segregation observed in Chile: “illustrates the disequilibrium among municipalities in the process of wealth generation. This would be deepened by the absence of a regional government or institution that could regulate efficiently and autonomously the excess of municipal competition, led by the market action and centralised policies” (p.107). Orellana (2012) proposes that in Chile all municipalities are forced to compete; however, the possibilities to be successful depend on the capacities, resources and the autonomy to invest.

Inter municipal competition emerged as a response to the centralist design of Chilean institutions, the uneven distribution of wealth and the incidence of NPM policies. These conditions together were a fertile ground in which grant competition was installed and adopted. Below, I present the range of competitions in which local authorities are involved and then I detail the process of FNDR allocation and the main theoretical debates.

### 5.4.1 Local grants in Chile

Municipalities in Chile are typically involved in three competitive grant schemes. In one, municipalities compete against each other for central government monies. In this case central government imposes some geographical or financial conditions to ensure that the bids are aligned with their objectives and goals. Funds like the FNDR and the PMU/PMB fall under this category promoting the interregional competition for investment funds.

In the second scheme, municipalities mediate between central government resources and local communities. In this case, municipalities act as brokers channelling locally-constructed bids to the respective central government office. Finally, some municipalities can also act as grantors for intra-municipal competitions. In this case municipalities set the specific rules and evaluate and distribute the grants among the local community.

Below, I briefly present PMU and PMB competitive grants and then move into the FNDR detailing its mechanism of allocation and the main debates about its design and effect.

#### *PMU/PMB*

In conjunction with the FNDR, municipalities are engaged in two other grant competitions, both with similar scope and magnitude. These are the PMU and the PMB. These two grants were originally designed to tackle minor local shortages of pavement and water supply but are now extended to other areas such as park renovations and other small interventions.

Since none of the bids submitted to these competitions can surpass the £50,000 mark they are destined to fund small interventions. Due to their reduced cost bids submitted to these competitions are not subject to any technical appraisal. Instead, they are centrally allocated from Santiago raising questions about their transparency and central determination.

Because of its discretionary allocation mechanism, the PMU and PMB have been examined by scholars to see if there is a political targeting behind their local allocation. Acuna et al (2017) support the previous findings of Llodra (2013), Corvalan et al (2017) and Cuevas (2013), showing that there is a political bias in the PMU/PMB grant allocation which favours incumbent mayors from the same coalition as the President. The above authors conclude that since they are centrally allocated PMU/PMB grants can be easily channelled to favour some municipalities and fall into clientelist practices.

#### 5.4.2 The FNDR

The National Fund for Regional Development (FNDR) was created in the year 1975 (OECD, 2009) to compensate for the infrastructure disparity among regions. As previously seen, regionalisation policies fostered the concentration of resources in two clusters, one in the north and one in the centre, promoting an unbalanced territorial development. Thus, it can be argued that the FNDR emerged as the response to those imbalances allocating a fraction of the national budget to each individual region on a yearly basis. Over the years the FNDR has been subject to several modifications and expansions integrating areas such as education and culture to the original offer of roads, hospitals and schools.

As previously seen, municipalities have little resources to spend on local investments since 94% of their budget is spent on current expenditures. According to a study conducted by the Universidad Autonoma (2012) in the year 2011 the municipal participation in public investment was a mere 0.6% of the total. The study shows that locally, 56.9% of investments are channelled through ministries and 42.5% through the the FNDR.

Normatively speaking and according to the Chilean Municipal Law (Ministerio del Interior, 2006) the main objectives of the FNDR are the following:

- *To finance investments facilitating the regional development in social, cultural and economic areas*
- *To achieve an equitable and harmonious regional development*
- *To make particular emphasis on the local compensation and regional development*

The inner mechanism of the FNDR has remained largely unchanged over the years although it has been updated several times. The mechanism comprises two stages. In the first stage, the FNDR is distributed among regions and in the second stage, each region's funding is distributed among the region's municipalities.

#### *Regional distribution of the FNDR*

Once the FNDR annual budget is set, the procedures of the regional distribution establish that 90% of the total amount is decided by a formula considering two indexes detailed below: poverty and territory. The remaining 10% is centrally decided by the Ministry of Regional Affairs based on a possible natural emergency (5%) and regional efficiency (5%). Regional efficiency is calculated based on the proportion of the budget spent in the previous year. By central government standards, efficiency is achieved if all the resources nationally allocated were locally spent.

The poverty index is composed of three variables:

1. Percentage of poor people living in the region (40%)
2. Percentage of rural poor population living the region (10%)
3. Percentage of poor households with a single mother (10%).

The territory index is composed of four variables:

4. Regional percentage of the nation territory (30%),
5. Cost of paving (5%)
6. Cost of house construction (5%)
7. Rate of rurality in the region (5%).

Some criticism has been raised over this distributive scheme because the size of the region is highly weighted in the formula with the effect that geographically small but needy regions are sometimes worse off than large and wealthy ones. That is the case of the Magallanes region where, despite having only 1% of the Chilean population and the lowest poverty rate, the region receives more than 4% of the yearly distribution.

#### *Local distribution of the FNDR*

Once each region's budget has been decided it is time to be distributed among the municipalities. As seen in figure 4, four actors are involved in this process: municipalities, the Integrated Project Bank, the Intendente and the Regional Councils.

The process is initiated by a municipality that, based on its local plan and echoing the regional strategy, formulates a bid. If the bid costs surpass the £50,000 threshold (highly probable) and the bid seeks public funding it must be sent to a centrally-run project bank to get technical approval.

The project bank is part of the Ministry of Social Development and its task is to determine the ex-ante social return for the bid. The project bank is composed of evaluators, each one with an expertise in a different area of public investment. The job of the evaluators is to decide if bids are socially cost-effective based on a technical appraisal mechanism. The evaluation contrasts the benefits against the costs of the bid considering the social discount rate and the social value of labour, time (in transport projects), petrol (in transport projects) and exchange rate of each region. In this

stage each municipality must also provide alternative solutions to tackle the social issue previously identified and show how the locally proposed solution is the most cost-effective and therefore, the most worthy of funding.

Once the evaluation is finished the local bid will be marked either with a high social return (in this case a budget is calculated), with observations or with a low social return. Any outcome outside high social return means that the municipality needs to amend the bid, re-calculate it and send it again to the project bank to be re-evaluated.

Once the bid receives a positive evaluation it returns to the municipality which now must send it to the regional Intendente. The role of the Intendente is to establish the regional priorities based on the bids received and mirroring the regional and national strategies. Finally, the Intendente presents the portfolio of prioritised bids to the regional council. The council, based on the prioritisation made by the Intendente, decides which bids will be funded. Once the regional council decide, the municipality is informed, and the funds transferred.

FIGURE 4 – FNDR Process



Source: Authors' design

### 5.4.3 The main scholar debates on FNDR

As seen above, the FNDR is the main grant for locally-decided investment in Chile. In the following subsections I present the scholarly discussions on the FNDR, placing special attention on its design, distribution and its effects on local authorities.

#### *An uncertain competition*

An important topic in the literature on the FNDR is devoted to its process of evaluation. Since the selection criteria used by the Intendente and regional councillors are not open to scrutiny, the selection has been commonly described as opaque. This sets a clear contrast with the first stage where bids are technically assessed.

For Horst (2008), regardless of the technical and political assessment mechanisms, there is a lack of planning during the FNDR process and day-to-day operations dictate the final allocation of resources. Other authors have analysed the length of the FNDR process and found that it represents a burden for municipalities who cannot afford to be part of it (Acuna, 2009). Municipalities are subject to financial stress because they must rely on their internal capacities to compose highly technical bids with no certainty about when they will be finally funded (Valenzuela, 2010).

Moreover, the lack of local funds and rigidity of the FNDR scheme have an impact on the capacity of municipalities to attract and retain technically well-prepared public officers, a vital part of the bid formulation.

#### *Single measures for multiple issues*

According to the OECD (2009; 2013) the FNDR follows a ministerial logic in which every bid is implemented independently without any territorial coordination, acting in a silo type of strategy. In

this regard, they argue that: “OECD experience suggests the importance of moving away from sectoral subsidies toward integrated place-based development projects... In Chile this would require adapting the national investment system to a territorial logic that makes it possible to finance integrated multi-sectoral projects. Initiatives from subnational governments that seek to take a regional approach are hampered by the sectoral orientation of the financial system” (OECD, 2009, p.159).

Livert and Gainza (2017) share this diagnosis and recommend the introduction of an independent planning office for regional investment to set up more stable finance mechanisms. They argue that an independent office could foster long time investments because: “Multi-year budgeting could be a valued fiscal policy because it can give local government greater certainty about future funding, which enables them to plan and manage their expenditure more effectively” (p.11).

Financial uncertainty and lack of regional or national standards hampers the development of strategic plans and promotes a fragmented vision of the territorial development where ministries act as non-coordinated entities. This situation would be fostered by the competitive ethos of the system that disincentivises horizontal cooperation between local jurisdictions.

### *A planning paradox*

In the FNDR three different strategies are put into play: the municipal, the regional and the national, and each one has its own agenda. Since none of the plans are mandatory requirements of the grant, funds are finally distributed on an ad hoc basis. This has an effect on the planning strategies because: “There is no necessary link between regional and municipal strategies. Neither the Intendente nor the different actors that operate in the investment process are required to follow the guidelines established in the municipal or regional development strategies... this creates a disincentive for regional and municipal planning” (OECD, 2009, p.159). In a more recent study the

OECD (2013) found that FNDR is commonly used to cover local shortages without following any of the plans previously stated.

Livert and Gainza (2017) argue that the FNDR allocation is highly influenced by the central government agenda because: “Applications must match nationally defined guidelines, municipalities may not receive funds if proposals are not aligned with the National Budget Office’s priorities” (p.5).

The above idea distorts the policy objective, forcing local authorities to adapt their needs to central government guidelines. Horst (2009) strengthens the idea of a mismatch between central and local priorities of investment where ministries and municipalities act as independent organisms with their own agendas. She considers that not only competition, but also the intricate design of political agreements and technical evaluations of the FNDR act against its objectives. She argues that because of the large number of strategies and people involved, there is no guarantee that the selected bids reflect local needs; furthermore, the multiplicity of actors also dilutes their responsibilities during the process.

### *Regional distribution*

The OECD recommends further study of the formula used to distribute the FNDR funds regionally. The OECD considers that regional size (as measured in squared kilometres) is not a reasonable variable to capture infrastructure needs and could work against small regions with significant socioeconomic disadvantages.

Munoz (2014) studied the FNDR intra-regional allocation from 1997 to 2012 and in line with the OECD (2009; 2013) found that regions do not follow a national plan and instead set their own allocation strategies. He also shows that the FNDR is effective in fostering inter-regional but not intra-regional equity so suggests a further revision. This idea has been contested by Franken (2005), who analysed the change in the FNDR algorithm of 1993 and suggests that the distribution tends to

balance the allocation across regions despite their wide differences in size, poverty level, and population.

Horst (2009) on the other hand, considers that the way in which the FNDR is regionally divided places incentives wrongly. According to her, the 5% of the FNDR allocated to emergencies cannot respond promptly enough so these funds are finally spent in other areas. The bureaucracy of the FNDR can also work against a quick delivery which is essential in an emergency scenario.

Regarding the 5% regionally destined to measure efficiency, Horst argues that resource spending is a bad proxy to measure it. According to her, regional councils trying to achieve the full spending of their FNDR quota will allocate resources to small bids, which are easier to allocate and deliver. This represents a problem to municipalities because it leads to resources being spent in less impactful ways and on non-prioritised local projects. She concludes by arguing that the 10% of the FNDR regional budget calculated outside the formula is used by central government to impose their agenda and to have some leverage on the regional spending of the funds.

### *Local distribution*

Locally, Valenzuela (2010) analysed the decentralisation process in Chile and critically assessed the FNDR competitive strategy. He argues that competing for funds: “conditions the resource allocation to the technical capacities to formulate sound bids. This pulls the community away from the resource allocation leaving this responsibility at the regional council” (p.5). Based on his analysis Valenzuela recommends moving into formula-based lump-sum grants considering the vertical and horizontal fiscal imbalances between jurisdictions. According to Valenzuela, formula distribution gives municipalities more certainty about their future, fostering their planning strategy. He also argues that a strategic plan is necessary and that could only be possible with a better articulation between local, regional and central government.

Horst (2009) agrees with Valenzuela and instead of the current system recommends the transfer of lump-sum unconditional grants to municipalities. The argument behind this is to increase the flexibility of municipalities and reduce the bureaucratic process of evaluation and selection. She proposes that: "60% of the FNDR budget should be directly transferred to municipalities for their investment projects... with this, municipalities would be responsible to administer 900 thousand millions more which can be translated in an increase of 60% of the total resources that they administer in 2007. With this measure the municipal participation in the total government spend would increase from 12.5% to 17.6%" (p.24).

Nonetheless, the point raised by Valenzuela and Horst ignores the fact that local capacities are uneven and without an external appraisal mechanism local bids may be subject to mild revisions and probable suboptimal outcomes. As theory states, without proper incentives lump-sum unconditional grants could foster social waste so Valenzuela's and Horst's recommendations should be taken cautiously.

In another revision, The IDER (Institute of Regional and Local Development, 2009) analysed the funding strategies of local governments in Chile and found that the FNDR allocation mechanism is inefficient and extremely bureaucratic, with a lack of transparency and norms. Rodriguez (2010) supports this arguing that the FNDR is inefficient mainly because: "60% of the bids have a small scale impact, with costs of less than £100,000" (p.15). He also found that on average, every bid takes two and a half years to prepare for completion and identifies a central bias in its distribution.

The FNDR scheme is too general to differentiate between bids so all of them are subject to the same process regardless of scale and magnitude. Piña and Avellaneda (2017) studied the distribution of local investment funds during 2005 – 2013 and concluded that success is positively influenced by political factors and municipal revenues.

Finally, Etcheverry (2009) found that in the absence of internal resources to invest, municipalities are de-facto using the FNDR as a subsidy to cover budget shortages in health and education. He also found that in many deprived municipalities FNDR funds have been used to repair, replace and improve infrastructure, something which is forbidden by law

### *Political bias*

The last element considered in this section is the political bias of local grant allocation. Munoz (2014) measures the effect of having a Mayor from the same political coalition as the President and tests whether that resulted in any allocative preferences. After testing several regression models, he did not find any association, thus rejecting the hypothesis of a political targeting.

Livert and Gainza's (2017) work contests this idea, showing that belonging to the central government coalition was associated with 10% more FNDR public investment. They also found that better-off municipalities were favoured and that there was a political budget cycle where investment increased by 10% during municipal election years.

Due to the fiscal constraints and budgetary shortages experienced by local authorities, grants represent a key source of funding. Local public investments represent less than 1% of the total so local authorities must engage in grant competitions to fund their initiatives. In this context the FNDR appears to be the only source where municipalities have a chance to invest in their comunas.

The FNDR is a mixed system of grant competition where technical and political elements come into play interchangeably. In its execution the FNDR also overlaps local, regional and national strategies with no direct link in an intricate mechanism of distribution. The silo-mentality fostered by the single application process and its competitive essence diminishes the overall impact of the grant.

The competitive process is also so long and costly that only municipalities with enough resources or staff can engage in the process, fostering a restricted form of competition. In this

situation some scholars have proposed the unconditional transfer of resources to speed up the process of resource allocation. I argue that without the proper incentives and technical supervision central transfers can increase local budgets but foster social waste. Lastly, the FNDR as a mechanism is too rigid to discriminate between bids so instead of bridging the regional unbalances they would be widened by its action.

## 5.5 Conclusions

The origin of Chilean municipalities was marked by two elements; the remaining influence of the Spanish empire and the unification of political power in the central figure of the President. The geographical characteristics of the territory with two poles of development has also allowed the concentration of power in a few limited metropolises.

Chile has been historically a unitary and centralised country where regions were formed with the only purpose of representing the capital's will outside the metropolitan region. In this setting municipalities were a secondary institution in charge of minor tasks such as cleaning the streets and collecting the garbage. This situation changed dramatically during the dictatorship of General Pinochet who, in an attempt to de-politicise governmental action, transferred several functions to the newly formed municipalities. These transfers nevertheless were merely instrumental and aimed to transform municipalities into agents of centrally-designed service delivery without real power or influence.

Once democracy was re-established mayors and councillors were democratically elected, but the local situation changed only slightly. Despite a few amendments to Pinochet's constitution municipalities are still trapped in the same problems as they were 30 years ago. They execute more than 75 social programmes but can intervene in almost none of them; they also have extremely

limited tax-raising capabilities, so rely almost entirely on central government transfers, while the lack of powers of regional governments to alleviate the intermunicipal disparities has promoted a highly skewed distribution of wealth.

It was under these circumstances that competition was introduced as the paradigm of funds allocation. Operating in this context the FNDR works as an intricate net of political and technical decisions situated above three different plans that are not necessarily linked. However, due to the lack of available resources, municipalities engage in these competitions since it represents their only source of investment.

Competition, understood in these terms, promotes single-approach solutions in contexts of multiple necessities through a long and highly bureaucratic system of allocation. The lack of flexibility of the bid appraisal mechanism contrasts with the chain of subjective decisions triggered once the bids are technically sound, increasing its complexity.

Despite the relevance of the FNDR nearly all the research on this topic has taken a top-down approach looking at the FNDR's scheme of distribution and bureaucratic procedures. These findings have contributed from a normative standpoint but neglect the role of municipalities during the competition process.

This situation opens a research opportunity to explore the effects of a grant with more than 40 years of history and an extensive influence in how municipalities work, plan and deliver their services. The next three chapters aim to bridge this gap and deepen the analysis of FNDR distribution by incorporating the voices of their protagonists.

# CHAPTER SIX: FNDR DISTRIBUTIVE PATTERNS AND THE IMPACT OF MUNICIPAL CAPACITY

## 6.1 Introduction

This chapter analyses the distribution of the FNDR, the largest competitive grant locally allocated in Chile. As set out in Chapter Five, Chile is a deeply centralised country where 346 municipalities coexist in an uneven landscape. It is argued that centrally decided policies strengthen the inequalities between municipalities where, despite being part of the same nation, jurisdictions have widely-differing budgets, problems and capacities (Orellana, 2009).

In this context municipalities with poorer households are the most pressured by demand for public services despite their small tax base, causing a *de facto* predetermination in which deprived families live in poor municipalities and receive poor services.

This chapter assesses the main trends in the success in FNDR bidding across jurisdictions. After depicting the allocative patterns of the grant, I test whether municipal capacity affects the amount of grant received. If capacity does affect this, it would widen the gap between municipalities' resources and impact FNDR policy objectives. This is particularly problematic in Chile where local resources are often inadequate.

This is the first of my two-phase analysis. Here I analyse the top-down allocation of the grant, looking at the award of grants to grantees, that is, what affects success in bidding for FNDR. A key factor is that of whether a bid is made, but in addition some bids are more successful than others depicting different success ratios across jurisdictions.

The objective is to gain understanding of the trends and tendencies of the grant competition. After this, in the subsequent chapter, I move into the narratives that emerged during this process analysing the voices of its protagonists as collected in my interview work.

Under this framework, competition is understood as a process where different interactions and expectations come into play. This approach of assessment through statistical analysis and interview research is argued to be a novel contribution to the field, enriching knowledge about local grants competition and local and central administration.

This chapter is organised as follows. After a brief recap on definitions of grants I describe the general trends in the allocation of FNDR. This first section serves as an entry point to the discussion establishing some core ideas about the FNDR. In the second section, I firstly discuss the tensions between central and local administrations regarding devolution of power and competences. Then, I analyse the influence of local capacity on the success in FNDR bidding. In doing this, I examine the contrast between the stated objectives of the grant and the results of the action of the competitive process as measured by the amount of FNDR grant actually received per capita. Finally, I conclude by presenting the main findings and some policy recommendations.

## 6.2 The FNDR, a descriptive overview

Recapping the prior discussion, grants are payments from a donor government to a recipient organisation or an individual (Beam and Conlan, 2002). Lump sum grants, like the FNDR, are determined in two main ways: via formula or on a competitive basis.

Formula-based grants based on measurement of need promote social equity, especially when the allocation formula weighs indexes such as the poverty level. Competition, on the other hand, attaches more importance to performance accountability, forcing grant bidders to reveal information

that mitigates agency problems. Formula distribution is more equitable as it takes need directly into account, but lacks incentives for grantees to explain the benefits of proposed spending in a way that is clear to central authorities. Whilst allocation through competition can work to increase the self-reporting of need, and it can also penalise most needy grantees if that need is also reflected in a lack of staff or staff suited to constructing sound bids.

Below I examine how the competitive FNDR system copes with equity and efficiency objectives. In the next subsections I define the aims of the FNDR and then present a descriptive analysis of my studied variables.

### *FNDR definition and variations*

In Chile the FNDR is the main public source to finance investment in locally-run projects (Brakarz, 2003). As described in section 5.2 the payment made under this grant is determined by successful bidding in which municipalities compete regionally to receive funding for their local investments. Operationally, in the FNDR grant system, local project bids need to get over the hurdle of a technical appraisal mechanism and then be prioritised by two political institutions, the Intendente and the regional council, before being funded.

The FNDR system do not establish bid priorities, standards or municipal patterns of allocation. Due to the way in which the system is set up, municipalities have different success ratios according to their grantsmanship to secure FNDR allocations.

According to the Chilean Municipal Law (Ministerio del interior, 2006) the FNDR has three declared aims:

- *To finance investments facilitating the regional development in social, cultural and economic areas*
- *To achieve an equitable and harmonic regional development*

*- To make particular emphasis on the local compensation and regional development*

In the next sections I examine how far these FNDR aims are accomplished in practice, scrutinising its allocation among successful jurisdictions.

### *FNDR variables*

My original data consisted of 19,212 observations where each represented a locally submitted project bid to the National Project Bank between the years 2008 and 2014. These observations recorded each bid's evaluation mark (positive, negative or lack of information) the amount of funds requested, and the funds granted (if any).

I created a new data set aggregating all the bids from each municipality. This provided a data set where for each of the 342 observations/municipalities between 2008 and 2014, total funds requested, bid marks and total funds granted were recorded. A set of demographic variables depicting the main municipal features was added. Demographics presented slight changes through the years, so to condense that, the variables are presented as means for the studied period.

My data incorporated only new bids because partially funded projects had higher chances of being funded again, creating a difference between bids. The data was collected from two sources. Local demographics were downloaded from the National Service of Municipal Information (SINIM) whilst FNDR allocation was requested from the Ministry of Internal Affairs. Table 4 presents the description of variables in two sections, demographic variables and FNDR related variables.

TABLE 4 – Definition of variables analysed

DEMOGRAPHIC VARIABLES	DESCRIPTION
Affluent citizens	Percentage of municipal citizens living above the poverty line
Skilled staff	Percentage of municipal officers with a higher education degree
Common fund dependence	Percentage of the yearly budget dependent of the Municipal Common Fund (horizontal equalization scheme)
Investment budget	Percentage of the yearly budget once current expenditures are deducted
Budget per capita	Chilean pesos (CLP) per year per citizen living in the municipality
Population	Population living in the municipality
Number of local officers	Number of local officers working at the municipality
FNDR VARIABLES	DESCRIPTION
Bids per year	New bids submitted to be funded per year
Bids whole period	Number of new bids submitted to the FNDR for the whole period
Positive appraisal	Percentage of new bids marked with high social return (RS) for the whole period
FNDR grant per capita	Total Chilean pesos (CLP) paid as a result of successful new bids per capita for the whole period
Bid success rate	Percentage of funds paid as a proportion of the total funds bid for. Only bids that got over the hurdle of the technical appraisal were included in the total funds bid for

Source: Author's analysis

Having defined the variables studied, Table 5 presents their descriptive statistics. The variables are means over the years 2008 to 2014 and the table summarises the data, by presenting the minimum, maximum, mean, standard deviation and variance for the municipalities.

TABLE 5 – Descriptive statistics

	N	MINIMUM	MAXIMUM	MEAN	STD. DEV	VARIANCE
Affluent citizens	342	62.98	98.07	83.36	7.32	53.59
Skilled staff	342	9	61	25.90	7.95	63.27
Common fund dependence	341	15.40	98.44	54.68	17.08	292.04
Investment budget	341	5.41	66.38	27.70	9.60	92.31
Budget per capita	341	6	1077	63.46	95.15	9055.03
Population	342	250	794654	48834	84266	7100872247
Number of local officers	342	12	2537	193.13	283.28	80249.55
Bids per year	342	1	64	12.71	8.82	77.79
Bids whole period	342	1	421	77.51	56.96	3244.43
Positive appraisal	342	0	90	62.29	13.05	170.50
FNDR grant per capita	342	0	3541	265.14	352.10	123975.33
Bid success rate	339	0	97	12.37	10.52	110.70

Source: Author's calculations

### Descriptive analysis

In line with prior analyses (OECD, 2009; 2017) Chilean municipalities depict a wide variation across all the presented variables. In this sample, the percentage of *affluent citizens* ranged from 63% to 98% whilst *skilled staff* fluctuated from a mere 9% to 61% of the total municipal staff. *Common fund dependence* on the other hand, ranges from 15% to 98% depicting the lack of self-revenues and high reliance on this horizontal equity fund in a group of jurisdictions.

In terms of *investment budget* municipalities had between 5% to 66% of their total revenues available for this item. *Population* varied from 250 to 794,000 inhabitants; in line with that figure the *number of local officers* varied between jurisdictions ranging from just 12 to 2,537. This high

fluctuation is also depicted in the variable *budget per capita* with a variation from 6,000<sup>6</sup> to 1,077,000 Chilean pesos for the whole period studied.

Regarding FNDR variables, the number of *bids per year* varied from just one to 64 and, comprising the whole period (*bids whole period*); this figure ranges from one to 421. The percentage of projects positively marked per municipality (*positive appraisal*), on the other hand, varies between 0 to 90% with 62% on average. *FNDR grant per capita* averaged 265,000 with a variation between 0 to 3,541,000 pesos. Finally, the *bid success rate* ranges between 0 and 97% with an average of 12.4% for the seven-year period. Being so, including only positively marked projects, on average just one eighth of the funds requested via FNDR were finally allocated.

The ex-ante appraisal mechanism set by the Ministry of Social Development constitutes an entry barrier that on average 40% of the bids submitted cannot fulfil. But, even when they surpass the evaluation, only one eighth of the project's costs are covered by the FNDR according to this data. This low fruitfulness of submitted bids can be explained by three factors. First, despite being positively appraised bids are not politically prioritised. Second, the FNDR do not have enough resources to fund all the positively-marked bids. Third, municipalities may divide large projects into a set of small bids believing these have a better chance of success.

To further explore these intermunicipal variations in the next section I divide the sample of municipalities according to their FNDR records and demographic characteristics.

### *The impact of poverty and population in the distribution of funds*

As seen above, municipalities are diverse and have different success ratios in competitions. In this section I describe the data, grouping municipalities by two variables: *population* and *affluent*

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<sup>6</sup> As a reference 1 GBP = 875 Chilean pesos CLP

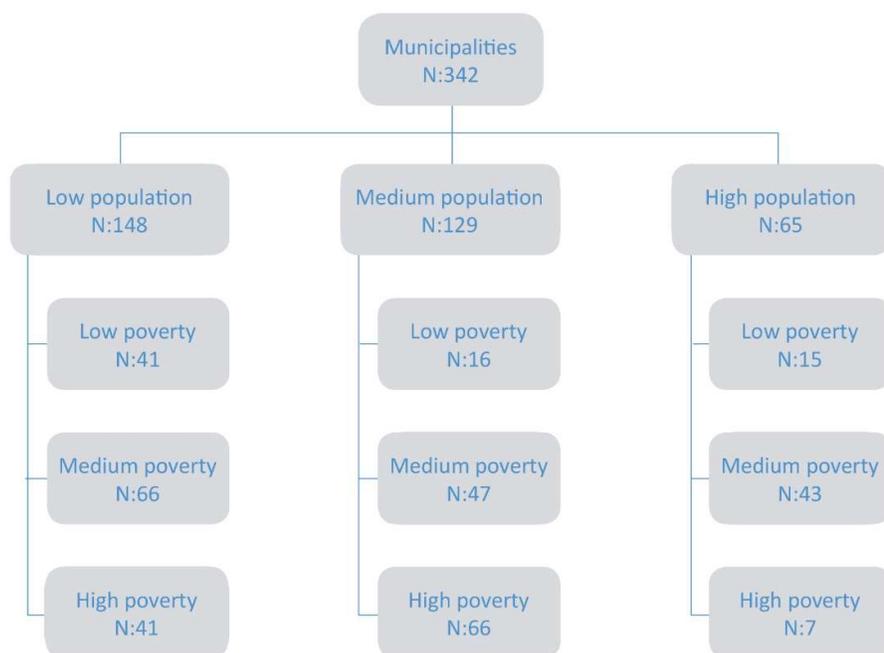
*citizens*. Averages hide the inner differences between cases, so I have decomposed the data looking at how these two variables shed light on the allocation.

I divide the municipalities into three groups based on the variable *affluent citizens*. Municipalities with 0 to 80% of affluent citizens were categorised as high-poverty jurisdictions. Municipalities with 80% to 90% of affluent citizens were categorised as medium-poverty jurisdictions. Finally, municipalities with 90% or more of affluent citizens were categorised as low-poverty jurisdictions. I also split observations for municipalities into three groups based on their *population* between; low-population (0-15,000 citizens) medium-population (15,000 – 75,000 citizens) and high-population (75,000 or more citizens).

To establish relevant comparisons, I contrast municipalities with similar populations but different percentage of affluent citizens. For this analysis I made two assumptions, first, that the percentage of *affluent citizens* serves as a proxy for municipal needs. This assumption is supported by Fernandez (2010) who found a strong correlation between these two variables in Chile and it is also evidenced by other authors such as David et al (2018). My second assumption is that municipalities with similar populations would face comparable challenges. This assumption can be sustained considering the presumed economies and diseconomies of scale experienced by jurisdictions with different populations.

The description of each group and N (the number of municipalities in the category) is presented in Figure 5 below.

FIGURE 5 – Municipal categories



Source: Authors' design

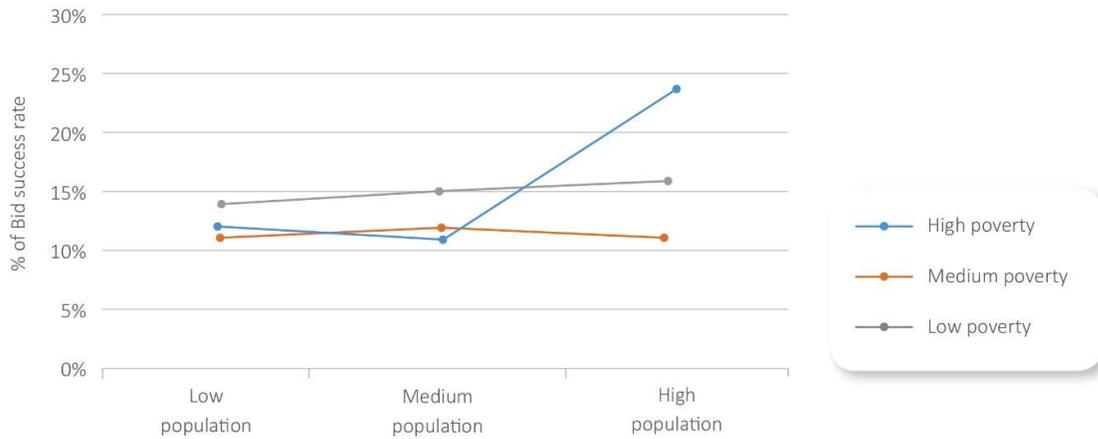
Once the observations were divided into the three categories I made a cross tabulation to see the performance of each group looking at the variables previously presented in Table 4: *positive appraisal*, *projects whole period*, *FNDR grant per capita* and *bid success rate*.

The variable *positive appraisal* varied between each cohort. In the low-population category, municipalities with low-poverty had 63% of their new bids positively marked this figure decreased to 60% among medium and to 58% in high-poverty jurisdictions. Among medium-size municipalities the results were 62% for low-poverty, 64% for medium and 61% for the high-poverty category. Finally, in high-population municipalities, the percentage of projects that received *positive appraisal* was 64% for low and medium-poverty and 66% for high.

Moving into the variable *bids whole period*, low-populated jurisdictions were consistent across the different poverty levels. Jurisdictions in the low-poverty category submitted 51 bids whilst the medium-poverty category submitted 48 and high-poverty 51. Among medium-populated jurisdictions *bids whole period* was positively correlated with poverty level. Low-poverty municipalities submitted 64 bids, a figure which increased to 80 among middle-poverty and rose to 93 in the high-poverty category. This pattern was then repeated among high population municipalities. Low-poverty jurisdictions submitted 103 bids whereas middle and high-poverty submitted 133 and 155 bids respectively.

Looking at the variable *bid success rate* the results were the following. Among low-population jurisdictions the ones on the low-poverty category had 14% *bid success rate*; this figure decreased to 11% in medium-poverty and rose to 12% in the high-poverty category. A similar trend is seen in the middle-populated municipalities where low-poverty jurisdictions had 15% *bid success rate*, which is higher than the 12% in middle and 11% in the high-poverty jurisdictions. Finally; among highly populated municipalities the low-poverty group had a *bid success rate* of 16%, this figure then decreased to 11% in middle category and rose again to 24% in the high-poverty category. These results are illustrated below in Figures 6 and 7.

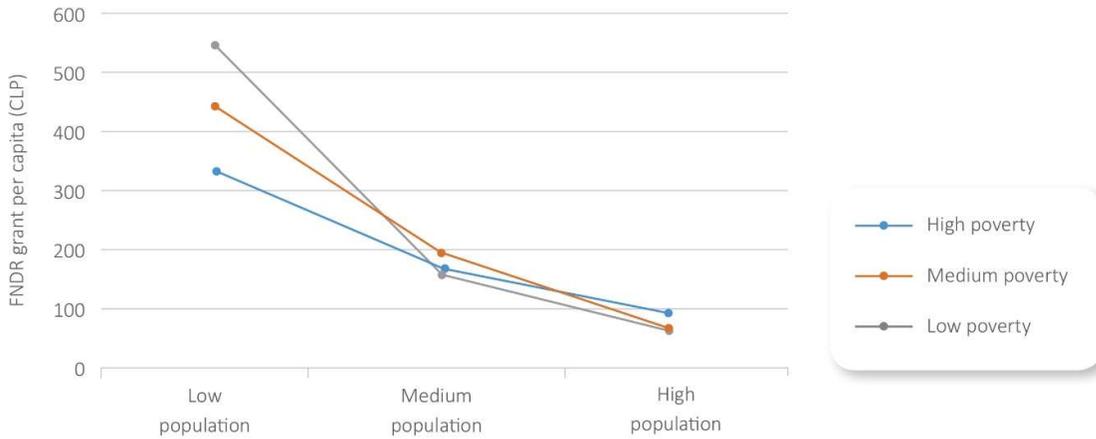
FIGURE 6 – Bid success rate by population and poverty level



Source: Author's calculations

The final variable analysed was *FNDR grant per capita*. Among low-populated municipalities low-poverty is associated with more *FNDR grant per capita*. Municipalities in the low-poverty category received 541,000 pesos for the whole period; this figure then decreased to 441,000 in the middle-poverty group and finally to 331,000 in the high-poverty. This pattern changes as we move into middle-populated jurisdictions. There, the low-poverty category received 157,000 *FNDR grant per capita*, middle-poverty 191,000 and high-poverty 164,000. Finally, in the highly populated category *FNDR grant per capita* was 60,000 for the low-poverty group, 64,000 for the middle and 94,000 for high-poverty.

FIGURE 7 – FNDR Grant per capita by population and poverty level



Source: Author's calculations

### Analysis

As seen in Table 5, there was a mean of 62% for *positive appraisal* of the bids submitted by municipalities. The cross tabulation of data reveals that low-populated and high-poverty jurisdictions were the least successful of the sample with 58% of *positive appraisal*. In this category the appraisal mechanism looks like a regressive mechanism especially difficult for jurisdictions that do not have the funds or grantsmanship to formulate sound bids.

Moving into the number of bids (*bids whole period*) there seems to be a positive association between this variable and poverty level. Within middle and highly-populated jurisdictions higher poverty levels correspond to more *bids whole period*. Arguably, needs would be larger among poorer jurisdictions and that would translate into more bids. This result goes in line with the egalitarian and redistributive goal of the FNDR but interestingly, this association is not seen among low-populated jurisdictions. Entry barriers could be too high to low-populated jurisdictions so, despite the different

levels of poverty, the number of *bids whole period* submitted remained relatively constant, whilst for middle and highly populated categories, poverty seems like a good predictor.

On the other hand, the variable *bid success rate* does not follow the same pattern as *bids whole period*. Regardless of being the category with lower number of submitted bids, low-poverty jurisdictions are the ones with the largest *bid success rate* among low and middle population categories. Nonetheless, this pattern is reversed within highly-populated jurisdictions. In this category high-poverty jurisdictions have the highest *bid success rate* (24%), which represents nearly double the average for the whole sample.

Finally, looking at the variable *FNDR grant per capita*, there is a linear decrease in the FNDR payments as municipalities become more populated. This may seem unsurprising because in highly populated jurisdictions funds are divided across more citizens. But, what is more revealing is that looking across equally populated jurisdictions (and regardless of the *bid success rate*) medium and highly-populated jurisdictions seem to receive a relatively similar amount of *FNDR grant per capita* for the whole period studied. Low-populated jurisdictions, on the other hand, show a different trend. In this category, municipalities received the largest sum of *FNDR grant per capita* within the whole sample. Interestingly, there is a considerable decrease in the amount of *FNDR grant per capita* to low-populated jurisdictions as they become poorer. In this category low-poverty jurisdictions had 41% more *FNDR grant per capita* than high-poverty jurisdictions. Regardless of its declared objectives, FNDR allocation seems to be associated with low-poverty levels.

A mean of nearly 40% of the bids submitted to be appraised do not pass that stage. This may indicate the rigours of the system but the variation across categories suggests that some jurisdictions are more affected than others by the evaluation. The number of *bids whole period* may reveal the needs experienced locally, but does not predict *FNDR grant per capita*, or the *bid success rate*. Low-

populated municipalities received the largest *FNDR grant per capita* but there seems to be a powerful correlation between this variable and low levels of poverty.

Based on the proportion of costs against funds allocated, the FNDR seems to be unlikely to cover all the bids submitted. This may suggest a lack of resources or political misalignment to prioritise bids. Another cause may be the large number of bids submitted locally versus the money available.

The declared objectives of the FNDR do not seem to be fully in line with its mechanism of allocation as it favours municipalities with fewer poor citizens (and therefore fewer needs).. To clarify these findings further, in the following section I fit a linear regression to test whether there is an association between capacity-related variables and funds allocation.

### 6.3 Local capacity and grant competitions

The previous section described some broad allocative patterns of the FNDR. Firstly, the presentation of the data showed that all the variables had a large range of variation depicting wide differences between municipalities. Secondly, split into categories the data suggested that a high percentage of poor citizens could have a negative effect in the *FNDR grant per capita* especially within low-populated municipalities. The objective of this second section is to test empirically the impact of local capacity in the FNDR competition. Below I analyse which variables are associated with larger transfers and the effect of these associations in the overall objectives of the FNDR.

### *Chilean local capacity*

As today, nearly half of all Chilean citizens with a higher education degree live and work in Santiago (Wainssbluth and Arredondo, 2011). Regions far from Santiago struggle to retain their skilled labour force against the better opportunities offered by the capital.

Municipalities, despite being an institution highly valued by citizens (Centro Politicas Publicas UC, 2016) are considered an unattractive employer because of their lack of resources, rigid scale of salary and heavy workload.

In Chile, central government authorities share the belief that municipalities are not capable of managing the devolution of any new powers (Fernandez-Richard, 2013). Governments, doubting local capacities, have historically requested a deep performance evaluation before transferring further competences and resources to municipalities. Municipalities on the other hand, fiercely supported by their unions, have rejected any staff evaluation that may lead to the redundancy of tenured officers. Municipal tenure was introduced in Chile shortly after Pinochet left office when public administration was still in a shambles (as depicted in section 5.2.2). Once tenure was established only 20% of the local officers in Chile with this status had a higher education degree (Valenzuela, 2007). Over the years, municipalities improved the qualifications of their staff, hiring skilled officers on a yearly-contract basis. This situation nevertheless fosters job casualisation and, due to the higher costs of this type of informal contract, works against capacity.

Wainsbluth and Arredondo (2011) describing the Chilean local landscape argue: “In Chile 259 (out of 345) municipalities have less than 50,000 inhabitants and 10 have more than 250,000. The municipality of Maipu has 2,972 public officers whereas Timakuel has only 3. Obviously, the population is much smaller but the amount of services that Timakuel have to deliver is the same as Maipu” (p.11).

Despite the wide variance in the number and capacities of municipal staff, Chilean authorities have historically allocated the FNDR, the main local infrastructure grant, on a competitive basis. Without a policy to properly level their capacities, municipalities must formulate bids with the staff and capabilities that they already have or (when they can) hire officers on a casual basis. Below I test how these circumstances influenced the distribution of FNDR exploring the impact of local capacity on the allocation of *FNDR grant per capita*.

### *Determinants of the FNDR distribution*

The units of analysis are the 346 municipalities of Chile. From the total, eight jurisdictions were not considered in the analysis because they did not apply or receive any funds from the FNDR during the period studied. With the remaining jurisdictions I used a linear regression model to examine the effect of municipal capacity on the municipality's FNDR amount received per capita (*FNDR grant per capita*). To obtain that figure I added all the FNDR funds a municipality obtained over the study period 2008-14. Then, I divided them by the municipality's population mean over the same period. That study period was long enough to incorporate a presidential election and change of ruling coalition. In 2010 the centre-right candidate Sebastian Pinera was elected after 20 years of centre-left presidents. Also, during that period, a local election took place where municipal majors and councils were elected (2013), allowing me to capture a possible change in the political party of the authorities.

The observations are restricted to the following characteristics. As discussed earlier, I only incorporate new or first stage projects into the analysis. Entry barriers are much higher to new projects than to those which have already received funds. Since part of the funds have been already spent, central authorities have a greater incentive to fund existing projects establishing a difference between new and old projects that makes them difficult to compare. I also discarded from the

analysis any projects that did not receive funds during the studied period or received a negative technical appraisal.

Therefore, from the full data base of more than 19,600 projects only 3,240 fell under this classification and were included into the OLS model.

TABLE 6 – Variables included in the OLS models

VARIABLES	DESCRIPTION
FNDR grant per capita	Total Chilean pesos (CLP) paid as a result of successful new bids per capita for the whole period
Skilled Staff	Percentage of municipal officers with a higher education degree
Investment budget	Percentage of the yearly budget available once current expenditures were deducted
Budget per capita	Chilean pesos (CLP) per year per citizen living in the municipality
Affluent citizens	Percentage of municipal citizens living above the poverty line
Common fund dependence	Percentage of the yearly budget dependent of the Municipal Common Fund (horizontal equalization scheme)
Ruling party	Dummy variable set to one when the political party of the Mayor and the president match – otherwise zero.
Surface	Square kilometres area of the municipality
Distance to capital	Kilometres from the municipality to the regional capital

Source: Authors' analysis

### *Explanatory variables*

Local capacity has been described in the literature as the sum or combination of human capital, policy experience and financial leverage (Carley and Fisher 2015). Since there is no single indicator able to measure those elements I collected five variables that can be used as a proxy.

The variables used to measure local capacity are described above in Table 6 and were obtained through the Municipal Information System run by the Ministry of Internal Affairs. The first

variable is *Skilled Staff*. Higher education degrees in Chile are awarded after approved courses of four or more years of study. Therefore, I expected that the variable *Skilled Staff* would have a positive impact in the quantity and quality of bids formulated and hence on *FNDR grant per capita*.

Similarly, I hypothesised that my second and third variables, *investment budget* and *budget per capita*, due to their depiction of municipal wealth would be also positively associated with *FNDR grant per capita*.

The fourth variable is *affluent citizens*. As seen in section 5.3.2 of this thesis municipal revenues are determined by their citizens' wealth. So, I hypothesised that a municipality with a large proportion of people living above the poverty line would have a better financial situation, less pressure on public services and subsequently higher capacity to formulate sound bids.

The fifth and last variable is *common fund dependence* and measures the percentage of the yearly municipal budget composed by transfers from the horizontal equity fund. Recapping the analysis made in section 5.3.2 the Common Municipal Fund is a horizontal equalisation fund where every municipality contributes yearly and then receives a transfer based on their demographic indexes. Because of how it is calculated, dependence on the common fund be an indicator of lack of local capability to generate self-revenues. Therefore, I suggested that higher dependence would have a negative impact on *FNDR grant per capita*.

It could seem that the number of municipal officers per head could be used as a good indicator of capacity. However, in Chile this figure is fixed by law according to the population living in the municipality. Thus, inclusion of such a variable would only indirectly reflect the population of the municipality, and since the dependent variable is measured per capita, it would be redundant to have another population index in the model. Therefore this variable was not included.

### Control variables

In my model I included three variables to control for potentially confounding factors, unrelated with local capacity, but possibly related to *FNDR grant per capita*. I have labelled the first *ruling party* and it is a dummy variable showing the match between the political party of the mayor and the president (0= different party; 1= same party). Zambrano (2010) and Munoz (2014) tested this variable in other analyses but did not find a significant impact on funding. However, given the different time frames I decided to include it in my model. To construct this dummy variable, I collected data from the Chilean Electoral Service and made a match between the political party of the president and the mayor.

The second variable is labelled *surface* and represents the geographical size of the municipality measured in square kilometres. The last control variable is labelled *distance to capital* and measures the distance in kilometres between the municipality and the regional capital. Each region in Chile has a capital where the regional council meets and where most of the services are concentrated. It may be the case that isolation or distance to the capital influences *FNDR per head*. Both variables *surface* and *distance to the capital* were collected from the Municipal Information System.

### Results – National model

With all my variables in place I run a regression where:

$$\begin{aligned} FNDR = & \beta_0 + \beta_1 Skilled\_Staff + \beta_2 Inv\_budget + \beta_3 Budget\_perc + \beta_4 Affluent \\ & + \beta_5 ComFunds + \beta_6 Ruling\_party + \beta_7 Surface + \beta_8 Distance \end{aligned}$$

The results are shown in the National Model Column of Table 3. As shown there it can be seen that most of the capacity-related variables of this model had a positive association with our dependent variable (*FNDR grant per capita*). Municipalities with a higher percentage of *skilled staff*, more *investment budget*, higher percentage of *affluent citizens* and more *budget per capita* were associated with larger grant allocations.

The only variable that contradicts this pattern is *common fund dependence* which was hypothesised to indicate low capacity. However, being dependent on the common fund in this model is associated with a larger allocation of FNDR funds. Moving on to the control variables, having a mayor from the same political party of the president (*ruling party*) was statistically non-significant consistent with the findings of Zambrano (2010) and Munoz (2014). Finally, *surface* and *distance to the capital* were also positively associated with larger FNDR allocations.

Overall, the model had a good fit with the data (adjusted R squared .33) but, given the wide geographical spread of municipalities, a national model may conceal Chilean inter-regional differences. To explore this matter further, I divided my sample into two different areas and ran separate models. Chile is a long, tapered stretch of land that runs for nearly 4.500 kilometres. Over the years the location of the capital at the centre has fostered a migration to Santiago and its surrounding regions. Currently, more than 80% of the population lives between the fifth and ninth region scattered in a territory of less than 600 kilometres in length (Frigolet, 2013).

Believing that circumstances and relationships would be likely to differ strongly I divided the sample into two: one for the central regions (*central*) and one for the regions located at the north and south of the territory (*peripheral*). The criterion for dividing the sample was theoretically driven and based on the number of municipalities per region. Regions with more than 30 municipalities were placed in the *central* model whilst regions with less than 30 in the *peripheral* model. Once the

segmentation was done it was noticeable how the more populated regions were focussed at the centre, as depicted in Figure 8.

To examine whether there was a significant difference in the determinants of *FNDR grant per capita*, between these two samples I ran a Chow test to see if this disaggregated model had a better fit than the pooled national model. The Chow test assesses if the reduction in the residuals is enough to justify a split into two separate models. The calculations are shown below

### Chow test

Firstly, we estimated the pooled national model as set out previously:

$$FNDR = \beta_0 + \beta_1 Skilled\_Staff + \beta_2 Inv\_budget + \beta_3 Budget\_perc + \beta_4 Affluent + \beta_5 ComFunds \\ + \beta_6 Ruling\_party + \beta_7 Surface + \beta_8 Distance$$

Secondly, we estimated a separate version of the above equation for the centre and peripheral model.

$$FNDR\_Central = \beta_{0c} + \beta_{1c} Skilled\_Staff + \beta_{2c} Inv\_budget + \beta_{3c} Budget\_perc + \beta_{4c} Affluent \\ + \beta_{5c} ComFunds + \beta_{6c} Ruling\_party + \beta_{7c} Surface + \beta_{8c} Distance$$

$$FNDR\_Perphe = \beta_{0p} + \beta_{1p} Skilled\_Staff + \beta_{2p} Inv\_budget + \beta_{3p} Budget\_perc + \beta_{4p} Affluent \\ + \beta_{5p} ComFunds + \beta_{6p} Ruling\_party + \beta_{7p} Surface + \beta_{8p} Distance$$

We then use a Chow test to test a null hypothesis that the coefficients:  $\beta_{0c}, \beta_{1c} Skilled\_Staff, \beta_{2c} Inv\_budget \dots \beta_{8c} Distance$ , for the central model and the coefficients:

$\beta_{0p}, \beta_{1p}Skilled\_Staff, \beta_{2p}Inv\_budget \dots \beta_{8p}Distance$ , for the peripheral model were the same as the set of coefficients  $\beta_0 + \beta_1Skilled\_Staff + \beta_2Inv\_budget \dots \beta_8Distance$  for the national model. Essentially, we tested whether estimating two separate regressions (central and peripheral) provides a significant reduction in the overall residual sum of squares compared with the residual sum of squares from the single national regression.

As can be shown in (Dhrymes, 1971):

$$\frac{(RSS_{restricted} - (RSS_{central} + RSS_{peripheral}))}{(RSS_{central} + RSS_{peripheral})} * \frac{(N_{central} + N_{peripheral}) - (K * 2)}{K(2-1)} = F$$

Is distributed as  $F$  with  $K(2 - 1), (N_{central} + N_{peripheral}) - (K * 2)$  degrees of freedom, where

$K$ : Is the number of independent variables including the constant = 9

$(N_{central} + N_{peripheral})$ : Is the total number of observations in the two subsamples = 3240

$RSS_{restricted}$ : Is the residual sum of squares from the national pooled regression

$(RSS_{central} + RSS_{peripheral})$ : Is the sum of residual sum of squares for the central and peripheral models

We can then simplify the above equation and input the data from the three models as follows:

$$\frac{293690695 - (91880180 + 134851795)}{226731975} * \frac{3240 - (9*2)}{9(2-1)} = F$$

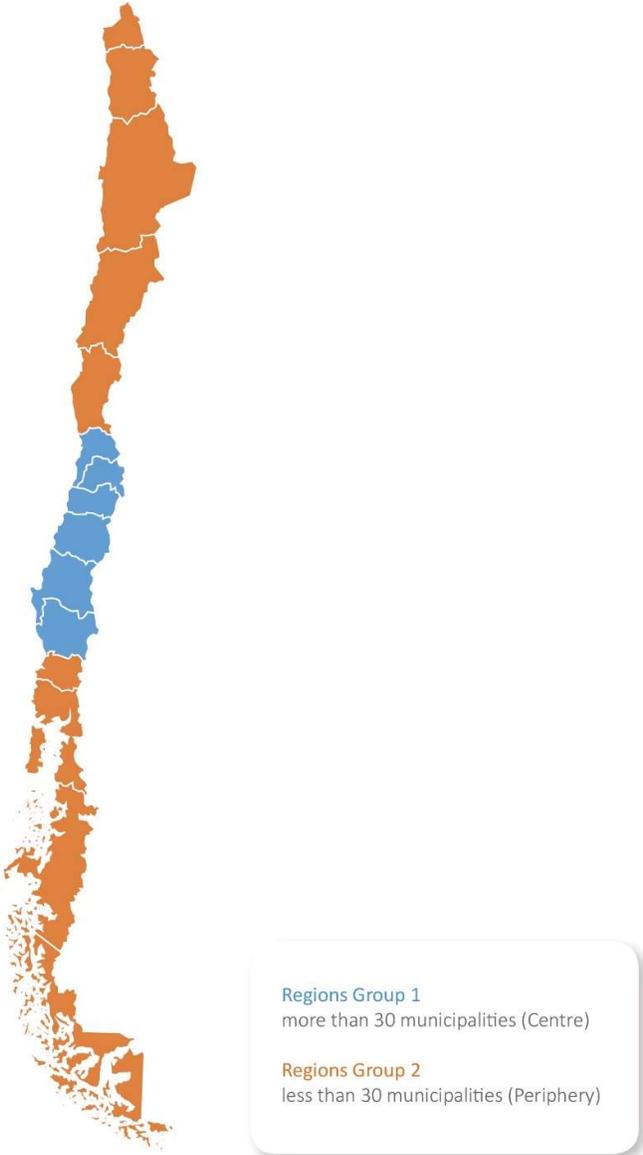
After doing the calculations we obtain an  $F$  value of 105. This figure is greater than the  $F$  critical value of 1.88 ( $p < 0.05$ ) hence, we reject the null hypothesis that coefficients across the three models are equal. Overall the Chow test proved that our two-sample model has a better fit than the

pooled national model. The results of the central and peripheral models are set out in the second and third columns of Table 7<sup>7</sup>.

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<sup>7</sup> It may be that a further increase in fit could be obtained by fitting a separate regression for each of the 15 regions. I did that and I ran a Chow test to compare the fit of 15 separate regional regressions with the pooled national model. A Chow test did in fact reject a null of equality of coefficients across the 15 regions. However, although the 15 model solution showed a better fit, the large number and differences across coefficients made this solution too complicated to interpret. The 15 models are and Chow test are presented in Appendix 3.

FIGURE 8 – Regional distribution



Source: Authors' design

TABLE 7 – Multivariate analysis of local capacity predictors to obtain FNDR funds 2008 - 2014

	NATIONAL MODEL			CENTRAL MODEL			PERIPHERY MODEL		
	COEFFICIENT	STD ERROR	P VALUE	COEFFICIENT	STD ERROR	P VALUE	COEFFICIENT	STD ERROR	P VALUE
<b>FOCUS VARIABLES</b>									
Skilled Staff	6.07*	0.57	10.6	-0.744	0.554	-1.34	8.74*	0.995	8.79
Investment budget	5.56*	0.512	10.8	7.3*	0.416	17.53	4.54*	1.14	3.98
Budget per capita	1.4*	0.087	16.1	0.382*	0.078	4.86	2.28*	0.163	13.94
Affluent citizens	3.88*	0.77	5.01	-1.94*	0.593	-3.27	27.5*	2.25	12.21
Common fund dependence	8.52*	0.41	-20.7	5.95	0.344	-17.31	12.8*	0.885	-14.48
<b>CONTROL VARIABLES</b>									
Ruling party	-7.9*	10.7	-0.75	-44.52*	9.17	-4.86	-11.9	21.97	-0.54
Surface	0.012*	0.0009	13.24	0.035*	0.005	6.37	0.004*	0.001	3.41
Distance to capital	0.778*	0.051	15.11	0.22*	0.047	4.61	1.35*	0.102	13.23
Constant	-7.31	62.18	-0.12	509.27	48.6	10.48	-1855	184.7	-10.05
Adjusted R squared		0.33			0.25			0.52	
RSS		293690695			91880180			134851795	
N		3240			2148			1092	

Note: \*p ≤ .01  
Source: Author's calculations

### Results - Central/Periphery models

In the central model three of the five capacity-related variables were statistically significant. Following the trend seen in the national model, *investment budget* and *budget per capita* are

positively associated with larger *FNDR grant per capita*. Unlike those two variables, the percentage of *affluent citizens* in this case is negatively associated with the dependent variable.

Surprisingly, the control variable *ruling party* is statistically significant in this model but in a counter-intuitive way. Being in the same political party as the president is associated with smaller *FNDR grant per capita*. Finally, the remaining two control variables were positively associated with our dependent variable.

Moving into the periphery model, results were similar to the national one, with all the variables showing the same association and directionality. The only difference among these models is in the magnitude of some coefficients, *Affluent citizens* show a stronger association with *FNDR grant per capita* in the periphery model, where a one percent increase in wealthy citizens is associated with 27,000 more pesos per capita of *FNDR grant per capita*. This figure decreases to just 3,000 pesos in the national model.

### *Analysis*

As seen earlier the FNDR is the key grant in terms of local investment in Chile. Despite other funding sources being available those sources are all decided in Santiago and do not necessarily reflect local preferences and needs. Because of this, municipalities place a special importance on the FNDR.

Although the FNDR objectives seek to correct territorial inequalities, compensating regions and municipalities that cannot of generating sufficient own revenues, the estimations above suggest that such compensation is not being achieved. Thus, it is in conflict with these aims of compensation that almost all wealth-related variables in the three models (national, central and peripheral) were positively associated with *FNDR grant per capita*.

A one percent increase in *skilled staff* is associated with 6,000 pesos more *FNDR grant per capita* at the national level and 8.700 in the periphery model. To have *Skilled Staff* is crucial nationwide but it is especially relevant among regions and municipalities far from Santiago.

The variable *Affluent citizens* is associated with larger *FNDR grant per capita* in the national and peripheral model and smaller in the central one. In the national model one percent increase of *Affluent citizens* (or one percent less of poor citizens) is associated with 3.800 pesos more of *FNDR grant per capita*, this figure rises to 27,000 pesos in the peripheral model. However, in the central model one percent increase is associated with 1.900 pesos less.

Municipalities with less *Affluent citizens* are probably less prone to invest in bid writing and therefore receiving less *FNDR grant per capita*. In central regions this trend seems to reverse and become progressive but in a smaller magnitude than in the other models.

The three models showed a positive association between the variable *investment budget* and the *FNDR grant per capita*. This result might come as a surprise because the objective of the grant is precisely to compensate those municipalities without enough funds to invest in their local projects. It may be that municipalities with self-funding sources are better able to produce attractive and technically sound bids or they might have developed through the years the “grantsmanship” necessary to make successful bids.

The variable *common fund dependence* was positively associated with *FNDR grant per capita* in the three models. As we saw earlier, the municipal common fund is a horizontal equity fund. Its formula is constructed considering the number of poor people living in the municipality and the municipal incapacity to generate enough self-revenues. In Chile, more than 50% of the municipalities are highly dependent on the common fund (Munoz, 2014) meaning that they cannot self-fund their day-to-day operations. The fact that being dependent is positively associated with the *FNDR grant per capita* reveals that the effect of this variable conforms to its redistributive objective. However,

we need to take this finding cautiously. Bravo (2014) analysed the common fund distribution and realised that its allocation system worked as a disincentive for local tax collection and revenue generation. According to her study, municipalities are not willing to undertake tax effort policies because they could result in a reduction of the common fund allocation. Municipalities do not have an incentive to increase their tax bases and generate more revenues as this would be “punished” by the common fund formula. Therefore, this variable could act as a bad indicator of need if municipalities are willingly dependent on payments from it.

The variable *budget per capita* was positively associated with *FNDR grant per capita* in the three models. This variable is closely related with municipal income and responds to the ability of local authorities to generate self-revenues outside central transfers. Like the variable *skilled staff* the effect of *budget per capita* on *FNDR grant per capita* is stronger in the peripheral model than in the central one. One thousand pesos more in *budget per capita* is associated with an increase of 1.400 pesos of *FNDR grant per capita* in the national model. This figure increases to 2.200 pesos in the peripheral model and decreases to just 330 pesos in the central model. It might be that due to the smaller number of contestants an increase in *budget per capita* has a stronger impact in municipalities located in the periphery.

Looking at the control variables it can be said that *surface* and *distance to capital* are associated with larger *FNDR grant per capita*. The FNDR allocation process might informally consider greater distance from the regional capital as a proxy for municipal isolation and therefore greater need. Another probable answer is that it may be that bids far from the centre are comparatively more expensive impacting *FNDR grant per capita*.

Nevertheless, *surface* acts as a tricky indicator especially in the south of Chile where we can find large but uninhabited areas. It might also be that larger municipalities demand more resources to spread them across their territories.

The variable *Ruling party* was only statistically significant in the central model. It is interesting though that the relation was negative between this and *FNDR grant per capita*. Taking this finding and the previous efforts in this area we can conclude that we have not found evidence of political bias in the FNDR allocation. In any case we need to take into consideration that FNDR is only one of many funding sources available. The fact that regional councillors have the last word in the allocation may secure some level of transparency, putting a high price on any political manipulation of the grant.

Despite its declared objectives, evidence from our statistical analysis indicates that the FNDR grant does not respond to social equity. In its allocation, almost all capacity and wealth related variables were positively associated with *FNDR grant per capita*. This fact has been suggested in the literature (Piña and Avenaneda, 2017) but this is the first time that capacity is assessed as a multi-variate phenomenon and regionally segmented for further analysis.

The strong association of capacity and funds allocation in the peripheral model suggests that needy municipalities from outside Santiago struggle to be funded. Without enough resources these municipalities have few chances to improve their territories and improve the quality of life of their citizens.

Moreover, and due to its mechanism of allocation, FNDR reinforces intra-regional inequalities. Local capacities might be predetermined by factors exogenous to the municipal action, such as the number of poor inhabitants or the number of taxable land within its territory. Because of this, the association of local capacity and grant allocations raises several questions about its aim and final local impact.

## 6.4 Conclusions

This chapter aimed to analyse the allocation of the FNDR, the main source of investment locally decided in Chile. Looking at a time span of eight years and more than twenty thousand projects, the analysis here performed depicted the main patterns of allocation across municipalities.

According to the literature review, the competitive selection of grantees favours an efficient allocation of public resources (Lamothe, 2015). Since only the best bids are selected, jurisdictions would have no chance but to increase their productivity (Osborne and Gaebler, 1992). The analysis performed here found that municipalities with higher capacity are prone to receive a larger allocation of *FNDR grant per capita*. This would suggest that any increase in productivity (if it occurs) is not evenly spread across jurisdictions, but instead is favouring the ones with more resources and capabilities. Due to this, the egalitarian and redistributive aim of the FNDR seems unmatched by its actual allocation.

The Chilean local landscape has been largely described as heterogeneous. Along its 4,200 kilometres in Chile coexist municipalities such as Timakuel with three officers and Maipu with 2,800, and both are required to deliver the same services for their communities.

This reality has not been properly acknowledged by central government and up until today almost all relevant regional decisions are taken from Santiago. Furthermore, the lack of communication between central and local government is emphasised by the lack of a regional figure who could serve as an intermediate (Orellana, 2009).

As the first section depicts, poverty (as a proxy of municipal need) is a bad predictor of *FNDR grant per capita* and this is especially true among low and middle-populated municipalities. Highly-populated jurisdictions with high-poverty had the best *bid success rate* when compared with the

other categories in the same cohort but, given their small number, this effect seems more like an exception rather than a rule.

On average the *bid success rate* across jurisdictions was only 12% for the studied period. This could be due the lack of resources or the difficulties of the system to respond to local needs. In terms of the *FNDR grant per capita* the allocation across municipalities seems to favour smaller jurisdictions and be fairly similar among middle and highly-populated ones. Low-populated jurisdictions, represent more than 40% of the total sample and in that category, low-poverty seems to be a strong predictor of funds allocation.

Municipal need, measured as the percentage of *affluent citizens*, seem like a bad predictor of *FNDR grant per capita*. To enrich the analysis and explore this trend further, the second section test the association of 5 capacity-related variables with the allocation of *FNDR grant per capita*.

As the regression models evidence, the amount of *FNDR grant per capita* is highly associated with local capacities and this association is more robust as we move outside central regions.

Municipalities with fewer *affluent citizens*, low percentage of *skilled staff* and small budgets are less able to secure larger *FNDR grant per capita*. The literature suggests that mixed grant distribution strategies improve the social equity of fund distributions (Piña, 2017). The FNDR, despite using a mixed strategy (regional allocation by formula, local allocation via competition), does not seem to reduce the undeniable inequalities between municipalities. It would seem as if entry barriers are too high to allow high-poverty jurisdictions to participate successfully.

If its aim is to foster territorial compensations the FNDR award mechanism should better consider that local capacities have a strong positive effect on the likelihood of bid success. This is in conflict with the stated aims of FNDR so the implication is that the mechanism of award needs to change. The first step in this direction may be policies to increase the proportion of skilled staff in low-income jurisdictions.

To increase this proportion, part of the FNDR budget could go towards local bid preparations, sending ad-hoc officers to support small and deprived municipalities during the stage of bid formulation. This would diminish the amount of projects funded, but would increase the equality of the distribution, a reasonable trade-off to achieve FNDR objectives.

Many local governments are not able to exploit economies of scale because of their small budgets and reduced staff. A simple strategy to solve this is through local cooperation. Central government could encourage cooperation between small municipalities promoting cooperative bids where small jurisdictions could join forces.

As it is now FNDR grant allocation reinforces local inequalities and increases the gap between affluent and deprived municipalities. The pattern evidenced in this chapter may act as a disincentive to young and talented professionals to remain in their regions. With limited possibilities to generate a significant impact on their territories, skilled officers would probably migrate to Santiago or other regional capitals increasing the centralisation of the system and its unbalances.

To sum up, if the FNDR, and the Chilean government at large, wants to encourage a balanced and sustainable development, the FNDR distribution needs to be updated to face the striking disparities among jurisdictions. In the following chapter I assess FNDR competition by examining the discourses of their protagonists in the second phase of my two-part analysis. Chapter Seven seeks to deepen the understanding of the above findings, incorporating the officers' perspective into the debate through a series of interviews with those involved in the processes.

# CHAPTER SEVEN: THE EFFECTS OF COMPETITION, THE CASE OF LOCAL GRANTS IN CHILE

## 7.1 Introduction

The statistical analysis conducted in the previous chapter revealed that FNDR grant competition favours jurisdictions with better capacities. In this chapter, I aim to explore this process in greater depth by analysing the views of protagonists as collected in interview.

Scholarly attention has been mainly focused on how central government allocates resources to subnational authorities. This leaves a gap that I try to bridge by exploring local grant competition from a bottom-up perspective, interviewing sixteen municipal officers and five officials from regional and central government offices.

The statistical analysis conducted in Chapter Six was used to feed my sample selection, revealing the FNDR funds allocated per capita per municipality (clusters and municipalities selected are presented in Table 2 section 4.4.3). Interviews were conducted between April and June of 2017. I used thematic analysis as the strategy to collect opinions, stories and experiences during the competitive process; I then extracted the main elements of the discourses and aggregated them in topics to be further analysed (topics are list in Table 3 section 4.4.4).

According to my research design, I frame intermunicipal competitions for grants under New Public Management (NPM) theory. This is the first point of departure from which I explore the discourses of my interviewees. I avoided treating grant competition as a blank slate, tracking three attributes previously raised in the theory and embedded in my questionnaire (Brennan et al, 1998).

The pivotal attributes<sup>8</sup> were: efficiency (or value for money), local empowerment and innovation. These three attributes provided a succinct synthesis of many of the reported benefits of grant competition and were also broad enough to aggregate a different set of ideas. To these three topics I purposefully added two more to test the impact of competition on intermunicipal collaborations and the perceived fairness of the scheme.

From there, I broaden the discussion to new emerging topics, linking them, when possible, with previous analyses found in the literature and relevant theory. I decided to use a phenomenological approach to understand the personal experiences of my interviewees with the minimum possible preconceptions. According to Baker et al (1992): “The goal of phenomenological research is to describe the world-as-experienced by the participants of the inquiry in order to discover the common meanings underlying empirical variations of a given phenomenon” (p.1356).

The semi-structured questionnaire was designed to capture the essence of the administrative procedure of competition and the conceptions arising from it. Below I analyse how grant competition shaped the way municipalities work, plan and administer their territories. The voices of local and central government officers are interwoven as appropriate to construct a comprehensive fabric of narratives.

This chapter is divided into five sections. The first three are composed of the attributes brought to light during the literature review. The fourth section comprises the topics purposefully selected by me whilst the fifth and final section comprises the new topics that emerged from the analysis.

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<sup>8</sup> As previously stated the impact on partnerships was the fourth element raised by the literature. Nevertheless, it was excluded from this analysis due to its limited UK focus.

## 7.2 Analysis

Before setting out the analysis a few clarifications will be made. To recap the process described in section 5.4.2: FNDR competition involves three governmental tiers and four groups of officers. Firstly, local officers discern a local need, write a bid and send it to be evaluated. Then, a central government evaluator marks the bid according to a perception of its social return. If the bid is positively marked, it needs to be prioritised by the (centrally appointed) regional Intendente and then voted on by the regionally elected regional council. Funds are only transferred to the municipality once these two bodies have judged it as suitable for funding.

### 7.2.1 Value for money or money for value?

The first concept to analyse is the NPM attribute that grant competitions may foster a better use of government resources. According to theory, jurisdictions in competition have an incentive to reveal the true costs of their needs, increasing the efficiency of the system (Colin and Gerber, 2006). Behind this idea lies the notion that central government could act as a guarantor of state resources and enhance the exchange of low-cost information between grantees and grantor.

A key element of the Chilean FNDR competitive scheme is the appraisal mechanism as designed by the Chilean Ministry of Social Development (MIDESO). This central agency carries out the process of evaluation, and if it judges appropriate certifies the bid looking for funding. For the purpose of this section, the concept of value for money has been deconstructed into three topics that emerged during interviews: municipal capacity, the project appraisal scheme and the irrelevance of local needs. These three topics synthesise the discussions about the question of efficiency gains through competition and will be analysed below.

## Capacity

The literature review showed that municipal capacity, measured as income, number/quality of staff or grantsmanship was a main driver of competition success (Beam and Conlan, 2002; John et al, 2004; Carley et al, 2015). This idea was also depicted in Chapter Six where four out of the five variables measuring municipal capacity were positively associated with larger FNDR allocations (in the national model).

In the interviews, capacity was mostly understood as the number of officers working in the planning department with enough expertise in bid formulation. In Chile, since this number is largely driven by the population living in each jurisdiction, and relatedly by the available budget to hire new staff, small and deprived municipalities feel that lack of capacity was an unbridgeable disadvantage against them. As an officer from a medium sized municipality argued:

*“Small municipalities have just a few officers with enough technical capacities and that is the reason why they are left behind time and again... and that becomes apparent in the development of the comuna”.*

This idea was also shared by a central government officer who reinforced this argument stating that:

*“Rural municipalities just gave up on big projects, because they feel that they don’t have any competence or capacity to bid for them”.*

Interviewees generally believed that in the FNDR competition there was a problem of scale in which medium and large municipalities had an advantage over small ones. This situation supports

the argument made by John and Ward (2005) about the limited scope of grant competition when entry costs are high enough to discriminate between bidders.

For local officers the problem of capacity was structural and almost impossible to tackle internally. Thus, there was a clear sense of resignation drawn from the discourses of officers who felt that under the current circumstances there was nothing else that they could do. As one municipal officer said:

*“No municipality has the resources to invest in infrastructure...municipal monies should be spent on social assistance where with a few resources you can make a lot of difference... and help more directly”.*

The above quote reflects a feeling that was shared by many local officers who argued that direct social assistance was the main local priority to the detriment of infrastructure investment.

Central and regional officers agreed on the difficulties experienced by local authorities but diverged in their view of the causes of these difficulties and the role that local officers should play in that context. From a central perspective, the capacity problem was instead caused by poor choices made by local officers. Most of the discourse given in this respect rests on the idea that the opportunity to be funded was open to everyone and it was just a matter of effort to secure it. As one respondent from central government argued:

*“It is true that there is a structural problem related with the lack of resources... but when there is good local management all this is secondary because you look for a good and professional officer until you find him, you take him to your municipality,*

*you convince him, you pay him the best that you can, you take care of him... one day he will leave so you need to go and find another one”.*

This quote reflects how for the respondent, context (and its limitations) was irrelevant compared with competition requirements. This idea conflicts with the local officer discourses according to which investing in a qualified officer is a superficial expenditure compared with urgent social assistance.

Municipalities must rely on their own resources when central government transfers are not enough to cover the costs of public health and education. This situation affects their willingness to invest in any other area with a longer-term return. Taylor (2002) discussed the impact of NPM in the UK in this type of context and states: “New public management cannot be assessed in isolation from the pressure on public expenditure and the low morale caused by these policies... the drive for efficiency savings and the general erosion of morale in the public sector bore particularly heavily on areas where people could not opt out into the private sector” (p.112).

Municipalities in Chile are in many cases the only service provider that deprived residents can afford so they overcrowd public schools and health centres and require resources in the form of social assistance. According to a study conducted by the Chilean School of Local Governments (AMUCH, 2015) 65% of the public health centres are in the poorest municipalities, further increasing the pressure on the already tight local budgets. This situation was addressed by one interviewee who argued:

*“Because of the capacity of our human resources we cannot move too fast [in the project formulation] we have lots of necessities here, we have shanty towns, problems with public street lighting among many others... we cannot focus on only one thing, we need to cover all these necessities”.*

In contrast, affluent citizens have the alternative of using private providers and thereby relieving some pressure on the public services, allowing their municipalities to invest in a better staff and bids to compete for resources. Taylor (2012) makes a similar point for the UK, arguing that: “The operation of the market itself intensified social exclusion. Statistics showed a widening gap between rich and poor as industrial restructuring took its toll and the introduction of market principles and consumer choice accelerated this gap” (p.112).

Central government interviewees acknowledged these situations but believed that local officers could do more despite the difficult circumstances. In the interviews one of the recurring means to support the fairness of competition was to constantly refer to success stories. These stories usually hinged on demonstrations of exemplary leadership and resilience and served as a counterpoint to the harshness of the system. As one central government interviewee argued:

*“One good and skilled person can change everything...X used to work in Y municipality, she called all the time, she was all over the place, she didn’t leave you any peace, coming and asking all the time about her project”.*

Another respondent also from central government supported this and argued:

*“How can you explain to me that the Mayor of X won more resources than the one from Y [a much larger municipality]? How can that be explained? When you have weak leaderships that can happen”.*

Literature on leadership has evidence that up to certain extent, the system determines the success of a leader. A leader, it is argued, rarely overcomes systems that are not designed for them

to flourish, thus a leader's overall impact may be modest due to organisational constraints and inertia (Wart, 2003). Organisations built upon the emergence of exceptional leaders can also be unstable. To succeed over time, organisations must rely on comprehensive approaches where the whole organisation is able to cope with stress and difficult contingencies (Daus and Joplin, 1999).

In contrast, for local officers the road to success in the FNDR was not that clear. They believe that the context in which they were working had a substantial impact, and in some cases, it entirely determined the chances of obtaining funding. They argue that competition has exacerbated regional imbalances, widening differences between municipalities. In this regard an officer from a deprived municipality argued:

*“An officer from X [a poor and rural municipality] came to see our pool to get some advice, and when he came I realised that the differences are enormous; the officer came one time per month to the central offices in Santiago and he didn't know which forms to fill in....how could he win anything!! And most of the municipalities in Chile are like X...There are some enormous differences and that bothers me... it is like a structural inequality from birth. If you were born in this side of the street you are from this municipality but if you were born on the opposite, you could have a completely different life and that is ruled by law”.*

Based on the above we can see that there was a tension between the discourses given by central and local officers prompted by the context in which grant competition takes place. For central government officers, competition was an unbiased mechanism in which every local authority has a transparent chance to succeed. Even when local capacities are, to central officers, admittedly

different across jurisdictions, stories of success served to allow central officers to say that, even in the toughest context, success is always a possibility.

Local officers, on the other hand, argued that success in competition is almost always context-determined, favouring better-off municipalities. Central officers reassured themselves that the system is responsive but argued that local officers are sometimes incompetent. Local officers reassured themselves that they do good work, but the system is unfair.

Chapter Six evidenced that better-off jurisdictions had better chances of bidding success. That would imply that regardless of the leader (who still is determined by the context) the system is biased toward better resourced municipalities. Moreover, the reliance on a leader to overcome adversity depicts the fragility of the competitive scheme.

### *The appraisal mechanism*

NPM shifted the focus of policy evaluation mechanisms from inputs to outputs. This change meant that across government institutions recipients of funds were held accountable to specific metrics. In the words of Osborne (1993), this was a necessary shift since: “Most public agencies do not have the slightest idea what the real outcomes of their efforts are...Entrepreneurial governments have learned to measure the outcomes of what they spend: how clean their streets are, how many job trainees get jobs, and what their career tracks look like. They have learned to measure how satisfied their customers are with the transit system, the parks, and the schools” (p.354).

The Chilean government was influenced by these ideas and incorporated them into its practice. In the contexts of grant competition, they implemented an ex-ante evaluation mechanism for all local projects bidding to be centrally funded by the FNDR. We can set out how the evaluation mechanism works. Each of the 15 regions in Chile works with one of the regional offices of the Ministry of Social Development that evaluates the local projects. The project appraisal methodology

requires the comparison of different alternatives proposed to tackle some infrastructure need identified by a given municipality. In each case the municipality is asked to give a range of alternative solutions to respond to that need and show how their proposal is the most cost-effective among them. According to its area of provision (sports, health, education) each project bid is sent to an officer specialised in that specific field but regardless of the field, the number of beneficiaries of the project is considered a key part of the mechanism that decides which project is deemed to have a positive social return and which not.

According to local officers, the use of the number of potential beneficiaries as an important ingredient in calculating the social return of an infrastructure project had major effects on the outcome of the competitive scheme. Small municipalities struggled with the appraisal methodology when they realised that the number of potential beneficiaries was not enough to surpass the minimum threshold to be positively marked. Facing this situation, officers argued that the only way to get the correct figures was by lowering costs (compromising quality). Otherwise they might simply discard the bid. This situation was so critical that adjacent authorities applying for the same design of project ended up with strikingly different results, just based on their population size. As one officer from a medium size municipality argued:

*“Almost any project will have a positive social return in a municipality with 100 thousand people but If you move that same project to a municipality of four thousand it won’t, so you have to decrease the quality standards. In this region, there are two neighbouring municipalities - one small and one medium size - both evaluate a football pitch but in the medium size, the pitch had synthetic grass and good facilities; in the small one they had natural grass and lower standards”.*

The appraisal mechanism was viewed negatively in almost all small size municipalities. They believed that in competition, the potential number of beneficiaries again favoured municipalities with more inhabitants. This situation caused dissatisfaction with the system, discouraging participation.

For some officers the appraisal mechanism acted as an insurmountable entry-barrier, especially in municipalities with a decreasing population. They felt that it was radically unfair that municipalities had to reduce a project's quality according to the number of people living in the jurisdiction. Two officers even suggested that because of that requirement, small municipalities might use deception in their applications, making up figures on their forms to get the approval from the central government evaluator.

The metric used to assess projects' quality is sensitive to scale but too coarse to allow consideration of any other needs or to incorporate local circumstances. This was true not only with small municipalities but also with large ones. An officer from one of the largest and most congested municipalities argued:

*"This municipality was high in the ranking of funds allocated and that was the reason why in the past we didn't compete, but the evaluation of the comuna was made generally without looking at our particularities. X has 300,000 inhabitants but daily more than 2 million people pass through here".*

The smallest and largest municipalities of the sample shared the opinion that competition was too sensitive to scale, emphasising the idea that only jurisdictions with enough resources and population were able to compete.

The population requirements of the appraisal mechanism sent a wrong signal for a grant which has the aim of generating balanced development across jurisdictions. It can also set up a vicious

circle where people migrate to populated areas looking for better services and infrastructure, although the exodus of population is one of the main reasons why services were poor in the first place. According to an officer who had experience working in small and large municipalities the project appraisal method:

*“is an instrument of centralisation more than one of decentralisation. Investment follows population because first you have concentration of people and then comes the investment, through the FNDR it is absolutely impossible... there is no chance to motivate a city to escape the lethargy through the FNDR because we don't have the possibility to generate a positive social return in a municipality with a diminishing population”.*

Buchanan (2001) argued that fiscal inter-jurisdictional disparities are exacerbated by the uneven distribution of wealth and the different bases to finance the provision of goods and services. Thus, this situation would require the intervention of central government because: “Absent any scheme for fiscal equalization among the disparate regions, there is no assurance that the resource concentration patterns that will emerge reflect overall economic efficiency, quite apart from any equity considerations” (Buchanan, 2001, p.10).

Adopting Buchanan's argument, without an equalisation scheme there will be an over-concentration of resources in the better-off municipalities. Because of this, citizens in high-income municipalities may offer fiscal inducements to those in low-income municipalities to remain there. In the present case, it can be said that an allocation scheme that favoured worse-off municipalities might be beneficial to the citizens living in high-income municipalities. The FNDR competitive scheme

fosters a migration to larger and wealthier municipalities, encouraging an unequal resource distribution without a clear increase in overall efficiency.

Moreover, the fact that central officers treat all bids equally does not change the reality that differences do exist across municipalities. The FNDR's pursuit of fairness and transparency seems to clash with its objective of horizontal equalisation. In an environment marked by municipal heterogeneity, it can be argued that the FNDR should be more flexible and should take account of the differing capacities of jurisdictions to better accomplish its equity goal.

Municipalities with less capacity or decreasing population cannot increase the number of project beneficiaries so they must reduce project costs to receive technical approval, compromising the overall quality of the proposed project. This situation promotes the delivery of services with different standards, causing low populated municipalities to lag behind.

The number of beneficiaries may be a sound metric to calculate total benefits of local bids, but can be counterproductive to address differences of needs. This problem will be discussed below.

### *Size matters but needs do not*

Being so broad and multiple on its objectives, the FNDR competition system lacks any formal protocol for bid prioritisation and indirectly favours big authorities. This situation overlooks the Chilean socio-political context marked by the variation of territories and local actors. As seen above, the evaluation process is not constructed to make qualitative distinctions between bids and treats them all in the same standardised way, calculating project costs against benefits determined largely by the number of beneficiaries. This situation fosters transparency but for central government evaluators, urgent necessities were lost among the many other bids. As a local officer argued:

*“Not everything needs to be equal, for starters municipalities don’t have the same capacities... but as in all policies there is no differentiation, they [central government] take each region as equal to the rest, take every municipality as equal to the others so the system is going to be unbalanced”.*

One of the local officers was especially frustrated by the economic ethos of the system and argued that some projects should be funded regardless of their social return, in his words:

*“It is said that a school with 20 students should be closed...that could be the case in Chillan [one of the largest municipalities in the region] where you can close a school because you have all the facilities in the world, but if you close a school of 20 students here, those kids are going to leave their studies, there should be a modification [to the appraisal mechanism] to take into account this realities.... If they asked the same for an urban municipality of 50,000 inhabitants than for a rural one of 6, there should be some compensation mechanisms”.*

Okun (1975) explains that unregulated competition could compromise the minimum rights on which democracy was originally built. He argues that the disparities of the market need to be counterbalanced by aid transfers to those with low income so they can achieve a decent standard of living. In Chile, grant competition was installed without considering the uneven distribution of wealth and, over the years, government has been unable to ensure a minimum standard across jurisdictions. Contrary to this, grant competition has increased the gaps between municipalities in a zero-sum game where differences are not acknowledged.

The evaluation aims to maximise the social return of the resources invested but has worked against jurisdictions with high needs and small populations. Respondents were keen to criticise the lack of a long-term perspective on investment. Currently, the evaluation does not take account of the projected impact of local investments. On the contrary, it only recognises infrastructure shortages of municipalities with enough resources and population to build their case. In following this approach the FNDR competitive grant is condemned to act reactively trying to solve present deficits but unable to invest in plans with the potential of boosting the future of a jurisdiction.

The appraisal mechanism is one of the main strategies intended to inform the value-for-money paradigm of public spending. In line with the existing literature in the field (Stanton, 1996, John and Ward, 2004), Chilean local officers are sceptical of an appraisal mechanism reduced to one financial dimension.

The standardised evaluation, in using the number of beneficiaries to assess a bid's public value, secures high quality investments only in populated municipalities, regardless of other needs. The FNDR pursuit of efficiency seems to overcome other policy goals such as equality and legitimacy. This imbalance is unfitted to accomplishing FNDR objectives and because of this, has generated frustration among local officers.

The objective of this section has been to establish how the NPM paradigm of value for money has mapped out into the Chilean case of the FNDR competition. Consistently with the findings of the previous chapter, local officers believed that capacity-related variables (such as staff size and budget) were key to securing FNDR funds. Despite conceding the relevance of the uneven local context, central government officers recounted examples of success against the odds to support their preferred view, that winning was a matter of effort and hard work.

To use potential beneficiaries as a multiplier in calculating total benefit may be technically correct but indirectly it has encouraged low levels of and lower quality public investment in smaller

jurisdictions. In this context small and deprived municipalities are discouraged from competing for FNDR funding, knowing that regardless of needs, project bids would likely fall short when evaluated.

### 7.2.2 Local empowerment - autonomy

The previous section depicted how municipal capacity and the appraisal mechanism acted as the main entry barriers to municipalities engaging in grant competitions. In the following, I examine how the Chilean FNDR grant competition system relates to local autonomy and self-determination.

NPM scholars have argued that grant competition would enhance local determination due to a local hands-on approach in the bid formulation and the limited impact of central government decisions (Sager, 2011). The prospect of funding an investment project outside the centrally-decided ministerial agenda was celebrated among the interviewees, but they noted a series of issues threatening such an outcome. The main discussions are set out below, grouped by narrative proximity into five different topics: grantsmanship, the role of the evaluator, trust issues, signals of the market and governmental help.

#### *Grantsmanship*

Local officers positively stressed the breadth of the competitive scheme as well as the opportunity to improve their infrastructure stock. Competition nationally gave the opportunity to all municipalities to improve their local services and some of them seized it, as one local officer argued:

*“During the year 2000 in X we set ourselves an investment process taking into account our limitations in budget and population, we had 12,000 inhabitants and only two officers in the planning department but we got a huge amount of investments and since the town was small we transformed the comuna”.*

Municipalities with expertise in grant competition or particularly able leaders developed strategies to foster their success and in some cases were able to attract large amounts of funding regardless of their size. One of the recurrent strategies was to have a portfolio of technically-approved projects during the first year in office. By doing so, municipalities moved ahead of their competitors and suffered less competition when the funds were finally allocated. As one interviewee argued:

*“During our first year we had 12 projects evaluated with a positive social impact, we beat Maipu and Santiago [two of the largest municipalities in Chile] and what happened? When the funds were allocated and since there were just a few other projects all the monies came here”.*

A mayor capable of investing in grant competition and possessing sufficient political leverage was able to change the face of their jurisdiction. Among the interviews a few of these cases were mentioned but they were seen more as an isolated example than a regular practice.

Local officers with experience of writing sound bids were in high demand, especially among municipalities distant from the capital. FNDR does not allow any incentive structure to the team in charge of the bids; therefore municipalities struggled to retain their skilled officers when a raise or promotion was impossible. The migration of officers to favoured municipalities willing and capable to invest more, was clearly to the detriment of deprived jurisdictions unable to compete with their wealthier counterparts.

In the FNDR, grantsmanship had the potential to attract large investments into a municipality. Despite this, the costs of retaining skilled officers was seen as a clear disadvantage for needy jurisdictions.

### *The role of the evaluator*

In contrast to what NPM theory asserts (De Valk et al, 2005), local officers saw the involvement of central government evaluators as an obstacle to local autonomy. Evaluators are centrally-appointed, non-political officers in charge of reviewing local bids and deciding if they are accepted or not. For local officers, evaluators needed to be persuaded that the project submitted fulfilled all the technical and sometimes aesthetic requirements to get the approval.

When projects did not pass evaluators' appraisal they were returned to the municipality to be amended. This process could be repeated several times until they were finally approved. It is in this iteration between local and central that differences start to come to light.

Tullock (1975) argues that central government bureaucrats acting for their own benefit are prone to develop standards as an expression of their personal inclinations. Local officers agreed with this idea as the following quote reflects:

*"Analysts want the project to be as they want it to be, everyone in central government wants to be able to say 'that was the fruit of my work'".*

Scott (1998) has provided a more recent but similar perspective on the nature of such central-local interactions. According to him, officers try to make their environment legible through static and standardised measures in an effort to close systems marked by heterogeneity. Scott argued that the use of these standardised measures is not just to make their job easier but also to use it as an authoritative tune to which the population must dance. Local officers describe encountering this kind of authoritarian direction set by the evaluators and believed that the system put a burden on them because central evaluators were in a privileged position. As one officer argued:

*“The system is not equivalent among professionals, despite the idea that we are equal, the system puts you in unequal conditions. The professional opinion of a local officer many times is not seen to be as valid as the opinion of an evaluator and there appears to be a degree of central discretionary power because the system itself puts the evaluator’s opinion above the local officers’ opinion”.*

Under any dispute, the evaluator’s opinion prevailed regardless of whether they were able to understand the particularities of the project. One officer even defined the process as a violent one because:

*“They [the analysts] treat you as a child; the relation goes from evaluator to local officer from a trashy municipality, not from architect to architect. They are an eminence and make you feel the difference because they have the power”.*

Local officers describe perceiving that they were unrecognised by central evaluators; this idea was repeated by most of the local officers who saw the process as discretionary and asymmetrical. Central government evaluators used an imposition of their personal views to show that they were in control, introducing changes to local projects regardless of the relevance of the changes, with a consequent negative impact in local officers’ morale.

For Kirchgassner and Pommerehne (1993), low-cost decisions are those where the outcome is of low impact on the decision-maker. It is possible to see many of the decisions of evaluators as being low-cost for them despite their high cost to local communities. Kirchgassner and Pommerehne argue that this kind of situation creates a complex scenario in the public sphere, leading individuals to behave negligently. Under these circumstances, the main incentives to act responsibly would be

career considerations such as promotions and pressure from political and scientific peer groups. In the Ministry of Social Development, where evaluators work, there is no strong incentive structure towards correct decisions and decisions are singly decided so no pressure is exercised by peers or superiors.

Evaluators act to increase their own benefit to a certain extent because they do not have any incentive to act differently. Since their actions end up being someone else's problem they can exercise their authoritative decision at little cost. This situation represents a problem for local officers who must comply with all central stipulations regardless of whether they are justified or not, increasing their frustration.

### *A matter of trust*

Contrary to what occurred in most western democracies, where NPM was introduced during a post welfare state crisis (Osborne, 2006), in Chile NPM reforms were adopted under a feeble public administration that had recently followed 17 years of a dictatorial regime and institutional breakdown. As depicted in section 5.3 central government officers saw local officers as being unreliable and having poor capacity to administer their jurisdictions.

This situation permeates the grant system, affecting the performance of local actors and their autonomy to decide independently. Central government officers shared a sense of condescension regarding the municipal capacities to manage external funding, as can be seen in the following quote:

*“The government has the resources to level the pitch, but what happens is that the resources are not always well spent by the municipalities? If I hire you to build a sewage plant at of Hualaihue [example] and after two weeks they ask you to enlarge the kitchen on the school in Tres Puntas and when you are in both projects they give*

*you another one. You could end up doing the entire municipality... so finally the sewage plant ends up late and could end up badly. That's not the objective".*

There is a sense of institutional mistrust between central and local government well illustrated by the quote above. As seen, the central government interviewee does not believe that the municipality is acting in good faith based on the number of tasks that the officer hired is doing. Interestingly, during the interview there was no mention of the reasons for such behaviour. In this way, the act of cheating is discursively isolated into its illegality without any consideration of the context behind it and its probable causes.

Institutionally (and sometimes physically) speaking, the distances between central and local officers were so great that the connection between them seemed to disappear, making local needs somehow invisible from the central standpoint.

Local officers explained that they had to bend the rules of the assistance policy because the needs were too many. As one local officer argued:

*"Small municipalities apply for professional assistance but due to their shortcomings the least that they [professionals] do is to dedicate time to that specific project, they will be doing administrative tasks, they could even be drivers... they will be everything because they will be installed in a place with so much need".*

Central government officers may have well-founded claims against municipalities bending the rules of assistance programmes. Nevertheless, the system's inner imbalances put municipalities in a hard position.

Officers also felt that the evaluation was a strategy to oversee what local governments were doing with the allocated resources. Local officers perceived that central government did not trust their capacities and final objectives, so they have put a system in place to supervise them. As one local officer commented:

*“The whole thing of making us compete was created because they [central government] don’t have faith in us... the Mayor and the councillors, once they have paid the administrative bills can do whatever they want with the remaining resources...no one controls. A Mayor could spend all the resources on social assistance or on parties, there is no evaluation of those investments. This forces the appearance of these funding systems to make us focus on local investments”.*

The idea has taken root in central government that municipalities are fiscally unreliable and not prepared to administer local funds independently. This notion consistently emerged among central government officers. Under these circumstances, a municipal officer considered that analysts saw themselves as the barrier against waste, as the next quote reflects:

*“There is this idea that Mayors don’t manage projects to benefit the people but to the benefit of their political goals. They think: ‘What would add more votes in the next election?’ Because of this, they design “white elephants” that have no value for the community. In the light of this situation the central analysts see themselves as the guarantors of the state resources to ensure that every project benefits the community, but after all, who is the representative of the community in the end? Those prejudices are deeply rooted”.*

Local officers carry the stigma of being bad administrators. That could be due to personal experiences or could be the burden of being part of an institution historically underfunded. Most jurisdictions do not have enough resources to deliver their services properly so local officers usually take advantage of any opportunity they can. Central government officers appeared to be disconnected from this reality and doubtful of local officers' intentions, fostering a marked contrast between both government tiers.

Griffith (1966) identified the tensions that emerged from central and local administrative relations in England. He concluded that the defects of the intergovernmental system were based on policies that were insufficiently defined to give enough freedom to local authorities. He also argued that there were too many small authorities incapable of doing the required jobs; thus, authorities were becoming too dependent on central government.

From the above we could argue that central–local mistrust is not solely based on the difference between knowledge or professional credentials. FNDR rules are not defined clearly enough to foster an equivalent relation between officers. Under this situation some authorities try to bend the rules and take advantage of the FNDR whilst other unhappily comply with the protocols increasing their disaffection.

Central and local officers mistrust the intentions of the other based on historical prejudices, poorly defined policies and local shortages. This mix does not ease the building of fruitful relations and has negative effects on the overall impact of FNDR.

### *Market signals*

Local officers believe that central government plays a significant role in grant competition, hampering local involvement in the bid formulation. The severe lack of resources experienced locally

puts the Mayor and the municipal staff in a difficult position when they want to show empirically and physically the fruits of their period in office.

The necessity of increasing the infrastructure stock of the comuna before the political period is over was one of the reasons why municipal officers were willing to bid for any project that central government was offering, following the so-called “signals”. These signals came from central government but were not in any paper or programme; rather, they emerged from informal conversations and meetings where the Intendente or other officer revealed those areas which would be more likely to be funded in each competitive round. As one local officer argued:

*“We call them ‘sales’ when the Intendente or other central authority suddenly tells us, ‘now we are going to fund exercise machines’ and since in one way or another that is good for us we apply for the machines, at the end it is that or nothing... After they will say ‘cycle paths’ and we will apply for them too... it is fine, we cannot say no to anything because we are not in that position... but we would also like to have a say in what we really need”.*

Central government officers wanted projects that “scored” in their central government world. Whether those projects “scored” in the municipality played a very minor part in central government thinking. Following this argument another municipal officer commented:

*“One needs to respond to the signals, I’m not going to sell green beans if they are buying sweet corn...you have to see what the market says independently of the projects we design”.*

The practice of applying for grants for infrastructure that was centrally prioritised was repeated among respondents. Tullock (1975) argued that this situation encourages social waste because local projects that had to be centrally-adapted will be worth less to the community than their cost to central government. This situation is especially severe if we consider the context where it takes place. Municipalities are almost forced to subordinate their needs to central steering because in one way or another they need to attract investment to their territories and no opportunity can be rejected.

Municipal officers were aware of this situation and knew the approximate amount that they would receive following central government signals. As one officer argued:

*“We know approximately our yearly quota of funding, and last year we received 5 thousand million pesos, in that regard the Mayor said, ‘If they would allow me to have the freedom to decide in which areas I can spend that money I would probably have invested it in a much more useful way, but since I can’t I had to spend it in projects that maybe weren’t that important to us”.*

Under these circumstances, grant competition ignores a key part of the theory of fiscal federalism set out by Oates (1972). Local authorities know how to cater for their specific local tastes, so any standardised alternative coming from the outside will be less efficient than the one locally proposed.

Central government often provides a paternalistic model of management in which municipalities are seen as not capable of administering external funds or deciding which projects should be prioritised. Despite this, and due to the lack of resources, local officers had to follow the signs to attract investment.

## Help

Another, and more subtle, way in which this asymmetry emerged during interviews was embodied in the discursive form in which local and central government officers described their relationship. Local officers repeatedly referred to the funds received as a form of “help” from central government. As an external observer, aware of the complexities of the system, I was surprised that despite all the emphasis placed on competition for funding, local officers did not feel that any resulting grant was deserved or owned. Local officers did not feel like they were worthy enough of that prize and that perception was often expressed during the interviews. One example of this can be observed in a quote from a small, rural municipality:

*“Some [municipalities] can finance more than others because of their capacities and political belief, but if you go there [central government offices] and you sit to talk with them [central government] they will help you”.*

A central government officer also used this expression to explain the central-local relationship as we can see in the following quote:

*“The mayor of X used to come every week to see me, until I told him, ‘don’t come any more, don’t waste your money what do you want from me?’ So, when he arrived with the project I said ‘I have to help this chap’ and I did”.*

Contrary to what theory suggests (University of Bath, 2014), local officers did not feel that they deserved the funds even after passing a technical and political evaluation. This could be due a

general feeling of hopelessness or because they do not see themselves or their municipalities as being on the same level as central government.

Grant competitions cannot be isolated from their historic and institutional framework and in Chile old practices have been transferred into several aspects of the funding allocation. Some of these practices can be traced back to the colonial era where metropolitan areas were the guarantors of the civilised life and the administrator of the resources (Montencinos, 2005). A regional officer stressed this idea, arguing that traveling to the capital (regional or national) was essential to secure funds as can be seen in the following quote:

*“Historically to solve any big issue you had to go to the capital, that could be the court during the Spanish empire or the Vice royal. That still happens going to Santiago or Concepcion it is just part of the system”.*

This “trips to the capital” effect should not be understated because geography means that it can take more than ten hours for an officer in the Bio-Bio region to get to Concepcion, and any visit to Santiago would probably require a flight. This places another burden on isolated and rural municipalities that cannot afford those travel expenses. Nowadays when telecommunications are easier than ever it was surprising to find that a major part of project management was only possible in face-to-face meetings. Apparently, this was part of the political culture of the intergovernmental relations in Chile, where even the smallest issues need to be treated personally and close to the source of political power and decision.

Chirenje et al (2013) argue that in developing countries top-down decision making has been ineffective in terms of achieving sustainable development. The relegation of local communities to the position of recipients and implementers alienates them, causing them to disengage from the process

of planning and budgeting. This paternalistic relation between central and local officers can be traced in the interviews. Municipalities believed and acted as if they were the weakest link in the institutional structure, and central government officers generally held that view.

Because of their dependence on central government monies, municipalities cannot directly execute their plans and policies, so they invest their time and money trying to build a case that can move the opinions of officers in charge of the funds distribution.

Most municipalities do not feel empowered or able to deliver appropriate local policy outputs, so they attempt to gain central government trust via visits and time-consuming travels. The current competitive system inhibits the autonomy of the competitors, making them comply with unwritten central guidelines and engage in expensive visits to the capital to present views that could easily be communicated remotely . Evaluators are also prone to show their authority as well as other ministerial officers for whom the local–central relation is essentially asymmetrical.

### 7.2.3 Innovation and Delivery

This third section discusses how grant competitions could be a vehicle to reduce bureaucracy and promote innovation among the competing jurisdictions. NPM suggests that one of the main features of grant competition is its capacity to reduce red tape, fostering a direct relation between the grantor and grantees (Thompson and Riccucci, 1998). This mechanism could promote a leaner bureaucratic apparatus where the distance between central and local would be shortened. Competition may also encourage local innovation, rewarding jurisdictions with the best plans to tackle local issues. These two topics will be analysed below.

### *Less bureaucracy*

The capacity of competition to reduce red tape was discussed during the interviews and, despite some rare exceptions, it was not mentioned by officers involved in FNDR. Officers from municipalities with a good record of success argued that communication appeared to flow easily between them and central government, although this did not apply generally across municipalities.

Regional officers played a substantial role during the FNDR competition, acting as the intermediary between local needs and central government resources. Their role was key in the process of deciding which project would be funded and they did generally seize it. Local officers felt that regional councillors, rather than help or plan, delayed the process of project selection to obtain recognition for themselves.

Being democratically elected, regional councillors had to look after their constituencies bearing in mind a future election in situations where their interest was not necessarily aligned with the municipal priorities. This situation can be observed in the following quote from a municipal officer:

*“We had these projects ready and they [regional councillors] didn’t approve them because they wanted to do it in the following meeting so they could praise themselves in front of their citizens, so... we are going to offset the whole implementation so the councillors can have a little more credit... you are finally punishing the beneficiary purely for political reasons”.*

The role of the regional councillor is more administrative than executive, so the few chances that they have to play a part in front of the electors are often exploited, in this case delaying the execution of a local project for personal recognition. Another recurrent opinion was that regional

councillors delayed the selection of projects to justify their role in FNDR competition. An officer from the regional council was vocal about this situation and accepted these practices; for him, delaying and prioritising was necessary to avoid running out of projects and jobs. Explicitly he stated:

*“We (the councillors) could approve all the portfolio of projects in almost one session and that is it... the party is over”.*

Municipal officers have good reasons to suspect regional councillors’ role in grant competition. As rational choice theory proposes, officers are prone to act in their own interest, maximising their utility instead of acting in the public interest. Regional councillors have no incentive to be diligent if by doing so they become irrelevant in the process. Under these circumstances, competition increases rather than reduces the bureaucracy of the local investment distribution. Since regional councillors are popularly elected it can be expected that they seize every available opportunity to get credit or recognition.

Competition may decrease transaction costs when there is a direct relation between the actors involved (grantor and grantee). In the Chilean case the addition of another elected officer prevents this from happening because councillors’ incentives are not in accordance with municipal interests and in many cases, they are contrary.

Lacking resources or political leverage, the role of regional councillors seems limited. Moreover, being democratically elected they have an incentive to favour jurisdictions with more voters, exacerbating the imbalances within each region. Central government has good arguments for reducing the distance between central and local tiers, and the reform of the regional councillor’s role looks like a good place to start.

### *Innovation under uncertainty*

The search for new alternatives for service provision has been one of the main motivations to develop theoretical arguments for the use of quasi market strategies such as grant competition. Under this premise lies the notion that competitive pressure may foster the writing of new and innovative bids. This would end the old practice of repackaging local projects taken “off the shelf” to receive central government funding.

The above idea was shared among central and regional officers for whom the FNDR represented the best alternative to fund local projects, as one central officer argued:

*“The FNDR is the most important source of resources for municipalities, it can fund almost anything... which is good, as opposed to ministries which can only fund projects in their own area”.*

Since 1991 every region in Chile must have a regional strategy of development to guide the investment decisions and act as the road map to fulfil regional objectives. As a requirement that must be met for the bid to be accepted, local bids seeking to be funded by the FNDR must explicitly explain how they respond to the regional plan. According to the Ministry of Internal Affairs (Brunetti, 2009): “The strategies of regional development are the main instrument to regulate, orientate and manage the development of a region, in harmony with the national plans and policies and taking into account the development of local plans” (p.40).

However, for local officers the regional plan seemed to be merely an abstract procedure with no relation to what is finally executed locally. In the words of a central government officer, regional plans are just “music” because they are so generically designed that almost anything can be justified by them. Since everything is covered by the plan there is never any certainty over what of kind

projects will have better chances of being funded in each round. Local officers know that the FNDR is the only funding source for their large-scale projects, but the lack of an effective regional plan and the delayed time-frames work against their participation. As one officer from a deprived municipality commented:

*“We prioritise a stadium but we don’t have any clarity if it is going to be a reality in 3, 4 years more or even if it will see the light at all during this political period...for that reason we cannot plan accordingly”.*

According to a regional officer, it takes on average 11 months from when a project receives funding until construction commences. He also calculated that it could take a minimum of one year to receive a positive technical appraisal. Adding those two processes together, it could take two years for a municipality to start to execute a project from scratch, without considering the iterative process with the regional council. Two years of work for a Mayor who has four years in office and no certainties of success was a highly risky bet.

Such a slim chance of having a stadium is not politically viable, and voters are unaware of the length of the process of investment allocation, punish local authorities who fail to deliver what was promised. Mayors have little incentive to embark on large or innovative projects knowing that they may not materialise during their term in office. This situation was commented on by a regional officer who argued:

*“Rural municipalities shun large scale projects, because they feel that they don’t have the competences or capacities and that in four years [Chilean political cycle]*

*they won't be able to deliver them, they just simply won't be willing to spend any hours on that".*

Most municipalities in Chile have a small budget to spend recruiting personnel so every decision is carefully considered. From the interviews, and in line with the findings made by Buurman et al (2012), I can conclude that local authorities are mostly risk-averse. This could be a reason why municipalities are not always willing to engage in competitions and when they do, they try to play as safe as possible, which hinders any sign of innovation. As one officer argues:

*"Right now there is no certainty when we have to hire officers. It's not like I'm going to invest in human resources because I have this budget and projects to develop, probably now the bet is not to promote the secplacs [planning officers] but promote other areas because here [planning offices] I don't have any certainty that I will receive any funds. It is a bet that you are placing, but you don't know if it is going to pay off".*

Competition scares away municipalities who are not willing or cannot afford to take risks. The central problem is that the risks are not equally distributed among municipalities, so small and deprived ones pay a higher price than big and wealthy ones. For small municipalities, bid costs may represent an enormous budgetary burden if unsuccessful whilst the wealthy ones may cope with those costs better.

Entering a bid under these terms appears an expensive bet that many deprived authorities cannot afford. For municipalities who struggle to fund their services, hiring an officer that potentially could help to win a competition is not a feasible alternative. This situation was acknowledged by a regional officer who argued:

*“Many municipalities do not have that priority [hire planning officers] because they prioritise social assistance, the clientelistic view of what people need... and so they are more willing to spend resources there. They prefer to share those resources on social assistance rather than on generating investment projects”.*

In line with Pompa’s study (2013) innovation was rarely seen in FNDR competitions because the system puts no value on it. Despite the stories of success mentioned by central government officers, most local authorities are risk averse and unwilling to engage in competitions with no guidelines or time frames, and when they do, they play safe so they can deliver on time. This could explain the low number of bids submitted by small municipalities (an average of 50 bids in an eight year period) and the limited scope of competitions.

The three sections presented above condense the main NPM arguments found in the literature that have backed the use of grant competitions as a source of funds allocation.. In the next section I develop two purposefully selected topics and then listed the topics that arose in discussion of FNDR competition and contribute to expanding the debate.

#### 7.2.4 Fairness and Intermunicipal collaboration

This fourth section presents the two topics that I purposefully selected and were outside the three pivotal ideas analysed above. The first is the officers’ judgement of the fairness of competition and the second is the impact of competition on intermunicipal collaborations.

##### *Fairness*

As seen, local officers are required to engage in grant competition to attract much-needed resources. Locally, needs are usually so profound that officers internalise the rules of competition

without question. In this context I was interested to find out if officers considered that the competitive scheme was a fair method of resource allocation.

For several officers the system was not fair because it reproduces the regional imbalances. For one officer it was even difficult to believe that they were competing for the same resources, being at so much of a disadvantage. In this regard he argued:

*“How can we [all the municipalities] apply for the same fund. It is unfair we are in a deprived area, we cannot generate development...here there is not even a bank nor a single drugstore...”.*

Another officer from a rural municipality went further and considered that the process of competition was offensive because:

*“If the need exists you cannot go into a contest to see if it is going to be funded or not...you almost have to ask it as a favour... if the need is there you should not spend three years trying to win a project, you go into a competition and wealthy municipalities play safe”.*

Officers from small municipalities felt hopeless facing a system incapable of making distinctions in such a heterogeneous environment. For many, the competitive process was so frustrating and unfair that they decided to quit, condemning their territories and citizens to lag behind. This situation was recognised by a central government officer who commented:

*"I believe that it is unfair because if you live in deprived comuna with a bad team of officers it can be the case that you do not receive anything from the municipality... that they don't solve any problem".*

Despite this situation, there was a feeling of conformity among central government officers built upon the general goal of competition; regardless of its effects, they believed that the system does more good than harm. This can be seen in the following quote made by a regional officer:

*"I don't know if the system is or isn't fair... that is a good question [30 seconds of silence] it is a system that should work, there are elements which are external to the system creating these disequilibriums... The FNDR is a funding option to generate territorial compensation in the territorial disequilibrium, is that good? Of course it is good. Is it fair? Of course is fair...it is not unfair...now that the original idea had complexities that make it sometimes unfair that is another thing; the unfairness is not only related to the external factors, it has to do with the local actors who made the first stage of competition".*

The above quote indicates that competition was seen as a positive scheme regardless of the context in which it operated and the effects that it carried. As Orellana (2009) argued, local competition was installed above a predefined hierarchy of municipalities and deepened the previous inequalities among jurisdictions. The hierarchy of municipalities, according to Orellana, was fostered by the central government decision of having different standards of services across jurisdictions and leaving the market to determine the geographic distribution of wealth. Thus, since the beginning, competition has been a necessary but insufficient means to bridge regional disparities. The regional

officer believes that FNDR competition is a good strategy because it helps local government to fund some of their projects but does no more than that.

The FNDR competition scheme functions because, regardless of its declared objectives, officers feel that there is no chance that the differences would ever be tackled. The idea of having national or regional standards of local services is so unthinkable that officers do not believe that any policy would succeed. For this reason, officers do not expect much of the FNDR or any other competition. It feels as if differences between municipalities has been internalised and nothing can be done about it.

### *Intermunicipal collaboration*

The next topic analysed in this fourth section is the impact of competition on intermunicipal collaboration and service delivery. Scholars have agreed that in most western democracies NPM measures have been permeated by hybrid methods of service delivery, including more actors in their design and implementation (Osborne, 2006; Löffler and Bovaird, 2004). In the following discussion, I discuss why in the Chilean case, collaboration has been hampered due to the lack of incentives and the influence of competition.

Competition has installed a zero-sum mentality in local officers where each jurisdiction acts in its own benefit. Municipalities are not willing to engage in collaborative sources of service delivery mainly because there are no incentives to make that effort. As one officer argued:

*“The only thing that you can bid for collaboratively is roads... if you are planning to build a school or a health centre the Mayor of the other municipality will oppose it, because the one with the school in its territory will be seen as a king... Roads are ok*

*because they go from one place to the other, but any other public infrastructure is practically impossible, or better say impossible”.*

Decades of intermunicipal competition had an impact on how jurisdictions work and relate to each other. This was acknowledged by a central government officer who believed that municipalities were highly competitive and jealous of their work, as they neglect the value of associativity. Some officers, on the other hand, were aware that public challenges cannot be solved by acting independently. This was clearly portrayed by one officer who argued:

*“I believe that we should not only discuss about the project that will be built in the corner of your house... problems move from one municipality to other, they migrate as criminals do; pollution is not located under one municipality, it is a regional issue, so we should take decisions from that perspective”*

It seemed that municipal officers were aware that many local issues cannot be tackled independently but they also believe that they were incapable of doing anything about it. According to Bovaird and Löffler (2015): “Public governance pays a lot of attention to how different organisations interact in order to achieve a higher level of desired results – the outcome achieved by citizens and stakeholders” (p.9).

I argue that Chilean municipalities are unable to act collaboratively because competition has been embedded in the way they interact with potential partners, hampering intermunicipal coordination.

### 7.2.5 Emerging topics

This fifth and final section comprises the debates that arose during interviews and were outside my topic selection. In Chile, grant competition embodies a set of feelings and practices that cannot be attached to the main scholarly NPM discussions but represent a fruitful area to explore. Below I present and analyse these three new topics: are we competing?, intra-municipal competition and the politics of the visible.

#### *Are we competing?*

Municipalities in Chile are used to competing. The system installed by Pinochet was crafted to encourage fragmentation and the governments that followed did not change that reality significantly (Bresser Pereira, 2013). Disparities among jurisdictions are stressed due to the lack of an Intendente (or regional Mayor) that could actually represent local needs or a set of minimum standards shared horizontally. So, in Chile it is not rare to see adjacent jurisdictions with a completely different quantity and quality of public services.

Municipalities compete to attract investment, businesses and residents because they have few other means to generate revenue outside the taxes levied on those assets. This situation is depicted by the media which periodically releases a comparative ranking

FIGURE 9 – Cover and insert of “Las Ultimas Noticias”



Figure 9 above shows an example of how the media inform the wider audience about intermunicipal competition. The first image is the cover of one popular newspaper in Chile and reads: “In which position is your comuna (jurisdiction) located in the quality of life ranking?” and the second one: “Iquique (a jurisdiction) is the champion: it moved up 66 places and it is now among the better comunas to live in”.

Inside, the article presents a ranking of 92 jurisdictions, measuring the quality of the local services provided in each case. The ranking works as an aggregation of wealth-related variables and does not control for variables such as poverty level, taxable land or municipal income. Interestingly, there is no explanation of why some municipalities perform worse than others, making it look as if it was just a matter of effort to be in a certain position. Again, and as in the central officers’ quote in section 6.2, context is implicitly seen as irrelevant for the published competition results. Local officers

know about this kind of ranking and feel that the only way to be in a better position is by competing in a zero-sum game.

In general, local officers agreed that they compete for FNDR monies but were reluctant to see other jurisdictions as rivals. Part of this conception was determined by the uncertainty over the money to be distributed each year and the areas prioritised by the regional councillors and the Intendente. As one local officer argued:

*“Municipalities don’t know what the regional office is going to fund in terms of infrastructure, so for example, if the government announced, we are going to fund 50% of the street pavement, then all municipalities will compete because we know what we are competing for. Now it is not clear why we are competing... there are only general ideas”.*

A central government officer agreed with this fuzzy vision of the grant allocation but for him the lack of clarity was an opportunity not a problem, in his own words:

*“If you need anything FNDR could be a good alternative”.*

Some respondents were reluctant to see officers from other municipalities as rivals because they had a negative understanding of the term competition. As one officer argues:

*“Municipalities compete for funds not against municipalities”.*

In this quote the interviewee omits the funding mechanism without considering the context in which these funds are allocated. Competition is an elusive term probably because municipal officers still have difficulties associating private sector practices with the ones installed by the NPM into the public administration ethos. Another quote from a small and deprived municipality deepens this idea:

*“Under my understanding you (other municipalities) are not my rival; I understand that the system is generating a distortion against me and in favour of the ones with more money but we are not competing”.*

Officers also believed that due to the complexities of the system, competition could only be seen between the few municipalities capable of surpassing the entry barriers. This idea strengthens the image of a restricted competition where small municipalities have relatively few chances of winning compared to their larger counterparts, as one officer suggested:

*“A small municipality with a small team will always be relegated compared with a big one which is more competitive and going to accede faster and more easily to those resources... the disadvantages of a small municipality are completely disproportionate compared to a bigger one”.*

Competition is a practice installed among local governments despite the undeniable intermunicipal differences. The media accentuate this idea without considering the impact of history and the context in which municipalities must deliver their services. Under these circumstances local

officers struggle to accept the NPM idea of local competition but comply with the rules in a rather deterministic and hopeless spirit.

### *Intramunicipal competition*

Competition has also been implemented by several municipalities as the strategy to distribute their resources internally, mimicking the central government practice. According to Vidal (2012), municipal competitive grants are the main method of engagement with the community in the municipality of Santiago. Vidal argues that: “Among the mechanisms of participation and involvement in the design of public policies I have found that grant competitions have been the only one actually implemented” (p.34).

Espinoza (2004) conducted one of the few analyses on this matter, and found that when municipalities made citizens and civil organisations compete for resources only a couple of politically-active organisations were favoured, leaving out those without enough resources or social capital. In doing this, municipalities are reproducing the same situation that they are subjected to by central government. Developing this idea Espinoza argues that: “From the moment when the community has his own diagnostic for the problem that the grant tries to tackle, an intervention cannot be conceived just in terms of efficiency. Moreover, treating participation as a management problem is the main threat for the efficiency and efficacy of the programs implemented” (p.167).

Competition has influenced the way municipalities understand the relationship with their constituencies, echoing the NPM paradigm they were subjected to. The impact that competition had in the relation between municipalities and stakeholders is outside the scope of the present thesis but, based on the analysis made I can predict that some of the effects described here were also likely to have been replicated at a local scale.

Public administration in Chile has not been able to include collaborative practices in the NPM paradigms introduced nearly three decades ago. This situation results from the lack of institutional incentives to put in place collaborative approaches for service delivery and is fostered by the use of competition across different governmental tiers.

### *Politics of the visible*

The last topic of this final section discusses how grant competition has shaped the way jurisdictions plan their territories. As previously seen, local officers are mostly risk-averse, so they want to bid for projects that could actually succeed given the circumstances. Thus, they adapt their bids to central government tastes to receive funding. This situation not only hampers innovation but also influences how jurisdictions implement their local plans.

Grant competition is normally decided one bid at a time. This facilitates the appraisal process but also works against multi-dimensional needs that cannot be covered by one single intervention. Local officers were aware of this and felt that under such conditions competitions would never be able to attack the real causes behind their needs. A couple of officers argued that in FNDR competition municipalities bid for solutions without considering the underlying problem and because of that, they always fell short in their interventions.

Mayors use FNDR projects for their own political benefit. This is understandable in a context where winning a bid is a costly and time-consuming enterprise from which political authorities would expect something in return. This situation, nevertheless gives politicians (and thus, voters) a responsibility for which they are, most of the time, not fully prepared. As one officer argued:

*“When you talk about plans, processes and times people are disappointed, my aim is to generate development but people don’t want to know about processes, they care about results within a political term”*

This situation incentivises the focus on projects that are more visible to the median voter. Since FNDR establishes no priorities of allocation, urgent but politically unappealing projects are relegated. Supporting this idea one officer noted:

*“Have you realised that in the FNDR portfolio, despite its importance, there are almost no projects of rainwater collection? That is because you cannot see them and, what political benefit can you obtain from something that people cannot see? The Mayor puts high priority on visually appealing infrastructure”.*

To rely on the popular will to establish infrastructure priorities can be a risky endeavour. This is especially true in contexts when technical knowledge is scarce and needs are multiple. Under these circumstances, grant competitions have a major impact on how municipalities plan their territories and respond to their constituencies.

Local plans guided by popular will run the risk of being captured by short-term projects selected to please a particular group of voters and these frequently ignore the most urgent needs and the length of the competition process.

To summarise, local officers feel that grant competitions are an unfair but necessary source of funding. Local shortages and lack of hope in the system converge, making the FNDR a useful but insufficient way to improve their current situation. Moreover, competition has been installed as a

practice that hampers horizontal collaboration. This practice has been deeply internalised by municipalities and reproduced among their own citizens as a method of resource allocation.

The installation of this paradigm and the length of the political cycle influence how jurisdictions plan their territories. Under a competitive scheme, Mayors trying to respond to popular demands have clear incentives to focus on short-term, highly visible projects instead of long-term projects with a deeper impact, compromising the overall local development.

### 7.3 Conclusions

The aim of this chapter has been to describe the effects of grant competition primarily by listening to the voices of the main participants. Chapter Six described the main statistical determinants of the FNDR distribution. This chapter has examined the accounts of participants in the grant process gathered through interviews.

Following my research framework, my interview instrument was constructed grounded in the NPM ideas of value for money, local empowerment and innovation. These three core ideas were then supplemented by two purposefully selected topics and a structure of emerging traits that surfaced during the interviews.

In Chile, the state implemented market strategies during a post-crisis period and the marks left were deep. Locally, the plan of increasing efficiency (or value for money) through competition was considered debatable. Local officers believed that local capacity was the main predictor of bidding success and there was nothing they could do to change funding results under those circumstances. Central government officers, on the other hand, blamed municipalities for being unfit to compete, and quoting stories of success, argued that the FNDR scheme was transparent and the chances were the same for everyone involved.

The bid appraisal mechanism was a good strategy to secure return on investment, but its standardised mechanism was unable to consider intra-region inequities, discouraging bidding by less well-resourced municipalities. Central evaluators do not have enough incentives to offset their low-cost decisions. Without proper incentives evaluators use their power at will regardless of the impact of their decisions locally. This has a clear effect on the morale of the local officers involved in the process.

Local involvement (or empowerment) during competition was compromised with municipal subordination to centrally-dictated guidelines and informal signals about the areas to be funded. The asymmetry between central and local officers was rooted in the institutional culture and emerged during the interviews as a source of mistrust and dependence. Innovation was hampered and marked by standardisation of processes and high entry barriers to competing, lack of incentives and too many uncertainties about what would be funded and when.

Chilean municipalities refrain from seeing other jurisdictions as rivals even though they are accustomed to competing and unwilling to collaborate in bids that will be located outside their comuna. The engagement in FNDR competition has had an effect on how municipalities see the relation with their citizens, marked by the replication of the competition mechanics in which they were involved. All of this had a direct impact on how municipalities plan the development of their territories and deliver their services to the community.

Locally, although competition was a sound strategy to increase efficiency the foundations on which it was installed were too fragile and unbalanced to make it work as the theory proposed. Grant competitions involve taking risks and betting on probable outcomes, but for local officers, the risks were often not worth taking.

Central government on the other hand, does not have an incentive to change the current situation. During competition the Intendente (centrally appointed) and the central evaluators

exercise a substantive role in the process of project appraisal and funds allocation. The lack of a regional officer (or Intendente) who could actually represent local interests leaves municipalities competing against each other and trying to please central authorities at the same time, in an almost intolerable situation.

As seen in the previous chapter, competition fosters territorial inequalities and local officers are clearly aware of that. There is a feeling of hopelessness and docility experienced by local officers, fed by the asymmetry in their relationship with central government and the sense that despite their efforts, nothing will ever change.

# CHAPTER EIGHT: ANALYSIS

## 8.1 Introduction

Privatisation and competition have been used by many governments as a means to increase efficiency and reduce costs in public service provision (Seidenstat, 1999). The split between policy designer and provider and the inclusion of competition forced agents to reveal the true costs of service provision. Nevertheless, the use of competition in public administration has been also criticised because of the difficulty of measuring policy outputs and the prioritisation of efficiency over equity, among other issues (Le Grand and Bartlett, 1993).

In this chapter I address the case of intergovernmental competition by looking at the FNDR grant. Throughout the chapter I link my analysis with existing theory and the empirical results of the thesis to connect the debates. To present the topics I follow a deductive order of ideas moving from a general conceptualisation of competition to the existing situation of NPM and then finish with an analysis of the Chilean case.

The first section of the chapter is devoted to the role of competition in public administration, examining the concept of efficiency as an objective of grant competition. The second section follows the evolution of NPM. Firstly, I review urban and public administration analyses of the evolution of NPM. Then, based on my review I argue that NPM reforms were later progressively influenced by new governance theories that prompted collaborative agreements between public and private units. Finally, I outline how that influence, over time, permeated into grant competition, changing the design and scope of grant competition arrangements.

The third section examines the Chilean case. Based on a historical and institutional review I depict how the Chilean adoption of NPM diverged from other international implementations. In that section I explain why in Chile, competition has prevailed over intermunicipal collaboration. Then, after reviewing how NPM reforms were adopted, I look at three effects triggered by its implementation. These are: the trade-off between equity and efficiency in Chilean subnational authorities, the role of regions in competitions and the effect of grant competition on staff motivation.

My main argument is that NPM was unsuited to performing well in Chile and this has resulted in a number of unwanted effects. Chilean public administration was unable to include competition without compromising the weak balance between jurisdictions inherited from post-colonial times. Thus, municipalities had to cope with what turned out to be cream-skimming competitions where central government played a central role. Grant competition in Chile was affected by internal shortages of bid-writing resources and lack of political will, limiting the efficiencies gained through it.

## 8.2 Grant competition and the pursue of efficiency

This first section of this chapter is dedicated to the analysis of grant competition and its capacity to foster efficiency in the delivery of public services. As seen in section 2.3, competition has several attributes that can increase efficiency, improving the quality and quantity of public services. Below, I discuss if these benefits are achieved as a result of FNDR competition.

### 8.2.1 Benefits of competition

Recapping the debate presented in section 2.3, it can be argued that competition can improve the delivery of public services by three means. First, by fostering a transparent relation between competitors due the setting of clear rules and guidelines. Second, by promoting professionalisation at both sides of the service exchange (design and provision) allowing central officers to steer rather than to row. Finally, competition would force vendors to reveal more in their bids than they would otherwise do, fostering efficiency (Domberger, 1998).

On the other hand, grant theory revealed that lump-sum general grants tend to encourage public expenditure above optimal levels, fostering soft budget constraints among grant recipients. At the same time, the use of need-related indexes in a formula-based distribution, promotes the status quo among grantees who do not have an incentive to improve their situation if this diminishes the transfer received (King, 1984). Therefore, central government as grantor has clear incentives to use competition as the strategy to allocate funds. Below I link these ideas with the performance of the FNDR mapping the main areas of debate.

### 8.2.2 Transparency and professionalisation in the FNDR

As depicted in Chapter Six, FNDR objectives are loosely stated and are not matched by the outcomes it achieves. Once a bid passes the technical evaluation, the FNDR does not have any system in place to guide the allocation or inform bidders about the probable time frame for receiving funding. Moreover, the lack of service standards (regionally and nationally) fosters an ad-hoc allocation of resources.

This is in part caused by the FNDR grant system's feeble conceptualisation of efficiency, understood as the spending of the yearly allocated budget. As seen in section 5.4.2 there is a 5% of

the FNDR regional allocation based in the capacity of the regional government to spend the resources allocated the previous year. So, to comply with this requirement, regional governments have a strong incentive to allocate all the resources regardless of a particular bid's proposals and local needs.

Lack of information opens opportunities for discretionary decision-making which are captured by central officers and evaluators. I argue that uninformed jurisdictions and central officers would not engage in transparent exchanges of information if the system is set to enhance ad-hoc and asymmetrical relations.

Lacking standards to follow or benchmarks to achieve, FNDR allocation seems disconnected from local municipal preferences but instead prioritising a regional goal of full budgetary spending. This situation was depicted by a quote from a regional officer presented in the previous chapter. The officer when questioned about the fairness of the FNDR replied:

*"I don't know if the system is or isn't fair... that is a good question [30 seconds of silence] it is a system that should work, there are elements which are external to the system creating disequilibriums.. The FNDR is a funding option to generate territorial compensation in the territorial disequilibrium, is that good? Of course is good!! Is it fair? Of course it is fair...it is not unfair...now that the original idea had complexities that makes it sometimes unfair that is another thing; the unfairness is not only related with the external factors it has to do with the local actors who made the first stage of competition"*

The regional officer was initially unsure about the fairness of the competition and probably aware of the lack of mechanisms to ensure it. Moreover, the association between capacities and income exacerbates this situation, skewing the allocation of the grant. The officer argued that the

system was good and fair because it aided jurisdictions to get funds that they would not get by their own means. Despite this being true, it seems like a relatively modest objective considering the importance of the grant and the shortages experienced locally.

The lack of information acts as a disincentive to small and deprived jurisdictions unwilling to invest without much idea of which bids will be successful in receiving funding. The pursuit of a policy of efficiency understood in these terms does not consider local differences and particular preferences affecting other democratic goals such as equity and fairness.

Transparency is absent from the FNDR scheme because after bids are evaluated the lack of standards and protocols leave discretionary opportunities which are captured by central government officers. Below I examine this issue, setting out a debate about efficiency and the tension that emerges when central government is in charge of assessing it.

### 8.2.3 The search for efficiency; who is the customer here?

In FNDR competition, efficiency is enhanced by the ex-ante evaluation performed by central government which acts as the grantor and decision-maker for the funds allocated. As in any institutional setting, central government is not an ethereal figure but a group of officers located in Santiago, who have particular political leanings and agendas.

This thesis suggests that in the FNDR, competition seems to serve central officers' agendas instead of addressing local needs. I argue that efficiency in this scheme becomes a debatable concept that FNDR does not address properly, hampering the benefits of using competition as an allocation strategy.

Fiscal federalism has been vocal in its support of decentralisation as a promoter of economic welfare, as Oates (1999) argued: "Development policies that are sensitive to particular regional or local needs for infrastructure and even human capital are likely to be more effective in promoting

economic growth than are centrally determined policies that largely ignore these geographical differences”(p.1143). Following Oates, efficiency should be driven by policies that are sensitive enough to capture regional and local preferences.

Chapter Seven found that jurisdictions are prone to adapt their expression of needs towards centrally-delivered policy signals. It follows that competition will then lead to the pursuit of the wrong objective: competition to satisfy central officers’ preferences rather than local ones.

It has been commonly argued that local jurisdictions know best about needs experienced locally (Oates, 1972). In Chile, as in many other countries, municipalities act as delegates of the local will legitimated by periodic and fair elections. In local elections, citizens vote and express their preference for the projects that most closely represent their needs and public expectations. Therefore, grants with a local focus are well suited to reflecting those local preferences through the exercise of their elected leaders and representatives.

One of the key findings of this thesis is the common mismatch between central and local perspectives on local development. Due to the harshness of the competitive system, municipalities (despite being the closest political institution to the citizen) struggle to fund their local bids. So, to overcome the entry-barriers of competition, jurisdictions are willing to compromise their original demands. The seeking of efficiency in these circumstances reflects a situation where local jurisdictions’ preferences are supplanted by central government priorities.

The FNDR as currently implemented serves central government officers, who remain in control of the public spending via grant appraisal and selection. As seen, they do not have incentives to change the way competitions are set, if that would involve yielding authority over the funds and local planning decisions.

As identified in Chapter Six, on average one in eight project was funded by the FNDR during a time span of eight years. With more projects than funds available, resources are always insufficient to cover all local needs. This gives central officers a strong hand over local determination.

Central officers allocate FNDR grants following their tastes or may decide to accept the bids that represent less work for them. This finding is particularly relevant considering that the FNDR is designed to achieve horizontal equalisation.

The lack of FNDR plans or policy targets hampers the emergence of transparent exchanges, opening discretionary spaces dominated by central officers' agendas. Moreover, central officers do not have the necessary incentives or capacities to promote professionalisation among deprived jurisdictions. It seems as if central officers are steering strongly but municipalities do not have the capacities to row, and when they do, it may be away from their original needs.

The literature has built a strong case for using competition as a strategy to select among service providers (Domberger, 1998) but how far does this argument apply to selecting amongst bidders for grants? This research suggests that if incentives are not properly placed, competition outcomes may be heavily based on central officers' tastes, diminishing local agency and thus fostering suboptimal investments.

In the next section I present how scholars and governments, probably aware of the difficulties of inter-governmental competition, modified NPM based policies and incorporated collaborative agreements in the provision of public services.

## 8.3 Competing with allies, NPM evolution and the emergence of governance

### theories

Grant competition incentivises the revelation of grantees' needs and their real costs. Above I argued that a centrally-conceived version of efficiency could foster a restricted competition with high entry barriers. This type of scheme would be limited to only the better prepared and wealthier jurisdictions, diminishing the overall policy impact.

This section has two goals. First, I re-examine the current state of NPM, placing particular attention on the reform of grant competition. In doing this, I review the evolution of NPM concepts in public administration and urban theories. Both literatures inform the debate about the influence of NPM in the management of subnational authorities. Secondly, I describe how NPM concepts have been influenced by collaborative governance theories, tracking their impact in the design of grant competition.

#### 8.3.1 NPM evolution and analysis

During the last 30 years, there has been a rich debate about the impact of NPM among scholars and practitioners from different fields. Unlike the beginning of NPM reforms, which has commonly been dated around 1980 in the UK, USA and New Zealand (Dunleavy and Hood, 1994), the present state of NPM has become much more complicated to define. Because of this, the aim of this section is to synthesise the academic debates about NPM development, tracking how NPM concepts were adapted to new theories and emergent challenges.

The theories described below shed light on the conceptual debates triggered by NPM reforms, presenting new forms of service delivery. These ideas will be used in the chapter to

conceptualise the changes introduced into grant competition and the particularities of the Chilean case.

Below I divide the theoretical debates into two fields. First, I present the theories that emerged following NPM reforms in public administration, and then I move into urban studies.

### *Public administration*

Here, I present three theories referenced by public administration scholars as the continuation or alternatives to NPM reforms, namely: New Public Governance, Digital Era Governance and Public Value Management. After a brief presentation of each I assess how these theories address some of the critiques previously made to NPM reforms.

The first theory that emerged from NPM is the New Public Governance (NPG). Fredrickson (2005) defines governance as a type of relationship between government and civil society where public services are not just delivered by public organisations, but by a myriad of public, NGOs and for-profit organisations in a network-like structure.

The core idea behind NPG is that public policy challenges cannot be solved by one organisation so they require cooperation and collaboration. According to Greve (2010) in NPG: “Governments began to redefine themselves as ‘facilitators’ engaged in ‘value chains’ and working *through* markets rather than autarkic ‘doers’ who owned, operated and produced everything themselves” (p.8). The new character of NPG would be given by the institutionalisation of relationships within society, focusing the attention on joining up services and on innovative forms of working together to tackle pernicious social issues.

The second theory is the Digital Era Governance (DEG). This theory was supported by a group of scholars from the London School of Economics who considered that e-government was something more profound than just a supportive tool for NPM reforms (Greve, 2010). Due to this, digitalisation

was proposed to replace NPM as the paradigm in public administration. For Dunleavy et al (2006) DEG's core developments were about re-engineering back office, rolling back agencies, reinstating central processes, client based reorganisation and the digitalisation of processes. Instead of being a means to solve government-customer problems DEG is portrayed as a governance strategy that would open government to create a less complex institutional and policy landscape (Dunleavy et al, 2006).

The third and final theory is Public Value Management (PVM). PVM emerged from the Kennedy School of Government of Harvard led by Mark H Moore (1995) who, acknowledging the conditions of public managers, made a model analogue to private sector value creation.

According to Moore (1995) public managers are in a strategic triangle of public value creation, formed between a legitimising and authorising environment, an organising environment in their focus and an environment of results. For Greve (2010) PVM has different things to offer from NPM and based on an Alford and O'Flynn study (2009) he summarises: "NPM focuses on results, PVM focuses on relationships, NPM defines the public interest as aggregated individual preferences, PVM sees collective preferences as expressed, NPM's performance objective is managing of inputs and outputs to ensure economy and responsiveness to consumers, PVM sees how multiple objectives are pursued, including service outputs, satisfaction, outcomes, trust and legitimacy, NPM's accountability is upwards via performance contracts and outwards to customers via market mechanisms, PVM sees multiple accountability systems"(p.10).

After having been implemented by several public administrations, NPM reforms seem to be have been adapted into different and hybrid forms of service delivery in order to respond to a new set of challenges. Some features of NPM are still recognisable such as quasi-markets, client-citizen orientation and the disaggregation of agents of service delivery; however, the theories presented

above help to depict how new actors and methods have been included in the design and delivery of public services.

For Greve (2010) there is a new agenda in public administration composed of broader challenges such as public service motivation, NPG, co-creation of services and transparency among other challenges. He studied what happened with NPM and argues that public administration debates are now more focused on capacity building than on immediate results, considering long term perspectives of processes instead of just short term outcomes.

If we cannot say that NPM has disappeared from the public administration field there are nevertheless some hints to indicate that the original NPM reforms have been moulded and adapted to multiple and broader challenges. The emergence of new technologies and citizens/customers willing to engage in the process of policy design has changed the way governments are now delivering their services. To strengthen this idea, below I address this topic through the urban studies literature.

### *Urban studies*

In the field of urban development NPM was adopted into three different theories or schools of thought, namely: Localism, Regionalism and New Regionalism. Below I briefly present each of these theories.

The first theory is called Localism and according to Crowder (2014) is a descriptive and normative governance theory based on the pursuit of consumer choice and efficiency. Similarly to NPM, localism has been criticised for its intrinsic support to middle and upper-class areas or what has been described as the “favoured quarter”. These would be areas with the largest tax base and able to capture the largest infrastructure investment but effectively closed to non-affluent citizens (Orfield, 1999).

Localism has been attacked due to the inability to deliver the same quality of services across jurisdictions in clear detriment to the underprivileged areas, fostering a landscape composed of rich and poor communities with no connection between them.

The second theory is called Regionalism and emerged in response to the fragmentation proposed by NPM reforms. Regionalism scholars argue for informal cooperative arrangements to jointly manage activities within a region (Crowder, 2014). For Briffault (2006) regionalism pursues: “rules and arrangements that permit, encourage, or require regional approaches to issues of growth, quality of life, and inequality but that do not destroy local autonomy” (p. 5). In the US, the lack of a comprehensive plan to implement regional agreements and their voluntary nature has impeded the success of regionalism as a theoretical approach.

The third theory is called New Regionalism and emerged to solve equity issues through land use planning. This movement according to Orfield (2007) focuses on: “the dimensions and implications of city/urban competition, particularly the problems that it creates. New regionalists advocate measures to reduce growing inequality, discourage the detrimental fiscal competition between local governments within a metropolitan region, and remove fiscal barriers to cooperative land use planning” (Orfield, 2007,p.92). New regionalism, despite being vocal in its goals, fails to deliver for the same reasons that (old) regionalism did. This is because New Regionalism is eminently an academic ideal instead of an applicable theory. New Regionalism was unable to become a grassroots movement because the measures proposed were not embedded in the communities subject to the intervention and much of the scholarly conversation concerned what should be done rather than how to achieve it (Crowder, 2010).

As seen above, a Localist approach based on NPM reforms supports the freedom of pursuing each jurisdiction’s wellbeing but hinders the achievement of common standards. New and old Regionalism, on the other hand, holds that benevolent regional entities should be the guarantors of

common good, securing a more equitable service across jurisdictions. Both theories nevertheless fail to deliver because of their normative approach and the lack of practical policies to build their case.

Urban studies seem to rely on regional governments to overcome some of the unwanted effects of NPM. This is in contrast with public administration scholars who advocate the incorporation of different voices into the design and delivery of services. Urban theories of Regionalism rest their arguments on the emergence of a benevolent regional office that could secure horizontal balances. Localism on the other hand defends local preferences and self-determination.

Nowadays it is hard to find cases where NPM is developed in its pure form but many of its concepts and measures still prevail in any of the theories presented in this section. As depicted above, NPM reforms have been adapted through the years to incorporate multiple actors and tackle some of the equity issues raised by their implementation. In the following section I move from NPM into grant competition, tracking how these changes were incorporated.

### 8.3.2 Grant competition after NPM

Having set out the theoretical debates, here I analyse how grant competitions (influenced by the above theories) were modified to tackle some of the critiques and respond to new challenges.

After the implementation of grant competition in the UK and US, there was a considerable amount of research questioning its aims and design (Foley, 1999). As seen in the literature review, the research however did not converge and was usually case-specific, hindering the formulation of a robust theory about the effects of grant competition. Additionally, over the years, local grant competitions were modified or suspended and lost contemporary relevance. Entwistle et al (2016) confirmed this situation arguing that: “Although high in political salience, this competitive or rivalrous account of public management is surprisingly under theorised” (p.7).

In the UK New Labour replaced competitive tendering with a Best Value regime in the year 2000. As seen in the above section, this strategy aimed to foster innovation in the delivery of services, embracing a collaborative approach between private, public and the third sector. As Prime Minister Blair (1998) declared: “It is in partnership with others – public agencies, private companies, community groups and voluntary organisations – that local government’s future lies”(p.13).

Grant competition in the UK was commonly subject to some form of partnership, but since the early 2000s this element has been more relevant than ever. For some scholars, this change marked a detachment from NPM into new governance theories (Martin et al, 2003). According to Vigoda (2002), NPM increased pressure on state bureaucracies to become responsive to their citizens or clients. This situation nevertheless hindered citizen involvement in the public sphere, promoting a growth in passivism. Vigoda (2002) argued that citizens’ retreat from the administrative-democratic turmoil: “will lead to growing and serious risks of citizens’ alienation, disaffection, scepticism, and increased cynicism toward governments. Such trends are already intensifying, and only a high level of cooperation among all parties in society may guard against these centrifugal forces” (p.530).

It appears that with time, market-led policies were found to be inadequate to serve new and emerging public purposes. Stoker (2006), argued that the shift experienced by public administration at the beginning of the year 2000 was to reincorporate politics into a customer-based system. For Stoker (2006), NPM confined politics to initial inputs and final judgement, discarding processes of deliberation. In his words, politics is a valuable mechanism of social coordination because: “It enables people to cooperate and make choices on the basis of something beyond the individualism of the market... Second, political decision making is flexible; therefore, it can deal with uncertainty, ambiguity, and unexpected change... Finally, politics can move beyond a distribution of benefits—a rationing function also offered by markets—to establish a process of social production in which interests are brought together to achieve common purposes. Politics can influence the basis for

cooperation by changing people's preferences and creating an environment in which partnership is possible" (p.47).

As time went by citizens/customers were increasingly interested in participating in the process of policy design, especially in the areas that affected them more directly (Turnhout et al, 2010). So, at some point during the early 2000s grant competition seemed to lose the academic and political traction that it previously enjoyed.

This does not mean that grant competition was eliminated as a policy. For some authors the extent of change was one of degree rather than one of shifting paradigms (Lodge and Gill, 2011). Also, new measures can be seen as incremental instead of a completely new start.

NPM reforms, such as grant competition (Sager, 2011 ; Pugalis, 2017), were modified to encompass different actors and more integrated public solutions, but they are still a prevalent element in public administrations. Grant competition included collaborative practices in an attempt to democratise the process of public decision making and delivery. Below I address some of these changes and link them to the Chilean case.

### 8.3.3 The emergence of collaboration

It would be wrong to argue that partnership or public-private collaboration is a recent phenomenon in public administration. In the UK partnerships were always an element in the activities of post-war governments (Stoker, 1998) and in the US they have been noted as far back as 1930 (Beauregard, 1998). So why are so many authors and practitioners arguing for a movement from competition to collaboration and more importantly in this case, arguing how this changed the way grant competitions were designed? These are the questions that I examine below.

One of the main elements of governance theories is the incorporation of different voices to tackle political issues. This process is fostered by the participation of civil society, private firms and

governmental bodies (Osborne, 2006). Governance theories, as a tool of service planning and delivery, are not a new trend but have been present in western democracies for a long time.

Collaborative governance has flourished aided by central government, supra-national organisations and the participation of a civil society that is now more informed and willing to engage in local policy decision-making. To Lowndes and Sullivan (2004) the increase in local partnerships emerged as a strategy implemented by local authorities to secure the trust and wellbeing of their communities as well as a way to fulfil centrally demanded requirements. The OECD (2002) supports this idea arguing that: “Local actors now wish to participate more systematically in the design of development strategies for their area. While a few years ago, the civil society, as represented by its community-based groups and NGOs, was alone in proposing the partnership concept, today it is approached and positively considered by a wide range of actors. The business community feels it important to participate in the steering of public programmes locally in order to address their own concerns about fuelling economic growth” (p.3).

Globally, most western democracies have encouraged the implementation of intra- and inter-institutional collaborative agreements, and the OECD (2013) has been vocal in its support to partnerships, advising an integrated approach to tackle national and subnational goals.

The European Union as a supra-national entity has also influenced the establishment of collaborative agreements. In its funding guide for the 2014–2020 period the EU listed more than 19 different competitive programmes and in the majority of cases, the participation of partners from more than one member state is often required (European Commission, 2013).

Geddes (2000) develops this idea and states: “Partnership is being introduced not only into the language, but also into the structures, practices and processes of EU policy-making as a key part of the attempt to counterbalance fears of fragmentation with notions of integration, and as a means

of mobilizing agencies and actors behind economic and social policy goals. A local partnership approach has become a standard feature of many EU programmes and initiatives” (p.784).

Grant competition evolved in line with these trends and was adapted to include more voices in its execution. In the UK, the largest grant competitions were adapted from local competition to more partnership-based deals such as New Deals for Communities (1998–2011) and the more recent City Deals. City Deals and previously, Local Enterprise Partnerships (LEPs) were the embodiment of a new agenda which stressed the value of greater local autonomy in economic development and infrastructure policy (Waite et al, 2013). Similarly, the US has been following this path, fostering collaboration as a requirement to receive national or state funding (Agranoff and McGuire, 2004).

The objective of this section was to present the theoretical discussions and policy modifications that emerged after the implementation of NPM reforms. Whilst urban scholars largely rely on the idea of a regional authority to equalise local imbalances, new theories of public administration incorporate different actors and novel technologies to deliver more locally-responsive services. Both cases embody a dissatisfaction with the action of NPM, describing it as disconnected from local preferences and favouring standardised top-down decisions.

These critiques seem to be addressed by grant competitions which, over time, gradually incorporated more partnerships and collaborations into their requirements. The rise of collaborative agreements has been also encouraged by supra-national entities in an effort to tackle local issues from a global and collective viewpoint.

In the following section, I analyse how the Chilean case stands apart from the situation depicted above. In an historical and institutional analysis, I argue that in Chile grant competitions evolved into independent efforts carried out by municipalities acting for their own benefit. Due to this, grant competition has acquired a specific and particular relevance among Chilean municipalities, shaping their relation among peers and central government entities.

## 8.4 The implementation of grant competition in Chile

In this chapter I have assessed how the definition of efficiency mattered in the measurement of local policy outputs during grant competition. Then, in the second section I reviewed two theoretical modifications to NPM and described how collaboration emerged as a strategy to tackle some of their challenges.

Finally, this third section is devoted to analysing the contrasting Chilean case. The aim here is to expand the topics that surfaced in previous chapters and connect the findings into four different topics. Firstly, I track the institutional decisions that affected the implementation of NPM in Chile. After this, I develop three topics that emerged during the interviews and data analysis. These are the leadership (or lack of) of a regional officer, the tension between equity and efficiency and finally, the effect of competition on local officers' motivation.

### 8.4.1 NPM in Chile – the rules of competition

As previously seen, globally grantors have adapted their requirements to include collaborative approaches into bid formulations. This decision was influenced by supra-national entities and central government institutions seeking to form synergies to respond to interconnected social issues. As years passed, orthodox quasi-market strategies seemed to be unable to respond to many of the new political challenges marked by overlapping communities and better informed citizens.

In this final section of the thesis I aim to explain why Chilean government was incapable of following the trends set by scholars and European countries. Instead, local governments in Chile are stagnant under a competitive scheme, hampering the development of a democratic system where all municipalities can thrive.

### *Isolation as a local policy*

As seen in Chapter Four, NPM measures in Chile were implemented during the dictatorship of Pinochet and then reinstated during the first governments of the successive centre-left coalitions. Before Pinochet, the government of the socialist Salvador Allende promoted the installation of several local organisations coordinated by unions, political parties and local committees. Once in power, Pinochet sought to secure total control over the nation, so he eradicated all subnational organisations that could represent a threat.

Pinochet dismantled all the networks of politically-active organisations, hampering any form of intermunicipal collaboration. At the municipal scale Pinochet's housing policies fostered the creation of homogeneous municipalities with a marked class-dependence. During the seventies and eighties, very large numbers of poor families were re-accommodated into working class suburbs which had been recently constructed at the periphery of Santiago (Özler, 2012). Once poor families were expelled from the wealthier comunas, central government seized the lands and sold them to the highest bidder (Tapia Zarricueta, 2011).

Local authorities at this time were systematically de-politicised and transformed into administrative units responsible for channelling centrally-designed social policies. According to Diaz (1993) Pinochet dismantled the grid of politically active local organisations and replaced them with functional units subject to his decisions. These local units were mere receptors of centrally-decided policies, coordinated by municipalities and prone to clientelist practices.

The relation between the state and the citizens was targeted directly to the citizens in great need who received the minimum to survive. A dependent and unidirectional relationship was then forged between the state and citizens where each case was assessed individually, preventing any organised or communitarian representation. Any political role played by municipalities during this time was scrapped and intergovernmental relations, as in the armed forces, followed a vertical chain

of command. During these years municipalities were transformed into agencies for central policies with very limited scope for decision. Intermunicipal agreements were also unnecessary since no dissent was possible and all public institutions were centrally controlled by appointed mayors.

Once democracy was re-established, mayors were once again democratically elected, and the first intermunicipal agreements started to appear. To strengthen the communication between jurisdictions municipal associations were promoted by central government but their political power has been modest (Arias et al, 2017).

NPM reforms in Chile followed a top-down implementation and left municipalities acting as single units in charge of the challenging task of enhancing public engagement and multilevel collaborations without any power to modify the predefined structures in which they operate (Montecinos, 2005).

Chilean scholars have agreed that, despite the changes introduced under democracy, the governance model implemented by Pinochet has not been contested. Because of this, the foundations of intergovernmental relations have remained as if the traumas from the past had not been overcome (Jara Ibarra, 2016).

### *Collaborating with the enemy*

The literature in the field supports the idea that after Pinochet, Chilean public administration sought to deepen NPM reforms, guided by central government officers influenced by NPM rhetoric (Tello Navarro, 2011). Once these reforms were implemented, the system inherited from Pinochet hampered collaboration and imposed competition as the main strategy of intermunicipal management.

In Chile, quasi-market strategies had a strong impact on the relationships forged by municipalities, stressing their vertical dependence and horizontal isolation. The impact of these

policies was analysed by Diaz (1993) and summarised as having three effects. The first effect is the exacerbation of municipalities' individualism promoted by the competition between units. Under competitive pressure jurisdictions are configured as rivals, which hampers the creation of collective action.

Secondly, under competition, jurisdictions produce an independently-led experience where no coordination of knowledge is established. To Diaz, the atomisation of local knowledge prompted a vertical relation between grantor and grantee, diminishing the joint impact of the grant. The last element is the patronage relationship fostered by competition where better-off units are transformed into clients of the centrally determined offer.

Together, the three elements depicted by Diaz provide a strong indication of how competition impeded the establishment of intermunicipal agreements between Chilean jurisdictions. Since the re-organisation of local authorities under Pinochet, partnerships have been absent from grant competition and once democracy returned, this situation did not change. Municipalities were configured as atomised units developed in a competitive environment.

As seen in the previous section, grant competitions across the globe have incorporated partnership requirements to encourage collaborative approaches to public service provision (Bache, 2010). Moreover, total competition has been depicted as an inadvisable strategy to allocate service in uneven contexts (Lowe et al, 2016).

NPM policies such as competitive grants were implemented in Chile in spite of the institutional past, historical context and the will of stakeholders. According to Carroll and Steane (2002) NPM policies are: "determined very much by the situational context in the country concerned, demanding modifications as the complex process of bargaining and negotiation occurs in the effort to achieve policy acceptance, legitimation and implementation. In contrast, if the underlying principles or assumptions are not adopted then mere rhetoric is involved" (p.197).

Chilean municipalities were absent from discussions when NPM reforms were designed. Since the system was introduced by force, municipalities had to comply silently with the reforms. It follows that the lack of local feedback facilitated the implementation of centrally designed and standardised solutions in diverse local contexts. This approach has had a detrimental effect in the overall performance of NPM reforms.

The particularities of the Chilean case influenced how competition was carried out and evolved over the years, separating it from the US and most European cases. In Chile, the implementation of full-scale competition between uneven units did not deliver the promised benefits for everyone and its effects have been substantial, and not confined to the mere allocation of funds (Orellana et al, 2012). Once the historical features of the Chilean case have been set out below I address three topics that emerged from my data and empirical analysis.

#### 8.4.2 The regional debate

The differences between jurisdictions in Chile are a function of a myriad of elements. Whereas some of them are exogenous (such as the geographical composition of the territory) the majority are concerned with the institutional settings and political distribution of power. As seen in Chapter Five, the range of differences between jurisdictions is peculiarly high, reflecting an uneven patchwork of independent units. Moreover, the interviews showed that one of the main issues experienced by local officers was their disconnection from central government.

In most unitary countries, where subnational authorities do not have enough tax capacities to self-subsist, central government intervenes by transferring grants to secure a minimum standard of services across the territory. In Chile, since the Pinochet years, this connection comes directly from central government to the citizen-beneficiary, diminishing the role of municipalities during the

exchange. So core social policies in Chile are designed by central government and channelled through municipalities.

### *The Intendente*

Scholars and officers agree that the regional authority is noticeably absent in the chain of policy delivery between central and local governments (Mardones, 2007; Waissbluth et al, 2007). Regional governments in Chile are led by an officer appointed by the President (the Intendente) who is seconded by a college of regionally elected councillors. Since neither of these figures has enough leverage or resources to invest in municipalities their contribution is merely procedural, with them acting as brokers of central policies.

Without any taxation power or own-revenues, regional officers act as an arm's length institution of central government, unable to generate synergies or represent local jurisdictions. The Intendente is the regional head of office in charge of two different (and usually opposed) tasks. He is responsible for the representation of the regional interests articulated through the municipalities, and also acts as a presidential delegate in charge of the regional management of national policies. When these two tasks collide, the Intendente takes sides with the person who appointed him to the detriment of the jurisdictions he represents. The Intendente also acts as a buffer, widening the distance between decision takers (central government) and implementers (municipalities).

This thesis suggests that due to the lack of regional mechanisms to plan, invest and administer local territories, competition has become the most relevant strategy to allocate services and goods across municipalities. According to Orellana (2009) competition has been the prime force of municipal interaction because municipalities do not have the resources or capacities to tackle municipal disparities. The lack of a regional officer who could address the territorial inequalities present in Chilean cities would also force municipalities to compete to self-subsist.

As a scholar of urban studies, Orellana et al (2016) brings to light the need for a regional officer in a context where: “Each municipality generates its own land use plan for urban development, many times without spatial continuity with neighbouring municipalities, thus generating fragmented land use and public spaces” (p.440).

Without an institution that can plan the development of a region and incentivise a coordinated governance, the municipal borders limit local management. Local officers stressed this problem during interviews, arguing that local bids were commonly planned in a vacuum with no territorial coordination.

### *Plan-less*

The lack of a plan that could effectively orientate the local agenda towards specific targets or goals had internal and external effects. Externally, the day-to-day competitive process hindered any form of joint venture, limiting the impact of the project bids to a strictly local scale. No municipality was willing to put effort into collaborative bids because they did not know how to split the benefits. Regardless of the benefits of sharing, local authorities wanted ownership and that was impossible for them if projects were located in another jurisdiction.

Internally, officers were frustrated by the impossibility of implementing an articulate plan of development that could respond to local needs. Moreover, the lack of contact with external organisations limited the role played by local officers who saw their work as being constricted and isolated from the complexities of local development, thus increasing their frustration.

A recent review led by Hooghe et al (2016) comparatively measured the regional authority of 83 countries using individual regions as the unit of analysis. In the review, regional self-rule was measured using ten dimensions, from fiscal autonomy and representation to borrowing control and law making. Every dimension had a specific score and once aggregated, regions could range between

0 (no authority) to 30 (almost complete authority). Chilean regions in this analysis had a score of 3, being the lowest of South America and among the lowest of the whole sample. Regional units of Unitarian countries commonly performed much better than Chile (Appendix 4), illustrating Chile's weak position.

Dispossessed of real powers regions act as a filter between the lower and the central tiers of government. Central government is justifiably afraid of directly transferring resources to municipalities lacking sufficient technical capacity but, without regional advice, municipalities have little chances of improving their situation.

In a recent report, the OECD (2018) assessed the role of regional policies and one of its key messages was: "Instruments used to promote regional development in regions and cities should reflect territorial specificities and be adapted to different contexts, such as the degree of subnational autonomy, market conditions, or institutional capacities. Avoiding one-size-fits-all policy responses is crucial. More flexible policy mechanisms can respond more effectively to different needs, thereby ensuring that resources are more efficiently used" (p.9).

I argue that regional governments in Chile should increase the capacities where they are scarce and manage a plan where all municipalities are considered regardless of their shortages. Currently, municipalities are self-centred and do not see the value of a regional development, which is why regional governments are so relevant to improve this situation.

#### 8.4.3 Equity versus efficiency in the Chilean case

Following Tiebout's (1956) theory, it can be argued that local competition should enhance the delivery of different quantities and qualities of local services to the consumer-citizens who, in turn, would be able to select the jurisdiction that better suits their needs. Municipalities in this context have the incentives to deliver more and cheaper services in an effort to attract more citizens,

increasing the welfare of the whole region. As this thesis suggests, this situation is hampered by the context and particularities where the competition takes place.

During grant competition, each jurisdiction presents its bid in the most attractive way possible, trying to build a case that could make it stand apart. The process of bid construction is costly and it could take several years before the fruits of the work are finally seen. As seen in Chapter Six, the technically best equipped municipalities are in a better position to compete. Thus, the positive impact of competition may be restricted to the jurisdictions capable of coping with the costs and timings of competition.

This is especially sensitive in a unitary and centralised country where local authorities are involved in the execution but absent in the design of the policies implemented. In the interviews, regional officers declared that municipalities submit a relatively small number of bids compared with their needs, illustrating how the complexities of the system play against them.

Chilean central officers involved in grant competition probably did not foresee the impact of their decisions on intra-regional equity. Since the appraisal mechanism was centralised, evaluators were emotionally and geographically too far from the source to ease the participation of small and badly equipped municipalities.

According to Collin and Gerber (2008) competition-dominated environments (as in Chile) are likely to result in allocations guided by capacity and not by need. They argue that jurisdictions with more capacities can propose more complex and expensive projects regardless of their need, thus attracting more grant funding. This situation may occur for two reasons: "First, grantors can use the professionalism and complexity of proposals as a heuristic to reduce search costs associated with screening out applicants with the highest risk of failure... Second, grantors have incentives to allocate funding to larger proposals because this reduces monitoring costs by reducing the number of grant

contracts. As needs are not likely to be commensurate with administrative capacity, need – response matching is likely to be biased against some applicants” (Collin and Gerber, 2008, p.1132).

We therefore find that evaluators are likely to favour bids coming from bigger and wealthier jurisdictions, thus negatively affecting the chances of small and deprived ones. Okun (1975) argued that competition is not an advisable mechanism in the absence of a minimum standard shared by the competitors. In Chile, differences in revenue generation directly impact the capacities to compete across jurisdictions. Without standards of service provision competition stresses the already high intermunicipal differences.

Competition may seem a sound strategy to increase efficiency, but in democratic regimes it is advisable to consider what jurisdictions are competing for before calculating its benefits. If, in the same competition, jurisdictions are bidding to have drinkable water (as we saw in the previous chapter) whereas others are bidding for building an Olympic pool, efficiency has clearly overstepped equity in an unhealthy manner. This topic will be discussed below.

### *The unfairness of an equal treatment*

Central officers argued that FNDR competition fairness was achieved by the fact that all municipalities were treated equally. This idea led central officers to discount suggestions of unfairness in the allocation of funds across bids and jurisdictions, seeing the system as being transparent with no privileges.

The fact that differences do exist among individuals (and also among municipalities) has been used as an argument to design systems where these differences are incorporated rather than overlooked. Although it may sound contradictory, the more egalitarian measure in systems marked by different talents and capacities is to not treat them equally. Only by establishing differences across units might a system actually be fair. As Hayek (2014) wrote: “it is just not true that humans are born

equal;... if we treat them equally, the result must be inequality in their actual positions...[Thus] the only way to place them in equal position would be to treat them differently. Equality before the law and material equality are, therefore, not only different but in conflict with each other” (p.9).

In his “Theory of Social Justice” (2009) John Rawls imagined a social contract constructed by self-interested agents ignorant of the talents or status inherited at birth. Under this situation a just society would be the one in which these unembodied entities would agree to be born into, acknowledging that they may have more or fewer capacities than the others.

Hayek’s and Rawls’ ideas were thought to address general theories of justice, but their ideas are useful in understanding the theoretical underpinnings of grant competition. The FNDR system’s idea that all municipalities are equal undermines the fairness of the system by disadvantaging municipalities with less capacity. In a system marked by heterogeneity of capacity, using the number of beneficiaries as a key indicator of total benefit from a bid at the same time condemns small municipalities to lag behind larger and wealthier municipalities. In an imaginary Rawlsian redesign of the system it seems likely that if “unborn” municipalities did not know whether they would become high or low capacity bodies they would wish for a FNDR system that gave more help to low-capacity municipalities.

Local governments in Chile rely on FNDR competition to finance public investment in their comunas. The final allocation follows a pattern favouring wealthier and better equipped jurisdictions. The fact that differences do exist between municipalities and they are in many cases caused by factors out of their control suggests that the FNDR should help to compensate for disadvantages.

In the last topic of this section I analyse how FNDR and intermunicipal competition have impacted the motivation of local officers.

#### 8.4.4 Public officer's motivation and competition

Most local officers were critical of the FNDR, regardless of their size and capacities of their municipality. According to local officers, the context in which competition took place largely pre-determined its outcome. This feeling affected local officers' morale and made them believe that the current situation was never going to change.

Officers with more municipal experience had almost become resigned to a low chance of change and believed that local jurisdictions were, in practice, managed by central government officers, making their work as local officers somewhat redundant. Younger officers on the other hand, acknowledged this but were more optimistic about the future of the system.

##### *No incentives*

Due to the rigidities of the system, officers who were able to read through bid requirements and write a sound bid represented a valuable asset. However, due to the local administrative law, such officers are not allowed to receive any monetary incentive or reward, even if they secure a large bid.

For local officers, grant competition was just another part of their work so no reward was expected. The only alternative to recognise an officer's performance was through a promotion but this represented a highly bureaucratic and costly process. A typical occurrence, therefore, was that officers with competitive-bidding skills were after some time often hired in a different municipality to where they started, with a higher salary than before.

Municipalities cannot reward highly-skilled officers since their wages are fixed by law and no part of a project fund can be spent on the municipal team. Municipalities also cannot prevent their skilled officers leaving if they are offered a better salary somewhere else. The competition process provides no monetary recognition to the team that formulates a successful bid, thus disincentivising

their work and making them prone to move to another municipality as soon as the next opportunity appears.

In the private sector, winning a competition or being chosen by consumers creates a surplus that increases the value of the firm. A firm thus has a clear incentive to reward staff who contribute to that process. In contrast, skilled local officers are not rewarded by achieving success in grant competition. Since there is no system of incentives in place, the only incentive for them comes from public commitment to the jurisdiction, in what has been called public service motivation.

### *Public sector motivation*

NPM concepts were based on the rational choice theory of governmental analysis which has not been able to fully explain Public Service Motivations (PSM) (Vandenabeele, 2007). Rational choice theories are based on self-interest, so they struggle to explain concepts such as public interest and altruism. This was the main reason why a group of scholars defined PSM as its counterweight (Perry, 1996). Vandenabeele's model of institutional PSM is composed of two essential elements. For him, public institutions: "embrace, up to a certain extent, public service values such as interest in politics and policy making, public interest, compassion, self-sacrifice, customer orientation, democratic values and good governance... Second, institutions respond to the basic psychological needs located within each individual. These are key to the institutional socialization process or internalization" (p.553).

From an institutional point of view, PSM is nurtured by altruist feelings, but to be embedded, these feelings need to be socialised and internalised by public officers. The responsiveness of the institution to officers' needs is a key factor in this process: "To the degree that these institutions' responsiveness is better, the public service values will be better internalized within the individual's public service identity" (Vandenabeele, 2007, p.553).

Perry (2010) on the other hand revisited the concept of PSM as a way of deepening the role of organisational incentive structures. He argued that officers who work in public services respond similarly to private sector employees to utilitarian incentives such as salaries. Despite it being a contested area of research, it can be argued that public sector officers are not indifferent to pecuniary incentives. Perry argued that differences between the private and public sector might not be important in this respect, arguing that: “prosocial tasks motivate performance regardless of sector and undermine the notion that people with high public sector motivation discount monetary rewards” (p.686).

PSM is not an institutional precondition, thus to flourish public institutions need to encourage public values and put in place incentives that work for local officers. Public officers are not indifferent to utilitarian incentives so institutions should not rule out this type of reward rather than relying too heavily on an intangible and shared public ethos.

My research showed that Chilean municipalities are highly dependent on self-sacrifice to encourage motivation but do not have any material incentives to offer officers, so their public motivation is unsurprisingly not high. Without such motivation officers in charge of bid preparation are a highly valuable but mobile asset that can move between jurisdictions looking for a better salary.

As seen in the previous chapter this situation was acknowledged by a central government officer who believed that those were the unwritten rules of the system and it was a municipal responsibility to go after another officer once they lose a skilled one. The migration of local officers seeking better alternatives is then again in favour of jurisdictions that can pay more and have more resources, enabling a movement to bigger and wealthier municipalities. This movement is also inefficient because once they leave, skilled officers take knowledge that is eminently local and un-transferable to other jurisdiction, leaving a vacuum that could take years to be filled.

The interviews showed that officers struggle to balance their motivation with the over-bureaucratic and standardised day to day operations of a municipality. Officers argued that they stay in their roles because of their commitment to the local public service cause, but the frustration expressed in their arguments shows that it would not take it too much to make them quit and move somewhere else.

Although the effect of *skilled officers* was analysed in Chapter Five, the variable did not take account of which part of the municipality the graduates worked in nor the length of time spent working there. Nevertheless, the migration of skilled officers can be a plausible explanation of why in terms of per capita funds received, among small jurisdictions, the ones with high poverty received 40% less funds per capita than the ones with low poverty. Small jurisdictions commonly struggle to retain skilled officers because central and large cities offer better paid jobs.

From the perspective of local officers, grant competition is not an innocuous mechanism of funds distribution. Officers feel that they are not being rewarded, or in Vandenabeele's (2007) terms, their needs are not being covered sufficiently. So, their commitment to the municipal team relies on their self-sacrifice. The lack of an appropriate incentive structure works against officers' motivation and fosters a migration to wealthier jurisdictions.

This last section has presented an analysis of how grant competition processes have been adapted in Chile. The absence of requirements for partnerships in the bidding stage as well as the inequalities among the municipalities involved has been a key context of the introduction of competition. Without regional or central interventions to correct local service disparities, municipalities did not have much option but to comply with grant requirements. So, an ostensible outcome of efficiency is achieved at the expense of jurisdictions that could not overcome the entry barriers to competition, affecting officers' motivation and permanence in their positions.

## 8.5 Conclusions

The aim of this chapter was to develop the discussions that emerged once the different sources of data were reviewed (context, funds allocation and interviews). In this exercise three main topics were introduced and presented following a deductive order. Firstly, I started depicting the general notions of competition in public administration as an overall context for the specific case of grant competition in Chile.

After recapping the case for competition in public administration I have discussed how efficiency is assessed and theorised in grant competitions. I argue that efficiency-seeking policies (such as grant competition) could potentially outweigh local preferences and introduce a centralist calculation of benefits. Concepts of efficiency are not unalterable across public institutions, so what can be seen as efficient by a senior central public officer could be highly inefficient for a local jurisdiction. I therefore propose that the political angle of how efficiency is seen needs to be considered when there are different tiers involved and asymmetries of information arise.

Secondly, I tracked the evolution of NPM, placing special attention on the inclusion of collaborative agreements and the emergence of hybrid forms of service design and delivery. Competition as a strategy of funds allocation has usually been attenuated in most countries where it has been practised by the incorporation of requirements for partnership and collaborative agreements. These requirements were implemented by governments and supra-national entities to widen the scope of the funds distributed and incorporate horizontal agreements into service delivery. At the local scale, citizens are increasingly aware of public decisions and want to be involved not just as customers but also as shapers of the public offer. That would be one of the main reasons why hybrid forms of service delivery would be better prepared to deliver policies that resonate more deeply with citizens.

Finally, I examine the Chilean case of grant competition. NPM policies were installed by Pinochet to depoliticise the role of subnational authorities and leave them as mere service dispensers. The local grid, with its capacity to compose and deliver a development plan under the socialist rule of Salvador Allende, was dismantled. Efficiency-seeking policies such as grant competition were installed in a political vacuum, fostering the self-interest of higher-capacity municipalities. Thus, inter-jurisdictional competition flourished, aided by the lack of an effective regional authority and the absence of shared standards. Regardless of local needs and capacities, grant competition fostered what some would call efficiency at the expense of equity, reinforcing local disparities and reducing the motivation of some local officers to be engaged in it.

Grant competition was installed in Chile to counteract the political role of municipalities. For Pinochet, funds distributed as prizes were a sound strategy to keep jurisdictions busy whilst central government decided where to invest. This paradigm nevertheless has been unable to respond to current local challenges faced by municipalities. International experience suggests that total competition is not an advisable strategy, which is why some state of collaboration or partnership is recommended.

The effects of grant competition in Chilean municipalities go beyond the allocation of funds and span local administrations. Municipalities act as independent units, and this is reinforced by zero-sum competitions where participants and projects are treated equally regardless of their capacities. By instituting competition in this way central government secures its oversight across the land, controlling the implementation of national policies and much of the local policies. The system is designed to exercise control and hampers joint ventures, building single ties between the sovereign grantor and compliant grantee. In this exchange, central government ensures what it may see as an allocation of resources mainly to the wealthier and better equipped municipalities without risking any loss of its directive power. This strategy suits central government interests but neglects the local

decision-making that could be exercised by municipalities in a clear detriment to the representative local authority and the citizens who supported its election.

## CHAPTER NINE: CONCLUSIONS

### 9.1 Introduction

This final chapter of the thesis has three objectives. First, to outline the contributions made by this research. Second, to set out a view of the limitations of the thesis and finally, to suggest further lines of research that could follow on from the findings that have been established.

The chapter is composed of four sections. In the first, I list and briefly discuss the main findings of my study. In the second, I outline how these findings could contribute to the study of NPM reforms, placing special attention on the use of competition as a source of funds allocation. After this, I present the practical underpinnings of my study discussing the contribution of this thesis to policymakers and officers. Then in the third section, I examine the limitations of my research, reflecting upon my research strategy and mixed method framework of analysis. Finally, the fourth section suggests some possible areas of new research deriving from this work.

### 9.2 Findings

The main objective of this thesis was to explore the effects of grant competition on Chilean municipalities. I theorised that grant competition was not just a scheme to allocate funds to localities, but it also carried with it a way of understanding the relation between jurisdictions and between local and central government. Empirically, this thesis explored the effects of overlapping inter-municipal competition in Chile – a highly-centralised and locally-uneven developing country.

The thesis addressed these issues by looking at the distribution of the FNDR grant and examined the processes leading to the successes and failures experienced by its protagonists. My research bridged a gap between two related, but theoretically distant topics of study. On one hand, distributive politics and economic studies have assessed the central allocation of goods and services from a post-positivist approach (Alperovich, 1984; Simon-Cosano et al, 2013). On the other, political science and public administration scholars have contributed to the study of officers' responses to NPM reforms (Horton, 2006; Cameron, 2009). Despite the close relation between these two bodies of knowledge, the literature lacked a comprehensive approach that could link them. That was the gap that I planned to bridge with this thesis. As detailed in the introduction, this thesis had three specific research questions. Below I address each one individually, connecting the findings that were established in the analysis.

#### *How does capacity influence the allocation of competitive grants?*

Municipalities with a higher percentage of poor citizens are prone to submit more bids for FNDR funding but this does not translate into a higher success ratio or more FNDR funds allocated per capita. The bid appraisal mechanism is a difficult barrier to overcome and, among small and medium size municipalities, the final allocation favours better-off jurisdictions. In line with other research (Collin and Gerber, 2006), I found an association between municipal capacity and FNDR funds allocated per capita. Having wealthier citizens, better prepared staff and more resources to invest has a positive impact on the amount of FNDR funds allocated per capita. Capacities matter during competition and this relation becomes more robust as we move to jurisdictions outside the centre of the country where capacities are most meagre.

*How do local and central government officers experience grant competition and how does this reflect the reality of intergovernmental relations?*

This thesis evidenced that FNDR local grant competition in Chile secured a minimum standard of quality enhanced by the ex-ante technical appraisal mechanism directed by central government. The wide scope of the FNDR grant allows municipalities to apply for funding almost any capital project that they want. However, the high entry-cost tends to foster a regressive allocation of funds.

After 30 years under the same scheme of competition, officers from unsuccessful jurisdictions spoke of a sense of hopelessness and seemed habituated to the unfruitful reality of competition. Local officers displayed a sense of obedience and compliance, acknowledging that the FNDR was the only source of investment that they had access to. Central officers, on the other hand, argued that the system did not treat jurisdictions differently and because of that, fairness and transparency were ensured. The reiteration of examples where low-capacity jurisdictions beat the odds was used to argue that local bids were an opportunity, not a right. Because of this, it was argued that for low-capacity jurisdictions it would be possible for inspired leaders and committed officers to overcome local shortages and succeed in FNDR competition.

The standardised approach towards bids and jurisdictions was particularly problematic in the context of great inequality between local jurisdictions as found in Chile. In the FNDR scheme, it can be that a project to supply drinkable water can compete on an equal footing with projects for building Olympic swimming pools. Moreover, the lack of minimum standards in the quality and quantity of local services revealed how deprived municipalities have been held back in time by the FNDR. The results of competition in these contexts serve as an indirect measure of local capacities, where poor citizens live in poor jurisdictions and receive a poor quality of services.

The standardised approach followed by the FNDR competition has ignored the fact that differences do exist among municipalities and some of these are determined by factors which are out

of their control, such as the number of poor citizens or extension and value of taxable land within their jurisdictions. Fairness in this context would be fostered by acknowledgment instead of the denial of these inter-municipal differences.

One of the main elements found in this research is the different tensions that come into play when public organisations engage in competitions. Unlike private firms where outputs are relatively easy to assess, public organisations' aims are difficult to translate into unidimensional measures such as financial estimates of benefit. This situation leaves room for central officers' personal (and subjective) tastes to influence results raising several concerns about the transparency of the overall FNDR system.

The appraisal mechanism establishes a trade-off between competitions' objectives and the scope of grantees action. Competitions with limited and clear objectives to accomplish are transparent and easy to read through, but limit the local range of action and could be subject to following a centrally-decided agenda. In contrast, wide and general objectives may include all kinds of local projects but due to the complex project comparability are open to subjectivity and clientelist practices.

A similar situation seems to occur when innovation is assessed during grant competition. Innovation emerges during the iteration of failure and success (Foley, 1999), so any ex-ante evaluation that incentivises measurable and predictable outcomes would fail to accomplish a goal of increasing innovation. Therefore, officers are discouraged to innovate and made risk-averse if innovation could jeopardise the success of the bid.

According to the literature, grant competitions are set up to promote specific policy goals or seek innovative approaches to tackling local problems (Pompa, 2013; Ward, 1997). Due to this, most grant competitions rarely try to cover basic infrastructure shortages and are established on top of a minimum set of service standards. In Chile, municipalities with basic (but much needed)

infrastructure needs (such as water collectors or sewage treatment plants) were discouraged from bidding for this FNDR support due to their high costs, low political visibility and slow implementation. This situation compromised jurisdictions' long-scale development and was especially critical considering the lack of service standards and the indifference of central government to these kinds of shortages.

In line with this, this research found that electoral incentives were highly influential for local authorities when it came to selecting and formulating bids. The length of the process and the relatively short span of mayors' political cycles (4 years) fostered a focus on projects that were short in implementation, relatively inexpensive and highly visible for the local community. Mayors were unwilling to allocate officers' time and municipal resources to bids that (if funded) would probably only see the light after their period in office had ended. Therefore, when resources were scarce authorities selected projects that were potentially rapid to implement but with merely cosmetic impact on their territories.

The research suggests that being the sole source of local investment funding, FNDR competition has a detrimental effect in the development of local plans and collaborative agreements. The uncertain returns and timescales of competition hamper the capacity of local authorities to establish medium and long-term plans of development. Without plans to follow, municipalities become difficult to manage and administer, promoting a feeling of demoralisation and lack of ownership among officers. This situation may also affect the capacity of municipalities to attract skilled officers and may negatively influence their institutional reputation.

### *What is the current state of grant competitions? Do they respond to local needs in Chile?*

Competition has proved to be a sound strategy to give customers what they want. Nevertheless, due to the number of incentives in place in inter-governmental competition for grants,

roles must be well defined, and responsibilities limited to accomplish efficiency goals. This research challenges the common idea that local authorities are the final customer during grant competition. The subjective nature of the project assessment mechanism makes local officers prone to cater to evaluators and politicians' preferences instead of seeking to meet local needs.

Politicians and central government officers are aware of their role during competition and impose their will through signals or more subtle mechanisms to influence local decisions. The efficiency gained via competition is threatened when investments are decided by officers located far away from the source of need. Overall, the attributes of competition are watered down if local decisions are being taken driven by central officers' and politicians' agenda.

Without enough political leverage, but required to attract investments, most local governments in Chile comply with the views of central government officers that do not have incentives to off-set their low cost decisions. Governments around the globe seem to have acknowledged the issues raised here and so have decided to adapt grant competitions to include different voices and collaborative agreements on their bid requirements (Christensen, 2012). Unlike those cases, the Chilean government has not included new forms of governance in competition requirements and competition has been cemented as the main strategy to allocate resources among jurisdictions. Chilean public administration seems unable to recover from the traumas of the past. This situation has been exacerbated by a central government afraid to devolving more competences to municipalities and unwilling to invest to improve their capacities.

Under these conditions, investment decisions have promoted a silo-mentality where jurisdictions behave as self-contained units isolated from their environment. This seems particularly relevant in metropolitan contexts where wicked issues (such as crime) cannot be individually tackled. Due to the mobility of this type of challenge, selfish units (or jurisdictions) thinking only of their own wellbeing have nevertheless well founded reasons to care about the wellbeing of their neighbours

(Buchanan, 2001). This situation is neglected in the Chilean context due to the limitations of the competitive scheme and the lack of a metropolitan (or regional) figure who could represent the interests of the jurisdictions within a region.

Finally, this thesis found that all these circumstances had a detrimental effect in the motivation of local officers who, in the absence of pecuniary incentives, draw upon their public interest and self-sacrifice to endure the harshness of the system.

### 9.3 Contributions to theory

This thesis fills a gap in the study of competitive grants (Entwistle et al, 2016) and long-term consequences of NPM reforms (Lêgreid, 2017). This research proposed a novel approach of multiple assessment where central and local extremes are incorporated into the analysis. The literature review revealed that competitive grants have been commonly studied from a top-down position, neglecting the agency of competing jurisdictions (John and Ward, 2005; LLodra, 2013). This type of study details the variation of central government behaviour but assumes a similar impact across jurisdictions.

In this regard this research challenges two theoretical assumptions. First, that all jurisdictions are similarly affected by competition, and second, that those effects are limited to the final allocation of the funds. I explored how jurisdictions and officers from different tiers and records of success respond to grant competitions uncovering some underlying patterns and long-term effects.

This thesis has found that that the effects of grant competitions were wide and varied across jurisdictions. Grants respond to the needs of jurisdictions with sufficient capacity to formulate bids that can surpass the entry barriers. For those jurisdictions, grants were a powerful tool that allow them to thrive. Jurisdictions with unsuccessful trajectories, on the other hand, were willing to

compromise their ideal projects and, to avoid the risks of failure, submitted small and inexpensive bids to increase their chances of success.

Over the years, competitive funding processes have reinforced differing standards of local services within cities and regions. Unsuccessful jurisdictions limit their participation and focus their effort on visible and easy to achieve projects without any plan or priority. Successful ones, on the other hand, are willing (and capable) of investing in bids with less certain returns but deep local impact, thus widening the differences between jurisdictions. This thesis has found that the effects of grant competition are not the same across jurisdictions and across time. It also suggests that without a set of minimum standards shared across the local grid, the negative effects are focused mainly on small and deprived jurisdictions.

Second, the use of a sequential mix methods provides wider evidence for the study of grant competition. In this topic, the common use of a top-down approach limits the understanding of local experience to the demographic variables available to include in the analysis. Using two different sources of data allowed me to identify experiences and practices that were not limited by a set of demographic variables but were built on top of them, enriching the findings.

Third, this thesis contributes to the study of NPM reforms in developing countries. Despite some exceptions, little evidence has been gathered about the implementation and effects of NPM in the South American continent and specifically in Chile. This situation comes as a surprise considering the deep influence of these policies in the region. In this thesis, I track how grant competition has been implemented in Chile during Pinochet's regime and then reintroduced once democracy was re-established. Due to geographical and institutional proximity some findings for Chile may be generalized to other countries of the region contributing to a better understanding of NPM effects among local government authorities.

Finally, this study enriches the debate about intergovernmental competition addressing the tensions that emerge during stakeholder exchanges. The positive attributes of the competitive allocation of goods and services seems to fade if incentives are wrongly placed. I found that regardless of its declared objectives, the lack of local powers made jurisdictions compete to cater to central officers' tastes. Jurisdictions are better suited to understand and meet local needs (Oates,1972), it follows that a well-designed mechanism of grant allocation is well advised to ensure the influence of local needs and participation during its process. Local bids designed to serve central government purposes limit the efficiency of the system, especially if deprived jurisdictions are willing with comply to central officers' agenda to receive much-needed funds.

#### 9.4 Contributions to practice

This thesis also contributes to the debate about policy design and intergovernmental grant allocations. As part of the literature suggests, policies based on purely competitive mechanisms of allocation, have been adapted to include mixed strategies in the search for more egalitarian solutions where different actors can contribute (Entwistle and Martin, 2005). Despite this, grant competitions are still used extensively in developing countries and within the third sector.

In uneven settings, capacity or need seems to be a good negative predictor of funds allocation. Grantees with deep necessities are commonly unwilling to spend their scarce resources on bid formulations. Because of that, policies with egalitarian or redistributive aims might consider investing part of grant resources in developing grantees' capacities so all competitors have similar chances of success. Grantors unable to level grantees capacities may consider moving into conditional or matching grants instead. The imposition of central agendas reduces the influence of

local agents who, depending on their level of need, would be willing to adapt their bids to receive funding. In doing so, local determination is compromised, and the efficiency gained through the direct measurement of need is further reduced. In the operation of grant competition, incentives must be well placed along the chain of decisions, so grantees can effectively respond to local needs.

The political costs of limiting grantor influence may be high, but due to their close proximity to the source of need, grantees are best equipped to give better solutions to their problems. Electoral cycles must be considered in the design of competition in public organisations. Politically-driven authorities will not invest in bid writing if they are not publicly recognised as responsible for it. Acknowledging the electoral goals of politicians and the implementation times of investments is key to securing local participation because, unlike private organisations, public institutions need to consider different stakeholders during competition. Grantors should focus bid-formulation times at the beginning of each political period; by doing so, jurisdictions may have enough time to formulate more impactful bids, securing a better investment of tax-payers money and allowing them to develop a more robust local plan.

## 9.5 Limitations of the research

Despite my efforts to tackle the possible bias in this thesis there are still some limitations that need to be addressed. The time frame of my quantitative research comprised seven years. That is enough to capture different political cycles but insufficient to cover the whole history of then FNDR. Based on the number of projects/observations incorporated in the analysis the time frame seems to be enough to track FNDR main patterns. Nevertheless, there is the chance that different effects were in place before that time frame and I ignored them.

The second limitation relates to the qualitative section and the generalisation of this section's findings. The aim of my sample selection was to establish a contrast between successful and unsuccessful jurisdictions, scrutinising both extremes of the competition. In doing this I may have ignored the effects experienced by municipalities located in the middle of the grant distribution. Also, the number of interviewees and regions comprised by the sample seems rather small compared to the number of municipalities in Chile. This decision, nevertheless, was taken on the basis of the time and resources I had available to travel to Chile.

As in any other public administration research, findings here may be culturally limited to their context in time and space, hindering any possible generalisation. I recognise this issue but, since my analysis revolves around a globally-implemented policy scheme there are some common features that I can recognise across cases and thus establish generalisations.

## 9.6 Future research

This thesis suggests that inter-municipal competition is a rich but relatively unexplored topic in the public administration field. Quasi-market strategies tension public organisations' goals, producing a series of adaptations where different practices come into play. Grants represent one among the many instances where local governments compete for centrally decided goods and services. Therefore, it would be advisable to examine whether other intergovernmental transfers follow a similar path of response to the ones described here. Competition without a clear delineation of stakeholders' influences could disguise a centralist's determination of the local agenda. This subtle, but relevant, practice needs to be further assessed to improve the mechanisms now implemented and to foster the accomplishment of goals of decentralisation.

Looking at the process of competition, the project appraisal mechanism looks like another area where further development would be advisable. The number of beneficiaries seems like a sharp measure of a public impact but does not consider variables such as municipal need during the appraisal of local projects. Evaluations based on unidimensional measures seem too simplified to capture local diversity. Because of this, the exploration of mixed indicators where need and costs per capita are better balanced would seem like a sound improvement in equity terms.

Until now, NPM reforms have had a strong impact on public administrations in South America. Unlike most European cases, most South American governments have been unable to include hybrid forms of governance in service delivery. Thus, the implementation of NPM reforms in contexts marked by social inequality and feeble public administration structures can be seen as a fertile area of further scrutiny.

I would enthusiastically recommend the use of mixed methods in policy analysis. The merging of post-positivist and constructivist epistemologies increases the scope of the findings and contributes to the production of more robust findings.

Finally, I believe that the perspective of local officers has been commonly underplayed in the public policy and public administration fields. The experiences and knowledge that local officers can contribute in these two fields is vast, so its potential should be further explored. This research has evidenced the complexities that lie within the local delivery of centrally-designed policies. If the academic and political aim is to deliver more efficient and locally-responsive policies, the inclusion of both the local as well as the central perspectives seems like the better way to go.

## APPENDICES

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## Appendix 1 – Invitation letter



**BECAS CONICYT**  
Programa de Formación de Capital  
Humano Avanzado



Estimados,

Junto con saludarlos me presento, mi nombre es Francisco Moller y soy candidato a Doctor en el Instituto de Estudios Locales de la Universidad de Birmingham (Inglaterra) con el apoyo de CONICYT y su programa Becas Chile. Muy sucintamente mi investigación busca explorar los efectos de la competencia por fondos públicos entre los municipios de Chile para comprender de qué manera el gobierno central decide financiar (o no) proyectos de infraestructura local.

Este correo tiene como objetivo ver la posibilidad de reunirme con ustedes o con el miembro del equipo que estime conveniente, para entrevistarlos y conocer su opinión acerca de la formulación de proyectos locales. La entrevista no debiera superar la hora de duración y el único requisito es que el entrevistado haya participado en el diseño y postulación de proyectos para el Fondo Nacional de Desarrollo Regional (FNDR) durante a lo menos 4 años.

El objetivo de mi investigación es aportar con evidencia para el mejoramiento de la distribución de fondos desde el gobierno central, empoderando a los gobiernos locales y aportando a la descentralización de las políticas públicas.

Su tiempo y ayuda será de gran valor para poder llevar esto a cabo. Yo estaré en Santiago hasta el 19 de mayo recolectando información y puedo acomodarme a cualquier fecha durante ese lapso. Si necesitan mayores detalles acerca de la investigación por favor no duden en contestar este mail y yo le responderé a la brevedad

Quedo muy atento a su respuesta  
Muchas gracias

Francisco Moller  
Cientista político  
PhD candidate at University of Birmingham



## Appendix 2 – Ethical review approval

### **“The Effect of Grant competition on Chilean Municipalities” Application for Ethical Review ERN\_15-1470**

Thank you for your application for ethical review for the above project, which was reviewed by the Humanities and Social Sciences Ethical Review Committee.

On behalf of the Committee, I can confirm the conditions of approval for the study have been met and this study now has full ethical approval.

I would like to remind you that any substantive changes to the nature of the study as described in the Application for Ethical Review, and/or any adverse events occurring during the study should be promptly brought to the Committee’s attention by the Principal Investigator and may necessitate further ethical review.

Please also ensure that the relevant requirements within the University’s Code of Practice for Research and the information and guidance provided on the University’s ethics webpages (available at <https://intranet.birmingham.ac.uk/finance/accounting/Research-Support-Group/Research-Ethics/Links-and-Resources.aspx> ) are adhered to and referred to in any future applications for ethical review. It is now a requirement on the revised application form (<https://intranet.birmingham.ac.uk/finance/accounting/Research-Support-Group/Research-Ethics/Ethical-Review-Forms.aspx> ) to confirm that this guidance has been consulted and is understood, and that it has been taken into account when completing your application for ethical review.

Please be aware that whilst Health and Safety (H&S) issues may be considered during the ethical review process, you are still required to follow the University’s guidance on H&S and to ensure that H&S risk assessments have been carried out as appropriate. For further information about this, please contact your School H&S representative or the University’s H&S Unit at [healthandsafety@contacts.bham.ac.uk](mailto:healthandsafety@contacts.bham.ac.uk).

## Appendix 3 – Regional OLS models

Region 1						
Source	SS	df	MS	Number of obs	=	58
Model	11371043.7	8	1421380.46	F(8, 49)	=	226.07
Residual	308073.576	49	6287.21583	Prob > F	=	0.0000
				R-squared	=	0.9736
				Adj R-squared	=	0.9693
Total	11679117.3	57	204896.794	Root MSE	=	79.292

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	-2.32669	.7975702	-2.92	0.005	-3.929468	-.7239131
Investment budget	6.135575	2.205146	2.78	0.008	1.704169	10.56698
Budget per capita	1.261789	.3370722	3.74	0.000	.5844165	1.939161
Affluent citizens	23.27213	3.111966	7.48	0.000	17.0184	29.52586
Common fund dependence	23.40585	1.662291	14.08	0.000	20.06535	26.74635
Rulling party	102.3367	32.08701	3.19	0.002	37.85547	166.818
Surface	.0073781	.0043358	-1.70	0.095	-.0160913	.0013351
Distance to capital	.5699892	.4892988	-1.16	0.250	-1.553272	.4132936
cons	2490.192	269.5641	-9.24	0.000	-3031.901	-1948.482

Region 2						
Source	SS	df	MS	Number of obs	=	115
Model	106665688	8	13333211.1	F(8, 106)	=	212.53
Residual	6650136.23	106	62737.1342	Prob > F	=	0.0000
				R-squared	=	0.9413
				Adj R-squared	=	0.9369
Total	113315825	114	993998.463	Root MSE	=	250.47

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	29.99513	3.31364	9.05	0.000	23.42551	36.56474
Investment budget	3.929654	2.668374	1.47	0.144	-1.360657	9.219965
Budget per capita	3.19046	.327348	9.75	0.000	2.541461	3.839459
Affluent citizens	-11.43763	12.26427	-0.93	0.353	-35.75273	12.87747
Common fund dependence	39.83761	3.312224	12.03	0.000	33.27081	46.40442
Rulling party	91.69892	55.52331	1.65	0.102	-18.38145	201.7793
Surface	.0104248	.0039987	2.61	0.010	.0024969	.0183527
Distance to capital	-.1671223	.4126871	-0.40	0.686	-.9853146	.6510701
cons	-521.3213	1086.588	-0.48	0.632	-2675.588	1632.945

Region 3						
Source	SS	df	MS	Number of obs	=	116
Model	6571997.24	8	821499.655	F(8, 107)	=	77.67
Residual	1131760.58	107	10577.2017	Prob > F	=	0.0000
				R-squared	=	0.8531
				Adj R-squared	=	0.8421
Total	7703757.83	115	66989.1985	Root MSE	=	102.85

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	-.0255356	.7893767	-0.03	0.974	-1.590383	1.539312
Investment budget	4.87824	2.012608	2.42	0.017	.8884785	8.868001
Budget per capita	1.654096	.2614647	6.33	0.000	1.135773	2.172419
Affluent citizens	-9.722399	2.614047	-3.72	0.000	-14.90444	-4.540356
Common fund dependence	24.60934	1.265953	19.44	0.000	22.09974	27.11895
Rulling party	43.87721	23.64121	1.86	0.066	-2.988732	90.74316
Surface	.0529068	.0033904	15.60	0.000	.0461856	.059628
Distance to capital	3.318577	.2637094	12.58	0.000	2.795804	3.84135
cons	-737.8589	206.3608	-3.58	0.001	-1146.945	-328.7726

Region 4						
Source	SS	df	MS	Number of obs	=	361
Model	18364442.2	8	2295555.27	F(8, 352)	=	102.41
Residual	7890508.58	352	22416.2175	Prob > F	=	0.0000
				R-squared	=	0.6995
				Adj R-squared	=	0.6926
Total	26254950.7	360	72930.4187	Root MSE	=	149.72

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	5.067768	1.126812	4.50	0.000	2.851637	7.283898
Investment budget	7.248521	1.047257	6.92	0.000	5.188853	9.308189
Budget per capita	4.678869	.2572189	18.19	0.000	4.17299	5.184749
Affluent citizens	16.40814	2.317169	7.08	0.000	11.8509	20.96538
Common fund dependence	13.11201	.8553504	15.33	0.000	11.42977	14.79425
Rulling party	31.56329	18.31801	1.72	0.086	-4.463223	67.5898
Surface	.0093087	.005122	1.82	0.070	-.0007648	.0193823
Distance to capital	.8708807	.088778	9.81	0.000	.6962787	1.045483
cons	-2291.669	196.5116	-11.66	0.000	-2678.154	-1905.185

Region 5						
Source	SS	df	MS	Number of obs	=	430
Model	1826729.69	8	228341.211	F(8, 421)	=	18.37
Residual	5232467.34	421	12428.6635	Prob > F	=	0.0000
				R-squared	=	0.2588
				Adj R-squared	=	0.2447
Total	7059197.03	429	16455.0047	Root MSE	=	111.48

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	-2.127518	.7688581	-2.77	0.006	-3.638797	-.6162387
Investment budget	-2.193738	.6474154	-3.39	0.001	-3.466307	-.9211683
Budget per capita	.3366694	.0555089	6.07	0.000	.2275603	.4457784
Affluent citizens	5.232725	1.270111	4.12	0.000	2.736176	7.729275
Common fund dependence	3.489331	.4846814	7.20	0.000	2.536634	4.442028
Rulling party	-8.263168	12.86805	-0.64	0.521	-33.5568	17.03046
Surface	.0171615	.0150643	1.14	0.255	-.0124491	.0467722
Distance to capital	.025926	.031408	0.83	0.410	-.0358101	.087662
cons	-354.365	105.3582	-3.36	0.001	-561.4586	-147.2715

Region 6						
Source	SS	df	MS	Number of obs	=	255
Model	1953368.48	8	244171.06	F(8, 246)	=	17.47
Residual	3439173.25	246	13980.3791	Prob > F	=	0.0000
				R-squared	=	0.3622
				Adj R-squared	=	0.3415
Total	5392541.73	254	21230.4793	Root MSE	=	118.24

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	-.4779863	.7088681	-0.67	0.501	-1.874211	.9182386
Investment budget	4.294522	.9363223	4.59	0.000	2.450291	6.138753
Budget per capita	-2.22286	.6682248	-3.33	0.001	-3.539032	-.9066881
Affluent citizens	-9.131353	2.117018	-4.31	0.000	-13.30115	-4.96156
Common fund dependence	1.153616	1.013498	1.14	0.256	-.8426237	3.149856
Rulling party	-32.50891	15.95642	-2.04	0.043	-63.93755	-1.080278
Surface	-.0244119	.0144975	-1.68	0.093	-.052967	.0041431
Distance to capital	.4457553	.2002296	2.23	0.027	.0513721	.8401384
cons	899.6712	206.0625	4.37	0.000	493.7994	1305.543

Region 7						
Source	SS	df	MS	Number of obs	=	122
				F(8, 113)	=	11.49
Model	680384.382	8	85048.0478	Prob > F	=	0.0000
Residual	836694.967	113	7404.38024	R-squared	=	0.4485
				Adj R-squared	=	0.4094
Total	1517079.35	121	12537.8459	Root MSE	=	86.049

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	-1.448298	1.174245	-1.23	0.220	-3.77469	.8780936
Investment budget	2.180109	.9497374	2.30	0.024	.298508	4.06171
Budget per capita	.5425292	.3814896	1.42	0.158	-.2132706	1.298329
Affluent citizens	-5.362664	1.366773	-3.92	0.000	-8.070489	-2.654839
Common fund dependence	.9601209	.8424709	1.14	0.257	-.7089659	2.629208
Rulling party	-33.08064	16.73207	-1.98	0.050	-66.22989	.068609
Surface	-.0111464	.0100419	-1.11	0.269	-.0310413	.0087484
Distance to capital	.8028827	.1855397	4.33	0.000	.4352951	1.17047
cons	431.9754	139.2927	3.10	0.002	156.0115	707.9393

Region 8						
Source	SS	df	MS	Number of obs	=	259
				F(8, 250)	=	17.12
Model	2274228.04	8	284278.505	Prob > F	=	0.0000
Residual	4150629.68	250	16602.5187	R-squared	=	0.3540
				Adj R-squared	=	0.3333
Total	6424857.72	258	24902.5493	Root MSE	=	128.85

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	2.664153	1.108026	2.40	0.017	.4818973	4.846409
Investment budget	2.715888	.9736011	2.79	0.006	.798382	4.633394
Budget per capita	2.316222	1.160536	2.00	0.047	.0305475	4.601897
Affluent citizens	-6.659889	1.915834	-3.48	0.001	-10.43312	-2.886657
Common fund dependence	3.963143	1.167873	3.39	0.001	1.663019	6.263266
Rulling party	-29.65128	16.85462	-1.76	0.080	-62.84643	3.543858
Surface	-.0671051	.0219458	-3.06	0.002	-.1103274	-.0238828
Distance to capital	1.227448	.2301169	5.33	0.000	.7742329	1.680663
cons	203.5444	176.5794	1.15	0.250	-144.2285	551.3174

Region 9						
Source	SS	df	MS	Number of obs	=	492
Model	11930461.6	8	1491307.7	F(8, 483)	=	29.51
Residual	24407219.6	483	50532.5457	Prob > F	=	0.0000
				R-squared	=	0.3283
				Adj R-squared	=	0.3172
Total	36337681.2	491	74007.4973	Root MSE	=	224.79

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	1.148264	1.359785	0.84	0.399	-1.52356	3.820089
Investment budget	9.40787	1.328322	7.08	0.000	6.797866	12.01787
Budget per capita	-2.120617	.8916878	-2.38	0.018	-3.872684	-.368551
Affluent citizens	-8.143584	1.704137	-4.78	0.000	-11.49202	-4.795146
Common fund dependence	1.834004	1.38613	1.32	0.186	-.8895869	4.557594
Rulling party	5.125064	21.35621	0.24	0.810	-36.83748	47.08761
Surface	-.1017996	.0191259	-5.32	0.000	-.1393798	-.0642194
Distance to capital	1.14766	.2894026	3.97	0.000	.5790165	1.716304
cons	646.6477	182.3839	3.55	0.000	288.2839	1005.011

Region 10						
Source	SS	df	MS	Number of obs	=	432
Model	14633914.2	8	1829239.28	F(8, 423)	=	36.08
Residual	21443129	423	50692.9762	Prob > F	=	0.0000
				R-squared	=	0.4056
				Adj R-squared	=	0.3944
Total	36077043.2	431	83705.4366	Root MSE	=	225.15

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	-2.710565	1.810744	-1.50	0.135	-6.269741	.8486109
Investment budget	4.287333	1.250818	3.43	0.001	1.82874	6.745926
Budget per capita	-2.242343	1.156599	-1.94	0.053	-4.515741	.0310543
Affluent citizens	12.95284	3.047527	4.25	0.000	6.962659	18.94303
Common fund dependence	5.394788	1.213761	4.44	0.000	3.009033	7.780543
Rulling party	-153.8757	22.55627	-6.82	0.000	-198.212	-109.5393
Surface	.0335242	.0104162	3.22	0.001	.0130502	.0539982
Distance to capital	.1685446	.1398906	1.20	0.229	-.1064227	.443512
cons	-951.9687	255.0326	-3.73	0.000	-1453.258	-450.6797

Region 11						
Source	SS	df	MS	Number of obs	=	69
Model	23002656.1	8	2875332.01	F(8, 60)	=	10.49
Residual	16451085.4	60	274184.756	Prob > F	=	0.0000
				R-squared	=	0.5830
				Adj R-squared	=	0.5274
Total	39453741.4	68	580202.08	Root MSE	=	523.63

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	6.953537	5.358966	1.30	0.199	-3.765992	17.67307
Investment budget	5.640427	11.19112	0.50	0.616	-16.74515	28.026
Budget per capita	-11.94526	5.857417	-2.04	0.046	-23.66183	-.2286794
Affluent citizens	37.81776	20.77931	1.82	0.074	-3.74705	79.38258
Common fund dependence	23.16986	13.54606	1.71	0.092	-3.92629	50.26602
Rulling party	123.6719	129.0859	0.96	0.342	-134.5384	381.8822
Surface	-.0130853	.0096898	-1.35	0.182	-.0324677	.0062972
Distance to capital	1.792877	.9226309	1.94	0.057	-.0526597	3.638413
cons	-3605.289	1500.775	-2.40	0.019	-6607.286	-603.2922

Region 12						
Source	SS	df	MS	Number of obs	=	64
Model	6833438.15	8	854179.769	F(8, 55)	=	26.98
Residual	1741565.52	55	31664.8277	Prob > F	=	0.0000
				R-squared	=	0.7969
				Adj R-squared	=	0.7674
Total	8575003.67	63	136111.169	Root MSE	=	177.95

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	-34.46936	4.740943	-7.27	0.000	-43.97042	-24.9683
Investment budget	23.84866	3.398535	7.02	0.000	17.03785	30.65948
Budget per capita	.1919229	.2012314	0.95	0.344	-.2113538	.5951997
Affluent citizens	-20.7999	9.225774	-2.25	0.028	-39.28876	-2.311032
Common fund dependence	11.93815	3.136333	3.81	0.000	5.652798	18.2235
Rulling party	166.799	55.75001	2.99	0.004	55.07344	278.5245
Surface	-.0218678	.0028357	-7.71	0.000	-.0275507	-.0161848
Distance to capital	1.387428	.3851505	3.60	0.001	.6155693	2.159287
cons	2231.568	969.8296	2.30	0.025	287.986	4175.15

Region 13						
Source	SS	df	MS	Number of obs	=	158
Model	884127.458	8	110515.932	F(8, 149)	=	29.67
Residual	554990.871	149	3724.77094	Prob > F	=	0.0000
				R-squared	=	0.6144
				Adj R-squared	=	0.5936
Total	1439118.33	157	9166.35878	Root MSE	=	61.031

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	-.8762441	.6567849	-1.33	0.184	-2.17406	.4215714
Investment budget	4.505273	.5718693	7.88	0.000	3.375252	5.635294
Budget per capita	.5245437	.3359394	1.56	0.121	-.1392769	1.188364
Affluent citizens	3.269714	1.415362	2.31	0.022	.4729398	6.066489
Common fund dependence	-.2981426	.6175294	-0.48	0.630	-1.518389	.9221036
Rulling party	1.875279	10.64445	0.18	0.860	-19.1583	22.90886
Surface	-.0299042	.007245	-4.13	0.000	-.0442204	-.015588
Distance to capital	2.214931	.260937	8.49	0.000	1.699316	2.730546
cons	-380.1831	118.1288	-3.22	0.002	-613.6072	-146.759

Region 14						
Source	SS	df	MS	Number of obs	=	266
Model	4725445.4	8	590680.676	F(8, 257)	=	19.66
Residual	7720285.99	257	30040.0233	Prob > F	=	0.0000
				R-squared	=	0.3797
				Adj R-squared	=	0.3604
Total	12445731.4	265	46965.0241	Root MSE	=	173.32

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	-4.142434	1.657524	-2.50	0.013	-7.406493	-.8783756
Investment budget	-2.104644	1.665883	-1.26	0.208	-5.385164	1.175875
Budget per capita	-10.54425	2.108621	-5.00	0.000	-14.69663	-6.391876
Affluent citizens	-.4449371	3.842436	-0.12	0.908	-8.011605	7.121731
Common fund dependence	-1.060872	2.061602	-0.51	0.607	-5.120655	2.998911
Rulling party	-20.53734	24.84519	-0.83	0.409	-69.46341	28.38873
Surface	.0498425	.0167612	2.97	0.003	.0168358	.0828492
Distance to capital	2.312841	.3037588	7.61	0.000	1.714667	2.911014
cons	382.259	383.802	1.00	0.320	-373.5383	1138.056

Region 15			
Source	SS	df	MS
Model	12802870.2	8	1600358.77
Residual	131539.097	34	3868.79698
Total	12934409.3	42	307962.126

Number of obs	=	43
F(8, 34)	=	413.66
Prob > F	=	0.0000
R-squared	=	0.9898
Adj R-squared	=	0.9874
Root MSE	=	62.2

FNDR grant per capita	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Skilled Staff	7.737985	3.680258	2.10	0.043	.2588004	15.21717
Investment budget	.7423343	1.662438	0.45	0.658	-2.636147	4.120816
Budget per capita	2.851606	.3672152	7.77	0.000	2.105335	3.597877
Affluent citizens	13.61671	3.067005	4.44	0.000	7.383806	19.84962
Common fund dependence	13.97726	1.011446	13.82	0.000	11.92176	16.03277
Rulling party	-53.16156	46.5737	-1.14	0.262	-147.8107	41.48758
Surface	.0883668	.0224764	3.93	0.000	.0426894	.1340443
Distance to capital	3.456511	.1643426	21.03	0.000	3.122526	3.790495
cons	-3403.411	273.4953	-12.44	0.000	-3959.22	-2847.602

## Appendix 4 – Regional Authority Index

Country	Year	Institutional depth	Policy scope	Fiscal autonomy	Borrowing autonomy	Representation	Self-rule	Law making	Executive control	Fiscal control	Borrowing control	Const reform	Shared rule	Regional Authority Index
Argentina	2006–2010	3	3	2	2	4	14	1.5	2	2	1	3	9.5	23.5
Australia	1999–2010	3	4	2	2	4	14.9	1.5	2	2	2	3	10.5	25.4
Austria	1999–2010	3	3	2	2	4	14	1	1	1	2	4	9	23
Belgium	2002–2010	4.8	4.8	4.8	1.9	6.7	23.1	2	2	2	1	3	10	33.1
Bolivia	2010	2	3	0	1	4	10	1.5	1	1	0	0.1	3.6	13.5
Brazil	2000–2010	3	3	3	1	4	14	1.5	1	0	0	3	5.5	19.5
Canada	2006–2010	3.7	3.7	4.2	3.4	4.9	19.9	0.1	1	1	0	4	6.1	26
<b>Chile</b>	<b>1992–2010</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>
Colombia	1997–2010	2	3	1.3	1	4	11.2	0	1	0	0	0	1	12.3
Ecuador	2002–2010	2	2	0	1	3	8	0	0	0	0	0	0	8
Finland	1993–2010	3	1	0	0	3	7.1	0	0	0	0	0	0	7.1
France	1986–2010	4	4	2	4	6	20	0	0	0	0	0	0	20
Germany	2010	5.6	4.8	2.6	3.8	8.2	25	2	2	2	2	4	12	37
Italy	2001–2010	5	5	4	3	7	24.1	0	1	0.2	0	2	3.2	27.3
Japan	2006–2010	2	2	3	2	4	13	0	0	0	0	0	0	13
Mexico	2004–2010	2.9	3	3	1.9	4	14.8	1.5	0	0	0	3.7	5.2	20
New Zealand	1998–2010	2	1	2	2	4	11	0	0	0	0	0	0	11
Paraguay	1993–2010	2	1	0	1.2	4	8.2	0	0	0	0	0	0	8.2
Peru	2003–2010	4	4.1	0	2	8	18.1	0	0	0	0	0	0	18.1
Portugal	1998–2010	2	0.1	0.1	0.1	1.1	3.6	0	0	0	0	0.1	0.2	3.8
Rusia	2005–2010	3	1.1	3	2	3	12.1	2	1	1	0	4	8	20.1
Spain	2002–2010	4.8	4	3.7	1.7	6.6	20.9	1.3	2	1.1	2	6.2	12.6	33.6
United Kingdom	2007–2010	2.8	2.1	0.7	1.3	3.2	10.1	0.2	0.2	0	0	0.6	1.1	11.2
United States	2001–2010	3.8	3.8	5.1	3.8	5.6	22.1	1.5	2	0	0	4	7.4	29.6
Uruguay	1997–2010	2	2	1	1	4	10	0	1	1	0	0	2	12
Venezuela	2009–2010	1	0.9	0	0.9	3.7	6.5	0.5	0	0	0	0	0.5	7

Source: Author's design based in Hooghe et al (2016)

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